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RELEVANCE OF DIVIDEND POLICY FOR FOOD INDUSTRY CORPORATIONS IN SERBIA

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Summary

The subject of this paper is to analyze dividend policy of ten representative companies in the food industry sector. In the conditions of limited and expensive sources of financing, as a significant alternative to borrowing stands the stock market. In business of domestic corporations, however, the issue of new shares represents a rare event. A very important factor for future development of the primary equity market is an increase in volume of trading on the „asleep" secondary market. Lack of demand and falling trading volume prevents the growth of share prices, and thus the possibility of realizing capital gains from their sale. In such circumstances, the main reason of investment in shares can be dividend yield. The goal of this paper is to analyze the opportunities and to provide guidelines in formulating effective dividend policies in order to attract certain groups of shareholders, among which the most important are institutional investors, which in their portfolios do not usually hold more than a few percent of the shares of individual companies.

Key words: *dividend policy, corporations, food industry, institutional investors.*

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Introduction

Corporations are the dominant and most important form of business organization in terms of assets and resources, as well as the scope and breadth of business activities. Because they can attract a large number of investors, corporations represent *an ideal way to increase the equity*. The main reason for an enterprise to perform business in legal form of public corporation is the possibility of *the primary shares' issue*. As another important

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reason, public listing allows to companies daily market valuation and thus shareholder's verification of the business operations' efficiency. On the other hand, there are some business disadvantages in performing business in this form, such as: (1) tougher legislation regarding the establishment and demands for transparency, (2) the costs of establishment and listing on the stock exchange, (3) the obligation of external auditing; (4) agency problems between owners and managers, but also in the relations of the majority shareholders and the minority ones.

Starting from the mentioned advantages and disadvantages of public corporations, it is evident that the vast majority of Serbian corporations failed to make the most of doing business in this legal form, regarding to possibility of new shares issue. In Serbia trading with shares is performed on the Belgrade Stock Exchange (BSE), which was founded by the end of the 19th century. After decades of intermission (from the end of the World War Two until the beginning of the transition period), during the 1989 the Government established the Yugoslav Capital Market, and in the 1992 its name was changed to BSE. Annual turnover on the BSE during the 1990s was insignificant, and at the beginning of 21st century there was a significant increase in trading, as a result of the sale of privatized companies' shares. In the technical sense, BSE got direct role in *privatization* of most companies.

At the beginning of the Serbian stock market prosperity (21st century), it was thought that there was a significant risk of future decline in shares trading after the privatization of the most successful companies. However, the volume of stock trading showed surprisingly positive tendencies until the political instability in relation to the elections in Serbia and the beginning of the global economic crisis in 2008, followed by a significant drop in trading volume and stock prices. Even the shares of most successful Serbian companies were sold in 2009 at the prices near or below the book value and a similar trend continued in 2010 and 2011.

Despite pronounced "fatalism" and public expectations of the global economy collapse, both in Serbia and worldwide, economic crisis and cyclic trends are not new phenomena. The first major economic boom has emerged in the 1920s, followed by a large increase in stock price of "high technology corporations": airline industry, film industry, radio stations etc. During 1928 it began "investment mania" in USA, when inexperienced or seasonal "wannabe" shareholders spend their entire savings, with the expectation that stock prices will indefinitely rise. However, in September 1929 it occurred a great stock market crash that had long-term impact on the overall world economy.

Cyclical trends in economy, with occasional dramatic disturbances, were also present in the final decades of the 20th century and at beginning of the 21st century. After "Black Monday" (the great "financial collapse" of the New York Stock Exchange from October 1987), in the following years began a period of economic growth, followed by a stock market "bubble", especially regarding to the share prices of high technology companies. Consequently, at the beginning of 21st century occurred global recession and a significant drop in stock prices. This brief historical view of the cyclical tendencies indicates that relatively lower intensity economic crisis appear in almost every decade, with the occasional appearance of very pronounced global crisis, which became obvious in 2008 and in the following years.

Based on trends of the intensity and duration of previous global financial crises, it could be expected that in years to come will begin period of recovery and growth, followed by increase of the volume of trading on stock markets. Successful Serbian corporations, which will survive the current crisis, will than have a great chance to achieve higher stock prices and raise significant funds through primary shares issues. As the most important future shareholders, there can be distinguished *the institutional investors* and *the small shareholders* (individual investors). Their main reason for any investment in shares is achieving two forms of yields: capital gains and dividends. In the current circumstances, there are very limited possibilities of achieving capital gains from sale of shares, due to lack of demand and trade. The market value of most companies is often undervalued and even below the book value. As an alternative to capital gains remains the possibility of a regular dividends, which provide some security to shareholders, even if they are paid in modest amounts.

