Journal of Economics, Business, and Commerce (JEBC)

ISSN: 3007-9705 (Online)

Volume 2 Issue 2, (2025)

https://doi.org/10.69739/jebc.v2i2.797

https://journals.stecab.com/jebc

Published by
Stecab Publishing

Research Article

Effect of Cashflow Management on Dividend Policy of Listed Manufacturing Firms in Nigeria

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About Article

Article History

Submission: June 16, 2025
Acceptance : July 21, 2025
Publication : July 30, 2025

Keywords

Cash Flow Management, Dividend Policy, Financing Cash Flow, Investment Cash Flow, Operating Cash Flow

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ABSTRACT

Cash flow management of a firm is linked to smooth dividend policies, however, listed manufacturing firms in Nigeria demonstrate an inconsistent and erratic flow of dividend payment on the bases of the low degree of operating environment stability and variability of cash flows. This study analyzed the effect of cash flow management (Operating Cash Flow, Investment Cash Flow and Financing Cash Flow) on dividend policy of manufacturing firms in Nigeria listed in the stock market. The research design used in the study was quantitative research based on the quasi-experimental and ex post facto research design. The population included in this study is 57 manufacturing companies listed in the Nigerian Exchange whose 44 firms were purposively selected due to the availability of data between 2014 and 2024. Secondary data was obtained through audited financial statements as well as Nigerian Exchange Group. Panel data regression models with fixed effects were used to analyse data after diagnostic tests of heteroskedasticity, multicollinearity, and stationarity, using STATA 17.0 software. It was found that the Operating Cash Flow (with a coefficient of -0.5754 and p-value of 0.882) and Financing Cash Flow (with a coefficient is 9.2827 and a p-value of 0.348) have no significant effect on the dividend payout, whereas Investment Cash Flow positively and significantly (with a coefficient of 2.9179 and a p-value 0.000) affects the dividend policy of the listed manufacturing companies in Nigeria. The study concluded that investment cash flows rather than operational or financing cash flows determine the dividend policy in the listed manufacturing companies in Nigeria. The study recommends that companies should match the investment plans with the dividend planning and should enhance operational effectiveness to increase dividend capability, whereas implementing steady financing practices should be followed to maintain the long-run shareholder worth.

Citation Style:

Deshi, N. N., & Udu, K. (2025). Effect of Cashflow Management on Dividend Policy of Listed Manufacturing Firms in Nigeria. *Journal of Economics, Business, and Commerce, 2*(2), 61-73. https://doi.org/10.69739/jebc.v2i2.797

1. INTRODUCTION

Dividend policy, commonly captured by the dividend payout ratio, is a pledge of a firm to pay a certain part of their earnings to stockholders, and can be used as a strategic indication of financial reported results (Lintner, 1956; DeAngelo *et al.*, 2006). The ability of firms to continue paying dividends is directly dependent on cash flow management (including operating, investing, and financing cash flow). Companies capable of consistently generating stable operating cash flows (OCF) show sustainably higher pay days on dividends because they have credible internal funding. This ratio was determined by Al-Najjar and Kilincarslan (2022), who found that an increase in a unit of OCF has a positive impact of 0.43 units on the dividend payout ratio of listed equipped firms in developed economies. On the other hand, the higher the investment cash flows (ICF), the less pays firms in dividends, as they focus on capital investments, whereas financing cash flows (FCF), especially related to debt payments, restricts cash that firms can pay in dividends (Denis & Osobov, 2008; Baker & Powell, 2012).

In African economies, the elements of cash flow have always defined dividend policies because of the existing financial constraints and the lack of developed capital markets. Dividend payment is also financed by internally generated cash flows since long term external financing is hard to access in firms on the continent. In the case of Ghana, Kenya and South Africa assessed in a cross-country research by Ofori-Sasu *et al.* (2020), a coefficient of 0.36 was recorded in the effect of operating cash flow to increase dividend payout, serving as a confirmation of the supportive aspect by cash flow in the dividend policy. Dividend decisions are influenced negatively by investment cash cycle since companies in most cases divert their profits on infrastructure development and acquisitions. The financing cash flow has a positive as well as a negative impact arising out of the capital decisions and the existing amount of debt. Abor and Bokpin (2010) checked this and found out that African firms experience reduction of dividend payments where there is an increment in financing operations, especially during debt growth. Ntim (2016) confirmed that conservative dividend policies used by the African firms are the result of two main determinants: that is, the volatility of the cash flow generated by the investments and finance activities of the companies as well as macroeconomic instability.

