

# The Dividend Policy Analysis of Big Tech and GAFAM Companies from a sustainability view

László Zoltán KUCSÉBER<sup>1</sup>, Róbert CSOMA<sup>2</sup>

DOI: [10.29180/978-615-6342-76-8\\_26](https://doi.org/10.29180/978-615-6342-76-8_26)

## Abstract

Climate change is a natural challenge that fundamentally affects our future. In our article, we looked for the answer to whether the dominant hardware manufacturers of the fourth industrial revolution operate sustainably in this process, and whether the financial indicators of these companies show more favorable values compared to other companies. This study describes the results of a continuation of our previously started research. In our current work, we wanted to look at the dividend payment characteristics of the companies we studied in recent years. Summarizing the results of our work, we found that the majority of the firms identified as unsustainable were able to achieve higher growth from 2020 to 2021, while the sustainable firms showed lower growth in after-tax profits, but not only their willingness to pay dividends was not lagging behind the other group, but we even observed an increase.

**Keywords:** ESG, CSR, dividend policy

## Introduction

The literature on dividend policy distinguishes three schools of thought. The right-wing school emphasizes the positive impact of dividends on stock prices or market value. Conversely, according to the other approach, stock prices negatively correlate with the level of dividends. The third, so-called "middle-of-the-road" trend argues that corporate dividend policy is irrelevant from an evaluation standpoint (Nagy, 2007). The issue of sustainability and the role of corporations, individual states and municipalities have received particular attention in recent years (Bakos, et al, 2022; Lőrinc, et al.2022). Sustainable development goals are increasingly being incorporated into business strategies and financing issues (Sági – Fellegi, 2021; Carmen – Cruz, Kecskés, 2020). According to Kulcsár – Veres (2021) the financial performance of companies with excellent ESG (Environment, Social, Governance) performance is more favorable, as well. Is there such a clear link between ESG performance and dividend payments? In our article we examine how sustainability considerations have changed the dividend payment characteristics of corporations.

## Dividend policy, CSR, and sustainability

In this chapter, we explore the theoretical background of dividend policy, owner evaluation theory, and sustainability issues based on scientific articles published in recent years. The importance of sustainability criteria among corporate objectives has been in the spotlight for some time. These are grouped under two popular concepts, CSR (Corporate Social Responsibility) and ESG. There are obvious commonalities between these two approaches, but we do not attempt to provide a complete conceptual distinction in this paper. We focus on

---

<sup>1</sup> Budapest Business University, Faculty of Finance and Accountancy, e-mail: [kucseber.laszlo@uni-bge.hu](mailto:kucseber.laszlo@uni-bge.hu)

<sup>2</sup> Budapest Business University, Faculty of Finance and Accountancy, e-mail: [csoma.robert@uni-bge.hu](mailto:csoma.robert@uni-bge.hu)

corporate objectives that go beyond the usual concepts of corporate profit and profitability in terms of their significance. Specifically, we examine how these non-traditional goals affect a company's financial performance, primarily its dividend policy.

There are several theoretical approaches to explaining the effects of CSR and ESG: agency theory, signaling theory, and stakeholder theory. These do not contradict each other but rather provide a common ground for understanding. According to agency theory, companies with high ESG and CSR scores pay higher dividends to prevent managers from investing excessively in ESG and CSR activities, thereby reducing the cash flow available for these special goals. Signaling theory suggests that dividend policy signals the company's income-generating capacity to shareholders and that sustainability-related investments do not consume the company's cash flow. According to stakeholder theory, sustainability-related investments may lead to short-term cash flow declines but long-term abundance.

In companies where the investment time horizon is longer and more is invested in CSR goals, a significantly higher share value can be observed. Their profitability is not greater, but its volatility is about 5% lower compared to other companies. The same can be observed in their sales and cost structures. Their stock returns are also less volatile than companies with shorter investment time horizons. (Nguyen et al., 2017). Johansson – Fahlén (2019) examined the relationship between corporate sustainability and dividend policy in the Nordic countries. They used ESG scores to measure sustainability and dividend payout ratio and dividend yield to rate dividend policy, examining 117 companies between 2008 and 2018. They found a significant relationship between ESG scores and dividend payout ratio, but only about the "social" component of the ESG score. Overall, they concluded that companies with higher ESG scores paid more dividends.