Theoretical considerations and practical importance of dividend policy

Starting from the existence of the inevitable decision makers' dilemma in every complex enterprise, "*how much of the created value to invest and how much to return to owners*", it is obvious that this dilemma must be solved on the basis of careful considerations. Dividend payments reduce the equity, but also the cash required for investments, which can directly affect the investment decisions. If cash is used for dividends, when there are profitable investments opportunities, the company will have to raise funds by the issuance of new shares or by borrowing. There are alternative methods of the value distribution to the shareholders, most notably the stock repurchase (or buyback) and stock dividends instead of cash dividends.

Corporations typically do not have a legal obligation to pay dividends on common stocks. On the other hand, in legal practice of most countries there are usually certain restrictions on dividend payments. The "net income rule" prohibits the payment of dividends that exceed the current net income and undistributed profits from previous years. The "rule of maintaining the invested capital" implies that the dividend payments should not reduce the initially invested capital. The "liquidity rule" prohibits illiquid companies to pay dividends.

The relevance of dividend policy has been the subject of numerous theoretical and practical considerations for several decades. According to traditional beliefs, *shareholders expect a dividend*, even if they are paid in very modest amounts. Dividends to some extent reduce the risk of share prices fall and the inability to achieve capital gains by selling them. This concept is illustrated by the idiom "*A bird in hand rather then two in bush*". In contrast to the potentially high capital gains, dividend yield is usually not higher than a few percent.

On the other hand, some managers and academic researchers jeopardize the relevance of dividend policy. Some of them even believe that this policy is irrelevant, which means that no matter how carefully dividend policy is established, there will be no impact on shareholder value creation. At the beginning of 1960s, Miller and Modigliani created a *theory of dividend irrelevance*. They started from the premise of perfectly competitive capital market, characterized by an absence of tax differences, transaction and flotation costs, asymmetric information, etc. In these theoretical circumstances, the value of the company is indeed unrelated to dividend policy. Miller and Modigliani believed that investment policy is only important, because investments determine the future earning ability and income (Miller, Modigliani, 1961:414).

There are even third opinions, according to which *dividends undermines shareholder value*, primarily for two reasons: (1) due to the tax disadvantage of dividends relative to capital gains, (2) by dividend payments managers implicitly admit that they do not know how to use free cash funds - money used for dividend payments, should be invested in projects with positive net present value in order to create value for shareholders.

As the most important classification of dividend policy, viewed in terms of profit distribution, can be distinguished *an active and residual dividend policy*. If investment decisions are the most important, the dividends could be treated as pure residual: profit that remains after the financing of new investments could be used for dividend payments. If the investment opportunities exceed net profit, there will be no dividend payments. Such understanding is the essence of *pure "residual dividend theory"* Residual theory is mostly consistent with the business philosophy and interests of corporate managers. In this case, company with high growth rate and multiple investment opportunities should pay little or zero amounts of dividends, while successful and developed companies with limited number of profitable investment opportunities should pay large dividends (Zakić, 2005: 62).

According to the residual theory, the investment and financial decisions determine the market value of the company and have a greater importance than dividend decisions. A large number of companies worldwide, however, maintain a relatively stable amount of dividends per share. Dividends reflect future profitability of the company and their payments reduce risk and uncertainty that shareholders are exposed to. An *active dividend policy* means that companies will pay regular dividends, even if they exceed the amount of net profit "reserved" for investments. In that case, cash required for investments will be obtained on the capital market.

By analyzing the practice of developed countries, it can be noted that during the last decade of the 20th century there was a pronounced acceptance of residual dividend policy. Extremely successful business and the stock prices' rise of high technology companies during the 1990s led to decline in importance of dividends. The most successful companies in the IT field, such as Microsoft did not pay any dividend in this period. Profit was reinvested, leading to a steady rise in share prices. During the 1990s, in USA only one of five corporations paid dividends, in contrast to the 1950s when nine of ten companies paid dividends (Frankfurter et al., 2003: 75). Some economists even predicted the disappearance of dividends that are taxable. However, the beginning of 21st century was marked by recession and significant drop in stock prices, especially ones of the high technology companies. This led to the new popularization of active dividend policy. The potential loss that investors could suffer in the case of the stock prices' decline, could be somewhat reduced by the amount received in dividends. In USA and other developed countries, usually once company begins to pay dividend, it accepts policy of paying *stable dividend* per share. Dividends will increase only if the managers are expecting that future profits will be high enough to cover a higher level of dividends. On the other hand, reduction or termination of dividend payment is something that companies tend to avoid and apply only when managers estimate that the current dividends are unsustainable on long term.