A powerful influence of cash flow management on business performance is that in Nigeria, it continues to determine distributive approach of dividends paid by listed manufacturing firms especially when economic at large, is characterized by inflationary pressures, currency fluctuation, and rising energy prices. Out of the manufacturing companies on the list, just 42 % paid continuous dividends during the years 20152022, and the average payout proportion was near 31% (Nigerian Exchange Group, 2023). As Ejechi and Makinde (2021) determined, an increase in OCF by 1 percentage point of the total asset generates the increase in dividend payout ratio by 0.28 percentage points, thus the significance of internally generated sources of cash flow. In studies by Okafor *et al.* (2022), FCF has a negative influence on pay-out of dividends with coefficient of -0.19, because of the cost of repaying expensive debt servicing, and adjustment of capital structure. High ICF is also associated with low dividend disbursement because the capital is changed to machinery, plants and long run investments. These economic facts in the manufacturing organization in Nigeria vindicate the importance of the composition of the cash flow in influencing the policy on dividends. Moreover, the size and leverage of firms, which Rajan and Zingales (1995) and Modigliani and Miller (1958) have confirmed to impact directly on the use of available cash flows by firms, means that larger firms will experience an excellent financial flexibility, and high leverage firms will endeavor to be careful when paying dividends to ensure that they do not strain liquidity.

1.1. Statement of the problem

Cash flows should be well managed in order to secure financial sustainability of firms and consistency in dividends policy. Theoretically, a company that experiences good operating cash flows (OCF) ought to possess the internal ability to finance its dividend commitments and the investment cash flows (ICF) and the financing cash flows (FCF) ought to indicate its strategic investment and capital policy. Nonetheless, the situation is otherwise in the manufacturing industry in Nigeria where reality and theory do not quite match. Although dividends are an important source of financial information that improves investor confidence and firm value, most listed manufacturing companies in Nigeria have displayed inconsistent trend in dividend payments, poor dividend payout ratios, or non-payment of dividends. Such discrepancies exist against a background of both rising and falling cash flow trends caused by macroeconomic uncertainties, infrastructural gaps, a spike in the cost of production and limited availability of long-term funding. Companies tend to invest heavily in a capital (high ICF) and repaying debt (high FCF) and always fail to allocate enough liquidity to paying dividends despite seemingly healthy earnings. This poses some fundamental questions on the effect that the elements of cash flow management have on dividend and decision-making in a real-life environment of the manufacturing industry of Nigeria company. The situation is even more urgent as investors use dividend payments to ensure that a company is financially healthy and that it provides dividends as the source of income in an unstable economic atmosphere such as the one in Nigeria. This research study hence seeks to find answers to the following question: To what degree does the operating cash flow influence the dividend policy of manufacturers firms listed in Nigeria? What is the effect of investment cash flow and dividend payout of listed manufacturing firms in Nigeria? How does the financing cash flow impact the dividend policy in the Nigerian manufacturing industry? These questions attempt to see the way in which cash flow management practices influence the dividend payment in an environment characterized by financial and operational challenges.

Although research has been done extensively on cash flow management and dividend policy, there exist major research gaps in the case of listed manufacturing firms in Nigeria. Theoretically, a substantial number of empirical studies (Ansir, 2021; Afza & Mirza, 2021; Modum *et al.*, 2023) have analyzed cash flow and dividend policy with aggregate (or undifferentiated) measures of cash flow without decomposing the contributions of

individual measures of operating, investing, and financing cash flows. This constrains transparency on the independent effect of each of the cash flow components to dividend determination. As an example, Afza and Mirza (2021) put emphasis on free cash flow and stock returns with no mention of disaggregated cash flows. On the same note, the article by Modum *et al.* (2023) concentrated on the general cash conversion cycles and the cash ratio by not distinguishing OCF, ICF, and FCF. As well, Ansir (2021) related the total cash flow to firm value without directly examining the dividend policy. These gaps depict the existence of concept and evidence gap since there is a lack of empirical clarity on the impact of each level of cash flow on dividend policy particularly the manufacturing sector in Nigeria.

