**DIVIDEND DECISIONS**

Dividends are the returns paid to ordinary and preference shareholders for the capital investments they have made into the business firm as owners. These dividends are paid from the profits made in the business and are quite uncertain in nature as far as predicting the chance of making profits by the business are uncertain. The dividend decisions are made by management of the business firm.

**FACTORS INFLUENCING DIVIDEND DECISIONS**

There are some factors which guide the management to make dividend decisions in the formulation of dividend policy. A good financial expert should consider the following in determining dividend policy.

1. Financial capability of the firm will influence the dividend decision as projected profits can be budgeted using the historical financial data of the firm
2. Shareholder preference will influence the dividend decision policy maker as they have a management obligation to meet shareholder requirements.
3. Size of the firm will influence dividend decision as startup companies in their growth stage are unable to meet dividend payments due to constraints of growth requirements.

**DIVIDEND POLICIES AND TYPES OF DIVIDEND DECISIONS**

Dividend policy of the firm will be determined by the reason influencing the allocation of profits after tax between dividends and retained earnings. The two scenarios which arise include the following;

1. Firms expansion

The firm’s dividend policy should be aligned to retaining a larger amount of profits after tax and paying less dividend so as to necessitate growth of the firm through expansion by re- investing the retained earnings.

1. Shareholders wealth maximization

The firms’ dividend policy should be tailored to increase market value of its shares by paying the shareholder larger dividends to their satisfaction and retaining a smaller portion of profits after tax.