In their analysis, the researchers ultimately concluded that avoiding excessive investment and signaling to shareholders could explain dividend policy. These results suggest that high dividend payout ratios in companies with high ESG scores may be a favorable signal for investors in longer-term investments, contradicting the view that high ratios are associated with the declining phase of the corporate life cycle. Salah – Amar (2020) examined the impact of CSR on dividend policy for 825 French non-financial companies between 2008 and 2018. They found that companies with good CSR practices had higher dividend payout ratios. Chaudry et al. (2021) studied 36 Pakistani stock exchange companies between 2009 and 2018. The declaration of CSR goals by companies had a significant positive impact on shareholder value, both in terms of stock price and dividend yield. They also found a positive relationship between company size and stock price. They believe that the declaration of CSR goals minimizes information asymmetry between shareholders and corporate managers, which leads to an increase in stock prices. Furthermore, CSR initiatives themselves are projects with a positive net present value, increasing profits, and dividend payouts. Matos and his colleagues (2020) compared companies' ESG scores with their dividend policies for the period between 2000 and 2019, regarding the Stoxx Euro 600. They found that companies with higher ESG scores had more stable dividend payout ratios. They also demonstrated this correlation about certain ESG elements. However, an increase in leverage is associated with a decrease in dividend payments.

The ownership structure also influences the relationship between sustainability goals and dividend policy. If the proportion of strategic investors is higher in the company's ownership structure, then the company's environmental proactivity appears to be stronger. In the case of a predominance of financial investors, this can only be demonstrated if the company has significant exposure to foreign markets (Bueno-García, 2022). Xu-Yin-Lou (2022), using corporate data from 2010 to 2018 in China, concluded that a higher proportion of minority shareholders in the ownership structure improves companies' performance in CSR. The effect weakened in polluting industries after the adoption of the new environmental law, suggesting

that before adoption, minority shareholders' monitoring activities contributed the most to CSR improvement, while after adoption, the law enforced CSR activity.

Many studies also address the above relationships in a country- or region-specific manner. Niccoló et al. (2020) examined the relationship between Chinese stock market companies' ESG-related investments and dividend policies. Their research found that such investments reduced the level of dividend payments by companies. Examining the COVID-19 crisis indicators of Indonesian "green index" companies, Tinungki et al. (2022) found a strong relationship between corporate profitability and paid dividends. The previous year's dividend policy and company size also showed a positive relationship with dividend payments, while leverage hurt the size of dividends.

## **Empirical research**

In his work, Kucséber (2022) looked for the answer to whether the dominant hardware manufacturers of the fourth industrial revolution (Adv Micro Devices; Alpha & Omega; Analog Devices; Applied Materials; Broadcom; ChipMOS; Cisco; IBM; Intel; Micron Technology; Texas Instruments) operate sustainably, and whether the financial performance of sustainable firms is more favorable than that of other (non-sustainable) companies. Based on the analysis of three different sustainability-related lists and the Sustainalytics ESG scores, 6 companies – i.e., half of the sample – could be characterized as operating sustainably, which were: Intel, HP (Hewlett-Packard), Analog Devices, Cisco, Texas Instruments and Applied Materials. This figure can be considered favorable because only 100-100 companies could be included in two of the three lists cited. The calculations included the evolution of P/E, P/S, and P/BV ratios between 2019 and 2021. The results show that companies that manage their business with a focus on sustainability show better market and financial values in crisis situations.

In the empirical part of this study, we would like to present the results of the continuation of the referenced research, added to the GAFAM (Google, Amazon, Facebook – Meta, Apply, Microsoft) companies. In our work, based on the financial reports of the reported companies, we collected the amount of the after-tax profit and the dividend paid for the period between 2018 and 2021. In this chapter we present our results: It is a positive trend that the after-tax profit of most of the investigated companies, with the exception of 3 companies (IBM, Intel, Cisco), in 2021 exceeds the values before COVID. When looking at the relative changes from year to year, we can state that the non-sustainably operating companies have on average achieved higher relative growth than the sustainably operating group both from 2019 to 2020 and from 2020 to 2021.

The next step in the analysis is to see if there is a difference between the dividend payments of the two groups: The majority of the firms in the sample (except 5 firms: Adv Micro Devices and Alpha & Omega Semiconductor, Google, Amazon, Facebook) paid dividends in the years under study, even in the year COVID-19. From this point of view, however, there is no sharp difference in the dynamics of dividend payments between the two groups: in the sustainable group, only two firms increased the size of dividends paid, two firms stagnated, while in the non-sustainable group, only one firm increased the size of dividends paid and one firm kept it level. The last element of our research is the examination of the evolution of dividend payment rates: The companies designated as sustainable had a higher dividend payment rate in the years under review, and an increasing trend can be observed. Our results are similar to research published by Johansson and Fahlén (2019) and Salah and Amar (2020).

## Summary

Neither group is characterized by the full payment of profits as dividends. From an ownership point of view, we consider it positive that sustainable firms also pay dividends, but also reinvest part of their profits, which is an (internal) source of further growth. The results obtained are not representative, which is a limitation of our study. Another limitation is that from the point of view of an external analyst, we cannot determine the actual factors behind dividend payments and reinvestment, as we do not know the dividend policies of the firms under study. In addition, the theoretical background of the examined questions is also very complex, the relationship between ESG and dividend policy cannot be understood by examining only financial indicators. Addressing all these challenges can be the focus of our future research.