Literatures also have contextual and sectoral gaps. As evidenced by the research studies of Akpan (2024), Odo and Theophilus (2021), and Odoh and Okwo (2022), they relied on non-manufacturing industries, such as healthcare and consumer goods, which are highly different in structure, capital intensity, and volatility in daily operations compared with the manufacturing industry. Moreover, the research of Putri and Santoso (2022) and Ansir (2021) was done in environments outside of Nigeria whose institutional and market dynamics cannot be applied in the economic reality of the country under analysis. These constraints bring about both the contextual and the geographical gap because Nigeria manufacturing industry has to deal with its own attributes to survive within the Nigerian manufacturing mix which includes the following: currency fluctuations, inadequate infrastructure, and unavailability of the capital markets. The present research fills these gaps by paying attention to disaggregated cash flows (OCF, ICF, FCF) and their direct effect on dividend policy in the Nigerian listed manufacturing companies.

The main objective of the study is to examine the effect of cash flow management on the dividend policy of listed manufacturing firms in Nigeria. The specific objectives are to:

i. Evaluate the effect of operating cash flow on the dividend policy of listed manufacturing firms in Nigeria;

ii. Examine the effect of investment cash flow on the dividend policy of listed manufacturing firms in Nigeria; and

iii. Assess the effect of financing cash flow on the dividend policy of listed manufacturing firms in Nigeria.

The study is guided by the following null hypotheses:

H_{01}: Operating cash flow has no significant effect on the dividend policy of listed manufacturing firms in Nigeria;

H_{02}: Investment cash flow has no significant effect on the dividend policy of listed manufacturing firms in Nigeria; and

H_{03}: Financing cash flow has no significant effect on the dividend policy of listed manufacturing firms in Nigeria.

2. LITERATURE REVIEW

2.1. Conceptual review

2.1.1. Dividend policy

The division payment is a type of strategic decision that plays a critical role in selecting investments and the market value of any body. The reason behind this is that the management alongside investors attach a lot of importance to dividend decision. Agus (2021) defines dividend policy as a series of rules that are set by a company in order to define the proportion of its profit that has to be provided to shareholders. Dividend policy refers to the policy that states whether the shareholders of a company receive dividends of the total profits earned or whether the profits are not paid out to shareholders owing to retention of profits to grow the company (Uwa *et al.*, 2024). That is, the profits which the firm has accrued may be used to pay dividends as well as internally financing the growth of the company. Dividend Payout Ratio (DPR), a ratio of the amount of dividends paid to shareholders and the earnings of the company is one of the indictors of the dividend policy (Utami & Inanga, 2021). Dividend payout is a fraction of the profit of a company or business given to the owners or shareholders basically in form of money or even more stock. Investors who seek constant returns and income in their investments usually favor companies that invite dividends regularly. The cash flow practices also have a significant role in payment of dividends of the firms.

2.1.2. Cash flow management

The conceptual foundation of the study also rests on three key elements of cash flow management (Operating Cash Flow, Investment Cash Flow and Financing Cash Flow) which are considered to be the three important aspects of management. These parts depict various sources and applications of funds in a company. The study captures these cash flow types as key explanatory variables that directly determine the ability and the willingness of a firm to pay dividends. The conceptualization relates greater financial management of a firm to shareholder approaches to returns and pressure of internal financial capability in dictating the dividend policy especially in the emerging countries such as Nigeria where the capital market remains quite limited.

2.1.3. Operating Cash Flow (OCF)

Operating Cash Flow (OCF) is that cash which is produced by the main business activities of the firm but normally without the activities of financing or investing. White *et al.* (2003) assert that OCF reflects the cash impact of the transactions that are used in calculation of net income. According to Horngren *et al.* (2013), it can be defined as the amount of cash given out or utilised in the key revenue-generating activities of a firm. According to Brigham and Daves (2014), OCF can be defined as the cash amount accrued by an organization through the normal daily operations of the business. Stickney *et al.* (2009) also state that OCF points to the short-term feasibility of the company in the sense of its capacity to pay debts and finance operations. Finally, Ross *et al.* (2016) consider OCF as a gauge on the amount of cash a business raises after considering the cash cost of running the business.

Within the framework of the present research, OCF will be envisioned as a prime measure of the internal liquidity of a company and its ability to maintain a steady pattern of dividend distributions. Ideally, the firms that have strong and stable OCFs will be in the advantageous position to be able to cough more dividends without a dent on its operations. The analysis however reveals that dividend payout has not been influenced significantly by OCF in Nigerian listed manufacturing firms. This may be understood in the context of volatile Nigerian

economic system where operating cash may be gobbled up by excessive working capital requirements, inflationary expenses, and energy bills with limited extra expenses available to make discretionary distributions such as dividends. Therefore, at the theoretical level OCF is associated with dividend possibility, but in reality, its analysis with respect to this segment reflects a lack of correlation due to structural and operational inefficiency.