There are two basic forms of cash distribution to shareholders: (1) cash dividends and (2) stock repurchase. In the so-called quasi payments there are introduced the free distribution stocks and the dividend reinvestment plans (DRIP).

Cash dividends are traditional and most common form of cash distributions to the shareholders. Advantages of this form of payment are the following: (1) dividends send information about the good business results, which has a positive impact on share price, especially in the case of announcement of new or increased dividends; (2) dividends attract investors who prefer cash payments, according to the "bird in hand" argument; (3) dividends reduce agency costs that may emerge from the conflicts between managers and shareholders. Disadvantages of cash dividends are the following: (1) shareholders pay taxes on dividends, which are in most countries larger than the tax on capital gains, (2) dividend payments could cause "cash shortages" (3) reduction of regular dividend payments usually causes the share price fall.

The relevance of dividend policy differs from one country to another. Data from the four most developed countries for the 1975-1995 period show that the highest average dividend payout ratios had the United Kingdom and USA (Lease et al., 2000:137). Significantly lower dividend payout ratios had Japan and Germany. This ratio is associated with the dispersion of ownership. In the countries as Great Britain and USA, there is a wide dispersion of ownership in public corporations. As a result, the most conflicts can occur in relations between the "mighty" managers and small shareholders. Large dividend payments are seen as a way to reduce the cash amounts available to managers, who could use them in order to achieve their personal goals. Continental Europe and Japan are mostly characterized by concentrated ownership, which results in lower dividend payout ratio. However, in such conditions, the most significant conflicts could arise between the majority shareholders and the minority ones.

An alternative to cash dividends is distribution of cash to shareholders through the *stock repurchases* - common stocks are repurchased at a price higher than market value. In the last decade of the 20th century, in USA the stock repurchase even reached 40% of total payments to the shareholders (Shapiro, Balbirer, 2000:514). USA along with Canada and Great Britain are few countries in which the significant cash distribution to shareholders is made in this way. According to some studies, stock repurchase in the USA is often done as a mean to grant stock options to the managers (Pavlovic, Muminović, 2011: 268).

There are three main motives for using the stock repurchase: (1) *informational motive*, (2) *defense against hostile takeover* and (3) *the tax motive*. In the early periods of repurchase, which began in the 1950s, the reason for the stock repurchase was to overcome the undervaluation of stocks by the market. Repurchase (at the price that exceeds the market price) was understood as a positive signal that emphasized a successful business performance, which contributed to the share price rise. Informational motive is particularly significant during *the stock market crisis*, when managers try to minimize the consequences of the situation colloquially called “stampede” or “avalanche effect”. The company shares’ price, in these conditions, rapidly falls due to the panic reaction of shareholders, who quickly sell their shares. Repurchase, at a price higher than the market, could partially prevent the fall in share prices, but long-term effects mainly depend on the intensity of the market crisis and degree of shareholders confidence into the company. Unlike a regular increase in dividend payments, the stock repurchase does not produce pressure of maintaining a higher level of payments to shareholders.

In addition to the information motive, a significant number of repurchases are associated with “defensive maneuvers”, taken in order to avoid hostile takeover. In USA that is often referred as “*greenmail*”[4]. In this case, “coalition” of top managers and majority or controlling interest shareholders want to “get rid of” the group of undesirable and influential shareholders, who represent a threat to them. By “blackmail” payments, company also reduces the amount of free cash, which could be one of the reasons for the takeover.

The tax motive is a very important reason for the alternative cash distribution to shareholders. In most countries there are *tax disadvantages of dividends* in relation to the capital gains. Capital gains are often exempted from taxation and that is common for the long-term capital gains realized by individual investors.

Dividend policy of the food industry companies

Substantial geostrategic changes in the world, accompanied by economic and political turmoil, have caused abrupt increase in food and energy prices in the last decade. This resulted in a dramatic increase in the role and the perspective of the food industry. (Milanović et al., 2011: 549-550).

