Essay: Dividends and Company Performance

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Dividends and Company Performance

Some companies are able to pay dividends to its investors based on the net profits. The student is right to indicate that some types of stocks do not provide dividends to their stakeholders. Therefore, net profits are re-invested into the business to accomplish significant growth rate that can realize an advanced asset base (Needles, Powers & Crosson, 2013). It is not appropriate to reinvest dividends in the business if the resources are not wasted away on failed acquisitions or investing too risky deals when manufacturing new products.

The student is also right because companies that offer dividends to its shareholders demonstrate better performance, owing to the rising levels of earning. Similarly, the organizations providing dividends in terms of cash payments to investors illustrate those disbursements symbolize the transformation of the business (Needles, Powers & Crosson, 2013). More importantly, some dividends are not paid to investors, which assist in enhancing the business value. In this regard, it can be quite useful if the young company does not pay dividends but instead utilize available opportunities to grow. The company's board is responsible for decision making on whether a firm can offer dividends. When dividends are not paid, the money is invested in fund expansion and operations expecting to reward investors with more prized shares. For this reason, if the dividends are not paid in the start-up firm, it is an indication of better performance in terms of investment. However, when dividends are not paid, they can be easily misused as the top managers use it to allocate huge bonuses amongst themselves (Needles, Powers & Crosson, 2013).

Payment of dividends is associated with many benefits to investors particularly in their retirement because they acquire cash without trading on their shares or capital costs (Needles, Powers & Crosson, 2013). However, the company also take advantage of existing opportunities in the market by avoiding the release of dividends hence facilitating business growth.

References

Needles, B. E., Powers, M., & Crosson, S. V. (2013). *Financial and managerial accounting*. Cengage Learning.