2.1.4. Investment Cash Flow (ICF)

Investment Cash Flow (ICF) or cash flows of investing activities consists of cash spent or received in the process of investing in long-term assets (i.e. building, plant, equipment, or investments). Fraser and Ormiston (2010) define ICF as the cash used in long term assets purchase and disposal and investment. Its reflective capital expenditure activities mean that ICF is capital expenditure as seen by Horngren *et al.* (2013) as having an influence on the future productive capacity of a firm. Gibson (2013) notes that ICF is generally an outflow of cash in growth-oriented companies and the inflow is by sale of assets. As noted by Brigham and Ehrhardt (2017), ICF may present an indication of the trend of firm growth and the strategic investment mode. According to White *et al.* (2003), investment activities though are likely to lead to outflows of cash are important in ensuring long term sustainability.

In this research, ICF has a two-fold role to play. Although it is traditionally linked to capital intensive outflows it has been discovered to directly influence the dividend policy with significant positivity. It means that those manufacturing corporations in Nigeria which experience positive net cash flow during the investing activities, say due to returns on prior investments or disposing of idle resources in the company, have a chance to pay some of this money as the dividends. Such a pattern implies a signaling theory: dividend payout is a signal of management about successful investment results. The ease of positive ICF is essential in boosting dividends in the capital-starved Nigerian state wherein foreign capital is costly or unavailable. It shows the assurance of the leadership in financial performance of the enterprise and reassures the stockholders of the financial competency and efficient planning of the company.

2.1.5. Financing Cash Flow (FCF)

Financing Cash Flow (FCF) refers to cash exchanges involving a company and suppliers of finance (both debt and equity). According to Stickney *et al.* (2009) FCF is the net cash inflow and outflow obtained through borrowing, repaying debt, issuing shares or paying dividends. Ross *et al.* (2016) consider FCF as a reason behind how a company funds its operations on the ground of release of debt, financing the business through equity, or more directly through the distributions of dividends. White *et al.* (2003) expound that FCF includes the activities of the firm regarding the capital structure, including the efforts in raising the capital or giving it back to the shareholders. According to Horngren *et al.* (2013), the analysts may be informed through FCF about the firm leverage, dividend policy, and financial strategy. Commenting on whether financial strength determines the capacity of a firm to maintain or to take up dividend payments, Fraser and Ormiston (2010) note that the health and trend of financing flows often act as a determinant of the ability of a firm to either sustain or raise dividend payments.

The operationalization of FCF in the current research includes the cash flow that occurs as a result of financing activities over all sums of assets, yet special emphasis was paid to the influence of the funds on the dividend decisions. Interestingly, the study establishes that FCF is not a strong determinant of dividend payout among listed Nigeria manufacturing firms. This could be attributed to the fact that majority of the firms give priority to either financing cash (borrowed or through equity raised) to either debt service or capital growth and not to payment of dividends. Also, Nigeria has a very expensive borrowing rate and a fluctuating foreign exchange rate which might discourage the firms to finance shareholders using external funds. Hence, according to the research, FCF is the indicator of the strategic level financial decisions of the companies to maintain the solvency and the ability to develop instead of focusing on rapid payoff of the investors, choosing to be conservative and sustainable in the approach towards capital allocation.

2.2. Empirical review

Akpan, (2024) determined how cash flow (practices) affects the dividend policy of listed healthcare companies in Nigeria. The research methodology followed in this study was- ex post facto research method, it used secondary data and the total number of the firms under study was 7 listed health care firms and the complete 7 companies were included in the study. In the analysis of the data, the ordinary least square regression analysis method was applied and the statistical package used was E-views version 13. The outcome of the analysis indicated that free cash flow does not really influence the dividend pay out of listed healthcare firms in Nigeria, operating cash flow has a positive significant effect on the dividend pay out of the listed healthcare firms and investing cash flows has a positive significant effect on the dividend pay out of the listed healthcare firms in Nigeria. The research was done on a listed healthcare firms in Nigeria and this is an industry that is very different in its operation terms, government restrictions and the capital structure as compared to the manufacturing sector. The nature of health care sector is usually marked by fairly secure sources of revenue, its high government control, and the relative lack of asset turnover in comparison with production companies, which are more exposed to fluctuations in the economy, energy prices, and currency fluctuations. Therefore, although the findings by Akpan are very informative, they might not be generalizable to the manufacturing sector because of the differences in the sector. The present study addresses this textual vacuum by taking special consideration of manufacturing industry which is a more capital intensive and operationally sensitive to macroeconomies in Nigeria.