As a specific effect of the economic crisis in Serbia, there could be distinguished considerable interest in traditionally neglected sector of agriculture, both in economic experts’ discussion and in daily political debates. According to preliminary data of the Serbian Chamber of Commerce, agriculture and food industry achieved in 2011 a foreign trade surplus of about $ 1.5 billion, which is about 60 percent more than in 2010. The surplus in foreign trade of agricultural and food products in the period January-November 2011, had a growth of 29.7 percent and amounted to $ 1.4 billion, while the rate of import coverage by export was 227.9 percent. For 11 months of 2011 agrarian exports amounted to $ 2.4 billion, which was higher by 23.9 percent than in the same period of 2010, with the share in total goods exports of 22.6 percent. At the same time, the value of agricultural imports was $ 1.06 billion that is by 17.1 percent higher in the same period of 2010, with the share in total goods import by

4 Green represents dollar currency color, and greenmail is named after blackmail.

5.9 percent[5]. However, exports of agricultural and food products are largely related to just a few products (cereals, sugar and raspberries), indicating that there are significant untapped opportunities for improvement of the export performances not only in volume, but even more in the structure, where the products of the higher processing stages should have more significant position than it is the case now.

In the conditions of limited own resources, expensive credits and insufficient governmental subsidies, as very important source of financing agricultural corporations it appears the primary stocks' issue. It could be raised a question: W*ho could be interested to buy these shares*"? The most important target groups are institutional investors such as mutual (investment) funds, insurance companies, private pension funds, etc. Institutional investors invest their funds in the portfolio of "safe" securities of various companies (including securities issued by the state), which are expected to exercise appropriate portfolio performance and yields. If those investors do not intend to sell corporate stocks, the only yield they could get is dividend. This suggests that *dividend policy is extremely important for the companies seeking to attract institutional investors*. In addition, regular dividend payments, even in modest amounts, provide some security to the "traditionally distrustful" small shareholders (individual investors).

Given the importance of the agri-food sector for the economic development of Serbia, this research aims to analyze the opportunities and to provide guidelines in formulating the appropriate dividend policy of the relevant domestic corporations. Research in this study includes 10 representative companies in Serbia. The sample was chosen according to following criteria: (1) shares of corporation are usually traded on day to day basis (continuous trading method on Belgrade Stock Exchange); (2) corporation belongs to the group of large or medium size enterprises; (3) during the period 2006-2010 corporation reported net profit in at least 4 annual income statements (which is a basic prerequisite for the payment of dividends).

These are the following companies:

- Bambi Banat a.d., Beograd
- Soko Štark a.d., Beograd
- Frikom a.d., Beograd
- Imlek a.d., Beograd
- Mlekara Šabac a.d., Šabac
- Sojaprotein a.d., Bečej.
- Karneks a.d., Vrbas
- Vital a.d., Vrbas
- Dijamant a.d., Zrenjanin
- Danubius a.d., Novi Sad

5 Data source: Statement of advisor in Serbian Chamber of Commerce Vojislav Stanković, Agencija Beta, article „Suficit u razmeni agrara 1,5 milijardi dolara", http://www.beta.co.rs/default.asp?tip=article&kategorija=ekonomija&ida=2630921&id=2213981&ime=Vranje (available on 4th January 2012).

In this paper following hypotheses have been tested: (1) corporations should maintain a stable level of dividends and increase them only if they can maintain a long-term higher level; (2) acceptance of stable dividend payments leads to the creation of confidence among existing shareholders as well as the new minority ones; (3) cash dividends in the countries in transition are important to market value and business reputation of corporations and could have even more powerful impact than in developed countries.

As the first step in the dividend policy analysis of the above mentioned companies, it is necessary to start from the amount of *gross dividend per share* for the 2006-2010 period (Table 1). It may be noted that out of 10 analyzed corporations, four of them did not pay any dividend (Soko Štark, Sojaprotein, Karneks and Vital), four companies have paid dividends for one year or more (Bambi, Frikom, Mlekara Šabac and Dijamant), while only two companies regularly paid annual dividends (Imlek and Danubius).