## References

- Bakos, I. M.; Khademi-Vidra, A.; Szeberényi, A. (2022). Relationships between environmental education and community-supported agriculture in Hungary. In: Cagri, Ün; Merve, Kidiryuz (szerk.) Cukurova 9th International Scientific Researches Conference: Full Texts Book (Volume 1). Ankara, Törökország: Iksad Publications. 911 p. pp. 417-426., 10 p.
- Bueno-García, M. (2022). How do shareholders influence international firms' environmental strategies? The differential impact of strategic and financial investors, *Long Range Planning*, <https://doi.org/10.1016/j.lrp.2022.102183>
- Johansson, A.; Fahlén, A. (2019). Does sustainability affect dividend policy?: A panel data study on Nordic firms (Dissertation). Retrieved from <http://urn.kb.se/resolve?urn=urn:nbn:se:umu:diva-160497>
- Kucséber, L. Z. (2022). Fenntartható technológiai vállalatok relatív értékelése a Covid tükrében. *Controller Info*, 10 (2), pp. 2-7.
- Kulcsár, E.; Veres, E. (2021). Fenntarthatósági szempontok gazdasági hatásai a vállalatok működésében. *Partiumi Egyetemi Szemle*, 20 (2), <https://pesz.partium.ro/hu/archivum/xx-efolyam-2021/2/kulcsar-edina-veres-edit>
- Lőrinc, B.; Nagy, H.; Káposzta, J. (2022). Analysis of the Centre-Periphery Relations – Focus on the Competitiveness of Hungarian Districts. *Visegrad Journal on Bioeconomy and Sustainable Development*. 11(1), pp. 33-40.
- Matos, V. P.; Barros, V.; Sarmiento, J. M. (2020). Does ESG Affect the Stability of Dividend Policies in Europe? *Sustainability*, 12, 8804; doi:10.3390/su12218804
- Nagy, B. (2007). Az osztalékcrejtélyes viselkedéstani magyarázatai. *Hitelintézet Szemle*, 6 (6).
- Nguyen, P. A.; Kecskés, A.; Mansi, S. (2017). Does corporate social responsibility create shareholder value? The importance of long-term investors, *Journal of Banking and Finance*, 78., <https://doi.org/10.1016/j.jbankfin.2017.09.013>
- Ould, N., Ellili D. (2022). Impact of environmental, social and governance disclosure on dividend policy: What is the role of corporate governance? *Evidence from an emerging market, CSR and Environmental Management*, 29 (5), pp. 1396-1413, <https://doi.org/10.1002/csr.2277>

Cruz Mendoza, R. C.; Kecskés, P. (2020). Circular Economy: Reality and Challenges. In: Reisinger, Adrienn; Kecskés, Petra; Buics, László: "Kreatív ipar, digitális gazdaság" Kautz Gyula Emlékkonferencia, Győr, Magyarország: Széchenyi István Egyetem, Paper: 3., 10 p.

Sági, J.; Fellegi, M. (2021). Vállalkozások fenntartható tőkepiaci finanszírozása. In.: Soproni Pénzügyi Napok „Fenntartható gazdaság – fenntartható pénzügyek” pénzügyi, adózási és számviteli szakmai és tudományos konferenciakötete. Sopron, 2021.

Salah, O. B.; Amar A. B. (2020). Does corporate social responsibility affect dividend policy? Empirical evidence in the French context, *Journal of Global Responsibility*, 13 (3) pp. 268-289. <https://doi.org/10.1108/JGR-10-2021-0082>

Tinungki, G.M.; Hartono, P.G.; Robiyanto, R.; Hartono, A. B.; Jakaria, J.; Simanjuntak, L.R. (2022). The COVID-19 Pandemic Impact on Corporate Dividend Policy. *Sustainability*, 14(10), <https://doi.org/10.3390/su14106152>

Xu, S.; Yin, B., Lou, C. (2022). Minority shareholder activism and corporate social responsibility, *Economic Modelling*, Vol. 116, <https://doi.org/10.1016/j.econmod.2022.106045>

<https://www.cmcmarkets.com/en-gb/trading-guides/faang-stocks> downloaded 15.06.2023

<https://www.dividend.com/how-to-invest/why-google-goog-doesnt-pay-a-dividend/> downloaded 15.06.2023

<https://www.nasdaq.com/articles/these-5-stocks-could-generate-better-returns-than-faang-in-2021-2020-12-23> downloaded 15.06.2023