The study by Modum *et al.* (2023) investigated the implication of cash flow activities on the financial performance of manufacturing companies in Nigeria. Judgmentally, eighteen (16) firms were chosen by selecting them out of the forty-three (43) firms included in the Nigerian Stock Exchange (NSE). It used the Ex-Post facto research design and secondary data were drawn by collecting annual reports of the selected firms

during eleven years (2011-2021). Mixed results of no significant effect of cash flow activities on the financial performance of the chosen manufacturing firms were also recorded. Although the principal matters studied have been broad control of net cash flow, the cash conversion cycle and cash ratio vis a vis dividend per share, without respectively dissociating the cash flows into operating, investing and financing streams. Secondly, though the study can be of great help in understanding the importance of liquidity management to dividend policy, it fails to deliver an elaborate conceptual discussion on how each type of cash flows used singly affects the determination of dividend payment. This poses a conceptual gap, which the present study attempts to fill through a clear distinction and empirical assessment of their respective effects of OCF, ICF, and FCF on dividend policy in order that a more finer explanation of internal cash flow is provided.

Odoh and Okwo (2022) studied how cash management has an impact on dividend policy of manufacturing firms in Nigeria. The sample was composed of the six (6) consumer and industrial goods manufacturing companies that are listed on the Nigeria Exchange Group between the year 2011 and the year 2020. The results of the research revealed that the impact of the net cash flow, cash conversion cycle and cash ratio on dividend per share of the firms are positive whereas, the impact of cash ratio on dividend per share of the firms is not significant data wise. Although the study allowed it to concentrate on the cash flow activities in influencing the financial performance, it did not touch on the effect of cash flow activities on dividend policy, which is different and part of the firm financial strategy. Further, the result of their findings was stated to be mixed with no concrete evidence pointing out the role of cash flows in dictating performance outcomes. The issue generates an evidence gap since there is still lack of empirical clarity on how individual cash flow items contribute to dividend payouts. The proposed study closes this gap by directly establishing a direct relationship between certain forms of cash flows with dividend policy with the help of a strong census-style panel of 44 manufacturing firms over 11 years, thereby enhancing the literature and empirical base on the subject of dividend policy within the Nigerian manufacturing domain.

Putri and Santoso (2022) examined the impact of the net income, operating cash flow; company size on dividend policy in finance companies Research findings indicate that the partial impact of the net income and the operating cash flow have influence on the dividend policy and the company size do not influence on dividend policy. Although in the study net income and operating cash flow are said to have significant influence on dividend policy, other important variables like investment cash flow and financing cash flow were not considered. This constitutes a conceptual gap since the concept of dividend policy is affected by other streams of cash flows besides operational cash flows. Also, the Banking sector, the one in which this research was carried out, is not a Nigerian, but its regulatory and economic environment is not of the same pattern as that of the manufacturing sector in Nigeria, therefore, creating a gap of contextual differences. These limitations are tried to be solved in the present study using a different industry, i.e., manufacturing, and covering all three components of cash flow to provide a more exhaustive interpretation of what is behind the dividend policies in Nigerian companies.

Odo and Theophilus (2021) explored how cash flows influence the finance performance of food and beverage companies in Nigeria. This research has found that operating cash flow activities have a great influence on profit of food beverages companies in Nigeria within a year. Financing cash has great impact on profit on the year of the food and beverage firms in Nigeria and investment cash has a great impact on profit on the year of the food and beverage firms in Nigeria. Although the study has demonstrated that operating, financing and investing cash flows have a severe influence on profit, it has not discussed the direct influence of the cash flows on the dividend policy which in fact is the fundamental issue of the present study. This forms a conceptual as well as an evidence gap since profitability does not imply a dividend payout; a company may be profitable and may not have a dividend payout as it can keep its earnings to reinvest or to pay down the debt. In addition to that, reducing the sample to food and beverage companies might not give the entire picture of the financial behavior of an entire category of manufacturing companies and thus the existence of a contextual gap as well. The proposed research fills all of these gaps by clearly examining the effects that each type of cash flows have on paying dividends in the broad manufacturing industry in Nigeria.