Table 1. Gross dividends per share (2006-2010) - in RSD

Corporation	Gross dividend per share for year				
	2006	2007	2008	2009	2010
Bambi	120	127.11	-	-	1260
Soko Štark	**	-	-	-	-
Frikom	228	606	550	-	-
Imlek*	n/a	n/a	53	66	81.66
Mlekara Šabac	385.48	-	-	-	-
Sojaprotein	-	-	-	-	-
Karneks	-	-	-	-	-
Vital	-	-	-	-	-
Dijamant	180	184	-	-	-
Danubius	53.45	70.94	36.25	12.38	63.52

Source: Individual annual stock market reports for each company, taken from the website of the BSE (www.belex.rs)

* Data on dividends for 2006 and 2007 were not available.

** Corporation was not listed in BSE in 2006.

As it was previously pointed out, the corporations worldwide usually have no legal obligation to pay dividends on common shares, which is the situation in Serbia as well. In legal practice of most countries there are certain limitations for the dividend payments, i.e. "net profit rule" prohibits payments of dividends that exceed the net profit in current year and undistributed profits from previous years. In that sense, the next step in the dividend policy analysis is to examine the financial results of analyzed corporations for the previous periods (Table 2).

It may be noted that companies have shown positive financial results, both in the period before the economic crisis, and after 2008. This indicates that most companies have primarily adopted residual dividend policy, which means reinvestment of all profit or the most of the profit. On the other hand, there is one example of active dividend policy - "Imlek" increased amount of dividends per share in period of 2008-2010. Since 2008

“Imlek” has also used significant funds for stock repurchase, which can be interpreted by already discussed “informational motive”. Due to economic and stock market crises, repurchase was a mean to prevent further decline of stock prices. In January 2012 it was announced extraordinary shareholder assembly, on which a dividend payment decision is expected. In this regard, it is important to pay attention to a decision made by “Bambi” (which has the same majority shareholder as “Imlek”), to pay to the shareholders the most of the profit for 2010 (over € 4 million for dividends, i.e. 1,260 dinars per share). These changes in dividend policy can be explained by expected sales of companies operating within the “Salford” investment fund.

Table 2. Net Profit (2006-2010)

Corporation	Net Profit (in 000 dinars)				
	2006	2007	2008	2009	2010
Bambi	244,092	174,630	24,906	200,810	556,003
Soko Štark	689,895	800,134	625,561	621,241	526,696
Frikom	706,901	857,276	684,820	366,193	198,520
Imlek	-91,579	413,261	900,889	867,815	1,155,535
Mlekara Šabac	316,293	250,529	254,976	311,051	359,189
Sojaprotein	661,828	1,253,434	407,103	488,229	792,014
Karneks	120,979	477,119	587,423	176,970	237,764
Vital	150,970	181,341	569,790	30,520	442,312
Dijamant	1,050,170	263,446	1,053,472	458,610	341,804
Danubius	99,874	129,078	92,189	22,529	115,368

Source: Individual annual stock market reports for companies (2008-2010) and financial reports in 2007 (for the 2006-2007 period), taken from the website of the BSE (www.belex.rs)

Instead of increasing the cash dividends, the company may *issue new shares* in proportion to the number of shares already owned. The usual motive for stock dividends is to avoid cash payments. This distribution method was applied by “Sojaprotein” several times. According to theoretical concepts, based on conditions of “perfect market”, each increase in the number of shares should result in proportional decline in their prices, because the same company value is divided in more peaces. In practice, however, this “maneuver” usually does not result in stock price fall, if that company has credibility in the stock market.

Starting from the most developed countries’ experience, it is indisputable that the dividend policy is associated with dispersion of ownership in corporations. Corporations in countries with significant concentration of ownership, such as Germany and Japan, distribute smaller amounts of net profit for dividends. On the other hand, corporations in the USA and Great Britain usually have dispersion of ownership. Consequently, large portion of their net profit is distributed to shareholders in the form of dividends or stock repurchases (Zakić, 2005:117-125). Serbia has a very pronounced concentration of ownership in the corporations in food industry (Table 3), which has significantly influenced the acceptance of residual dividend policy.

Two corporations (Mlekara Šabac i Karneks) are marked by total concentration of ownership. The average concentration of ownership is 80.3%, including one owner or group of obviously related companies. It is certain that this percentage would be even higher if there were public information regarding the connection of majority shareholders with some of minority shareholders - individuals or companies registered under their name or it they are "hidden" within the custody bank accounts.