Ansir (2021) assessed how cash flow and dividend policies made an effect on firm value in Indonesian-listed companies in the manufacturing sector (BEI). The findings indicated the little influence of cash flow decisions and dividend policies on firm valuation. The study, though it offers a more general perspective by connecting the cash flow and the dividends to the firm value, fails to distinguish and quantify in any way the specific impacts of operating cash flows, investing cash flows, and financing cash flows on dividend policy per se. This gap leaves an evident analytical and evidence gap, since the study avoids the direct impact of cash flows on dividends to look at indirect sources of valuation of a company. Moreover, there is contextural gap given the Indonesian situation because the economic environment, corporate governance structures and capital markets are different than those in Nigeria. The research endeavor attempts to fill such gaps by centering on dividend policy, cash flow aspects within the Nigerian industrial scenario.

Afza and Mirza (2021) examined how free cash flow influences dividends policy using different measure of stock returns as well as the three days announcement. The secondary data which were taken by referring to annual report and accounts of the selected companies were analyzed using multiple regression analysis. The findings demonstrated that the free cash flow has significant influence on the stock returns of the firms. Although the study identified a strong relationship between free cash flow and stock returns, it failed to separate cash flows by operating, investing, and financing characteristics and hence formed a conceptual gap. In addition, it focused on the response of investor to announcement, and not the internal determination process that is applicable to dividend payout. The emphasis causes an evidence gap, because it lacks direct empirical knowledge about the topics of how various cash flow streams would influence the dividend policy. Also, the researchers have

an issue of the non-Nigerian study background, as Nigeria is a country with its own economic issues and market arrangement. The current study builds on these shortcomings by undertaking a research that focuses on individual effects of OCF, ICF, and FCF on dividend policies among the listed manufacturing companies in Nigeria.

2.3. Theoretical review

2.3.1. Agency theory

Jensen and Meckling (1976) developed agency theory and focuses on the conflict interest involves principals (shareholders) and agents (company managers). It puts forward the argument that managers do not always act in the best interest of shareholders at anytime there are excess cash flows which can be used on discretionary expenses. In this theoretical framework, dividend policy serves as a tool to tackle the agency costs by minimizing free cash that can be used on the self-servicing decisions made by the management (Utami & Inanga, 2021). Having considered the current study operation and financing cash flows have no significant influence in determining the dividend payment of listed manufacturing companies in Nigeria, thus indicating that managers can hold these cash flows to use in running the company or in servicing liabilities other than paying dividends to shareholders. This might be taken as the case where the managers are not disciplined through the dividend policy, possibly because of poor system of governance, or urgent financial needs. On the other hand, the positive and significantly relationship between investment cash flow and dividend policy augers well with the proposal in the agency theory- that firms can utilize dividend payout to allay the demands of shareholders that the investment funds are being utilized efficiently, particularly as the investment begins to produce returns.

The study is therefore supported by the agency theory in the way cash flow allotment reveals the basic consultations of the governance. During a time when investment cash flows are high and companies decide to send more money in dividends it indicates that the management has decided to distribute value creation with shareholders instead of holding or reinvesting returns indicating that management actions are compatible with the interest of shareholders. Non-significance of operating cash flows and financing cash flows, however, indicates that the Nigerian manufacturing firms might not use the dividend policy as one of the stable types of reducing agency costs. Rather, cash flow derived as a result of the core operations or as an outcome of the financing operations can be diverted to cover liquidity challenges, service debts, or be used to finance capital expenditure especially in the uncertainties of the Nigerian economy. The biased backing of the agency theory in the research can thus be seen as the manifestation of a twofold pressure of the shareholder expectations and financial restrictions in the manufacturing industry.

2.3.2. Pecking order theory

Pecking Order Theory (POT) was first suggested by Donaldson (1961) and then formalised by Myers and Majluf (1984). The theory envisages a hierarchy of financing in which firms are more favourable to internal financing (retained earnings and cash flows) as opposed to external financing (debt or equity). This theory presupposes that the firms are keen to invest in the strategies that reduce asymmetric information and transaction costs. In an application to the dividend policy, the theory presents that companies will not be willing to pay dividends to such sources that may undermine financial flexibility particularly where the companies may be looking forward to the availability of other investment opportunities. In this respect, the results provided in the current study assume that operating and financing cash flows do not affect substantially dividend payments, which concur with POT. It means that the Nigerian firms in manufacturing industry are more lenient to hold the cash they use in operations and financing purposes, as a way of sustaining them in the future in case of investment or even liquidity requirements as opposed to dealing with it as dividends.

The important role of cash flows in investments on a dividend policy also correlates with the pecking order. It is implied that as long as activities which are accompanied by returns on investment or liquidation of the assets (e.g. the sale of equipments or completed projects) occur, an excess may be freely paid out in the form of dividends without threatening the internal financing capacity of the firm. This helps to prove that dividends are undertaken only by those funds that are in excess and not those that are essential cash flows that are required in operation or financing. The paper is hence well informed by the POT because it encapsulates the conservative aspect of dividend policy among manufacturing companies in Nigeria which use expensive external capital markets or under developed markets. The evidence highlights the emphasis of firms in ensuring financial strength and maintaining investments at a time in which it only pays dividends when it has completed its intra and strategic financial requirements. This dividend policy based on risk-aversion tendency is consistent with pecking order rationale that points to the applicability of the approach in emerging nations such as Nigeria.

3. METHODOLOGY

The research design of the study was quantitative with a quasi-experimental approach and ex post facto study since it was based on secondary financial information that was not subject to a man computation of farm inputs (Ejechi & Makinde, 2021). The study was grounded in the positivist philosophy of research which is based on objective, empirical, and observable financial phenomena with the application of measurable data (Creswell, 2014). The population comprised of 57 listed manufacturing firms in Nigeria and the sample size of the 44 manufacturing firms was obtained through purposive sampling. The sampling criteria involved the firms that had been listed in the Nigerian Exchange for the last seven years or more (since 2014 and 2024), which had full data on the cash flow and payment of dividend, and no missing values of under analysis variables. The research was based on a secondary data which were supplied by audited financial statements of the sampled companies and Nigerian Exchange Group (2024) publications. The panel data regression method was employed in the analysis of data in STATA 17.0, which included the use of descriptive statistics, correlation analysis, multicollinearity

test, and heteroskedasticity, unit root test as well as Hausman specification test among others, thus making the data statistically sound and valid.

3.1. Model specification

The model specification for the panel regression was adapted from prior empirical work (Akpan, 2024) and is presented as:

$DIVP_{it} = \beta 0 + \beta 1OCF_{it} + \beta 2ICF_{it} + \beta 3FCF_{it} + \beta 4FSIZ_{it} + \beta 5LEVG_{it} + \varepsilon_{it}$

Where,

DIVPit = Dividend payout ratio of firm i at time t; OCF_{it} = Operating cash flow / Total assets; ICF_{it} = Investment cash flow / Total assets; FCF_{it} = Financing cash flow / Total assets; $FSIZ_{it}$ = Firm size (log of total assets); $LEVG_{it}$ = Leverage (total debt / total equity) and ε_{it} = Error term

This model captured both the time-invariant and firm-specific effects using the fixed effects estimator, based on the Hausman test outcome, ensuring consistency and unbiased parameter estimates.

Table 1. Variable measurement and construct validity

Variable	Code	Measurement	Priori Expectation
DEPENDENT			
Dividend Policy	DP	Dividend Payout Ratio = (Total Dividends / Net Income)	N/A
INDEPENDENT			
Financing Cash Flow	FCF	Financing Cash Flows / Total Assets	±
Investment Cash Flow	ICF	Investment Cash Flows / Total Assets	–
Operating Cash Flow	OCF	Operating Cash Flows / Total Assets	+
CONTROL			
Firm Size	SIZE	Log of Total Assets	+
Leverage	LEV	Total Debt / Total Equity	–

Source: Author's compilation, 2025

4. RESULTS AND DISCUSSION

4.1. Descriptive statistics

The descriptive statistics is a background study in terms of getting to know of the nature and behavior of the variables that are under empirical analysis. Table 2 shows the mean, standard deviation, minimums, and maximums of dividend payout ratio (DIVP), financing cash flow (FCF), investment cash flow (ICF), operating cash flow (OCF), firm size (FSIZ), and leverage (LEVG) of 484 firm year of data of manufacturing firms listed in the Nigerian Stock Exchange.

Table 2. Descriptive statistics

Variable	OBS	Mean	Std. Dev.	Min	Max
DIVP	484	19.64393	28.31463	-97.96	97.92
FCF	484	-.0396034	.1559328	-2.01732	.551399
ICF	484	-.0551603	.8073964	-9.36506	6.345406
OCF	484	.1019724	.410805	-1.80235	7.689139
FSIZ	484	16.42853	2.279002	10.96	21.72
LEVG	484	1.705269	4.992341	-53.83	48

Source: STATA 17.0 Output, 2025.