Table 3. Percentage of shares owned by majority shareholder or related shareholder groups (January 2012)

Corporation	Majority owner/related group	Share owned (rounded in %)
Bambi	Danube Foods Group*	69.6
Soko Štark	Grand kafa	70.6
Frikom	Agrokor	95.8
Imlek**	Danube Foods Group	78.7
Mlekara Šabac	Miroslav Bogićević, Koncern Farmakom	100.0
Sojaprotein	Victoria Group	62.9
Karneks	Carnex holdings, Ashmore Carnex Limited, MK Group	100.0
Vital	Invej	68.5
Dijamant	Agrokor, South East EI Fund	73.1
Danubius	Delta Agrar doo, Delta Real Estate doo	84.5
Average		80.3

Source: Centralni registar hartija od vrednosti (Data relevance: 20th January 2012 - www.crhov.rs)
*Salford
** Beside common shares, Imlek issued in 2008 the small number of preferred shares without voting rights, that are not included in calculation.

Total or significant profit reinvestment, viewed from the aspect of "unrelated" or "real" small shareholders, can be positive only if the corporation achieves constant share price growth, which allows capital gains. In Serbia, however, even by the end of 2007 and especially at the beginning of 2008 there was a significant fall in turnover and market value of corporations listed on the BSE, as a result of the crisis at all stock markets in the world as well as the domestic political instability. The crisis is evident in 2012 and it could last. In these conditions, one cannot expect a significant increase in stock prices, which discourages investment by small shareholders. Also, it is debatable whether majority owners actually reinvest the profits in the company or are they trying to achieve certain "private benefits" (transfer of money through related companies, high compensation for members of governing boards, buying luxury real estate, cars, etc.).

Guidelines for formulation of an effective dividend policy

Based on the presented theoretical assumptions and practical evidence, there could be formed certain guidelines for formulation of an effective dividend policy. Those guidelines are applicable to companies that operate in developed countries, but in transition countries as well. In determination of dividend policy, managers and major owners should consider the following:

- The phase of growth and development of companies, i.e. possibility of investment and borrowing;
- The business risk and potential illiquidity;
- The owners tax structure (related to dividend taxation of significant shareholder groups);
- Possibility of increasing stock trade volume by attracting certain groups of shareholders and thus creating opportunities for new share issue.

Companies in *the initial stages of growth* have large financial requirements for financing investments and usually would not pay dividends. *Developed and successful companies* with low growth rate usually are highly liquid and should pay large dividends. As an important factor, it is necessary to consider *the possibility of raising additional capital*. If the company is unable to obtain capital needed for investments by issuing new shares or by borrowing at acceptable costs, then it should be restricted the dividend payments. It is also necessary to consider the consequences of borrowing, which increases the business risk. Investments funding and dividends should be planed and coordinated on long-term bases, because any reduction or suspension of dividend payments usually has a negative effect on share price.

The regular business conditions of each company could be interrupted by temporary difficulties. Companies with volatile profits and cash flows should set a lower dividend payout ratio, in order to avoid payments restrictions due to illiquidity.

In the most countries there are *tax disadvantages of dividends in* relation to the capital gains. Capital gains are often exempted from taxation, which is common for the long-term capital gains realized by individuals. From the perspective of companies and individual investors, dividends are also subjected to double taxation: in contrast to the interest payments, dividends are not deductible from company taxable income and the shareholders pay taxes on dividends (or they receive only the net dividends). When creating dividend policy, companies should consider the dividend preferences of the most important shareholders groups.

Finally, dividend policy could have a major impact on attracting of the small shareholders. These shareholders are primarily interested in achieving yield and usually do not exercise their right to vote at shareholder meetings (depending on the company, the limit for direct participation in the shareholders' meeting is set relatively high, and shareholders who have limited number of shares can only delegate their rights to the voting representative). If a corporation can not achieve share price growth, the only yield for small shareholders is dividend. The absence of dividend payments discourages small shareholders to retain and continue to invest in company shares.

Based on research results presented in this paper, it can be concluded that in Serbia *the majority owners use their dominant position*, and often do not leave even a small "piece of cake" to minority shareholders. However, if this discrepancy continues, the small shareholders will "disappear", and those companies will essentially or legally be transformed into the form of private corporations.

Significant changes in dividend policy could only be expected due to the increased presence and influence of *the institutional investors* such as mutual (investment) funds, pension funds and insurance companies. These investors expect a stable and adequate rate of return on their investments. Although institutional investors usually do not held in their portfolio more than a few percent of the shares of individual companies, they should not be marked by the common term "small shareholders". Institutional investors own substantial financial assets managed by professional portfolio managers, who are able to protect their interests much better than the small shareholders.

Starting from the experience of developed countries, it is evident that during the 1990s and 2000s institutional investors had a profound influence on changing of corporate goals in countries with significant concentration of ownership, such as Germany and Japan. Companies that seek to attract these investors must accept *the value creation for all shareholders* as one of the most important goals, but not just for the majority ones. That means an implementation of active dividend policy and stable dividend payments to the level that is sustainable on the long term.

By attracting institutional investors and restoring the trust of small shareholders, successful companies in Serbia can consequently achieve long term share price growth, which will enable them to issue new shares. Raising equity or borrowing (bonds issue) from a broad range of minority investors who are primarily interested in capital gains, dividend or interest payments could be achieved under more favorable conditions, compared to traditional bank loans.

In the circumstances of the global and regional economic crisis, most domestic corporations are focused on survival and all significant investments are pending. However, even in these conditions, there are companies that are trying to take full advantage of the long-term financing by issuing securities. As a leader in this field, it can cited that "Tigar" from Pirot, which has issued the new shares during the stock market boom, and later during the economic crisis, has raised significant funds by selling bonds to the large institutional investors (Dunav osiguranje, DDOR, Viner osiguranje, Komercijalna banka etc.). By public and detailed presentation of its business and development plans ("Tigar" has achieved a large growth in sales and exports), it managed in 2010 to attract significant institutional investors and to sell successfully the first issue of the long-term bonds. "Tigar" example indicates that even in time of recession, economic crisis and absence of the small investors, successful corporations could raise significant funds in the long-term securities market, but only if their business plans provide credible guarantees to the institutional investors (Zakić et al., 2011:744-745).

Starting from the outstanding perspectives of agricultural and food industry sector in Serbia, it could be concluded that there is a great interest of institutional investors for potential investments in this area. Active dividend policy and stable payments are one of essential prerequisites for increase of trade on the secondary market and thus for the future issues of new shares.

Conclusion

When the experience of developed countries is applied onto the corporations in transition countries, it could be concluded that an acceptance of stable dividend payments could lead to the creation of confidence of existing shareholders as well as the new minority ones. Consequently, companies can raise additional capital needed for survival and further growth. The successful public corporation, which plans to issue new shares, needs to start stable dividend payments, at a level that is sustainable on long term. Worldwide, cash dividends represent authentic form of communication between the majority owners and managers, on one side, and minority shareholders, on the other side. By stable dividend payments and gradual, long-term sustainable increase, corporations send viable signal of success in performance, which leads to the share price growth.

Instead of the usual annual payments, public corporations in Serbia should consider the possibility of applying American model of quarterly or semiannual payments, which could better and faster show current and potential shareholders' intention to pay stable dividends. Companies should also publicly disclose the manner in which they form the dividend policy and present detailed plans for profit reinvestments, thereby substantially eliminating doubt that the majority owners exercise "private benefits".

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ZNAČAJ POLITIKE DIVIDENDI ZA PREDUZEĆA PREHRAMBENE INDUSTRIJE U SRBIJI

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Rezime

Predmet istraživanja u ovom radu je analiza politike dividendi deset reprezentativnih preduzeća prehrambene industrije. U uslovima ograničenih i skupih izvora finansiranja, kao veoma značajna alternativa zaduživanju ističe se primarno tržište akcija. U praksi domaćih korporativnih preduzeća, međutim, emitovanje novih akcija predstavlja retku pojavu. Veoma značajan faktor budućeg razvoja primarnog tržišta akcija predstavlja povećanje obima trgovanja na trenutno uspavanom sekundarnom tržištu. Nedostatak tražnje i pad obima trgovanja onemogućava rast cena akcija, a time i mogućnost ostvarenja kapitalne dobiti od njihove prodaje. U takvim uslovima, osnovni razlog ulaganja u akcije može biti prinos po osnovu dividendi. Cilj ovog rada jeste da analizira mogućnosti i pruži smernice prilikom formulisanja efektivne politike dividendi u funkciji privlačenja određenih grupa akcionara, među kojima se kao najznačajniji mogu izdvojiti institucionalni investitori.

Ključne reči: *politika dividendi, korporativna preduzeća, prehrambena industrija, institucionalni investitori.*

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