The average dividend payment (DIVP) is about 19.64 meaning on aggregate, companies paid about 20 percent of their net income in the form of dividends. Yet, a large deviation of 28.31 provides evidence of an immense divergence indicating the absence of consistency in the approach of firms towards dividend allocation. This variability is further evidenced by the extreme of 97.92per cent and -97.96per cent, with some companies even having a negative net income or dividend freeze in records and others almost all their profits in form of dividends. The broad extent is in line with the irregularities of dividends in developing economies such as Nigeria where companies do business amidst macroeconomic uncertainties and variable levels of profitability.

In terms of cash flows, the mean values of Financing Cash Flow (FCF) and Investment Cash Flow (ICF) are negative (in fact, -0.04 and -0.06), so the results indicate that on average, the amount spent by firms on financing activities (such as debt repayment or paying of dividends) and the amount of money spent on investments (such as investing in plant and equipment) exceeded the amount of the generated cash final flow. There is also high variability in ICF specifically (SD= 0.81) with the highest and lowest value of -9.37 and 6.35

respectively showing the great variation in capital investment strategies. Conversely, the Operating Cash Flow (OCF) is above zero with mean of 0.10 (10 percent of total assets) indicating moderate operation efficiency. Nevertheless, its lowest level (1.80) points to the fact that not all companies showed negative operations but industries produced the heavy cash flows (as much as 7.69), probably caused by a mismatch in efficiency of management within the companies or a diversification of market forces.

The mean of firm size measure (FSIZ), or natural log of total assets measure, equals 16.43 and ranges between 10.96 and 21.72, indicating the focus of sample on medium or large firms. The medium standard deviation (2.28) implies that there is a fairly equal distribution of firm sizes. The ratio of total debt to equity or leverage (LEVG) is highly volatile with a standard deviation of 4.99 resulting in a large range between -53.83 to 48. This wide range implies that there are strongly leveraged firm and companies with little to no borrowed capital or even negatively geared companies depending on past losses. It can be possible to indicate financial distress in certain companies by using negative values on the leverage, and this is why capital structure should be seen as a control variable when studying the issue of dividend policy decisions.

4.2. Analysis and results

This section includes the main empirical results of the study that is based on correlation analysis, diagnostic tests, and panel regression analysis. Correlation analysis investigates the degree and nature of the linear relationship of the variables under study, and more importantly of dividend payout to the explanatory variables. Diagnostic measures are used so as to make sure that the regression results are robust and reliable. Lastly, the panel regression, which makes use of fixed-effects, assesses the causal relationship between various parts of cash flow management and the dividend policy by withholding the firm size and leverage.

4.2.1. Correlation analysis

Table 3. Correlation analysis

	DIVP	FCF	ICF	OCF	FSIZ	LEVG
DIVP	1.0000					
FCF	0.0117	1.0000				
ICF	0.0286	-0.0797	1.0000			
OCF	-0.0301	-0.6328	0.0027	1.0000		
FSIZ	0.3154	0.0033	-0.0112	-0.0152	1.0000	
LEVG	-0.0155	-0.0626	-0.0305	0.0671	0.1737	1.0000

Source: STATA 17.0 Output, 2025.

Table 3 shows the strength and the direction of linear relationships amidst dividend payout (DIVP) and the other independent variables provided as correlation coefficients. Correlation of DIVP and financing cash flow (FCF) is a 0.0117 indicating there is weak relationship which is a positive relationship (r = 0.0117), this means that there is almost non important linear association. Investment cash flow (ICF) is equally expressed as having a very weak positive relationship with DIVP (r = 0.0286), indicating that there is little relationship between the capital investment and dividend policy at the bivariate level. The operating cash flow (OCF) presents a very minor yet negative correlation to dividend payout factors (r = -0.0301), suggesting that variation in the operating cash flows does not majorly correlate with variation in the dividend policy when examined separately.

The only variable that has a relatively higher correlation with dividend payout is firm size (FSIZ) with r = 0.3154, which depicts a weak, positive relationship. This implies that bigger companies would have higher chances of paying higher dividends because of the stable cash flows and financial ability. Dividend payment (DIVP) On the contrary, leverage (LEVG) has a weak negative association with dividend payment (DIVP) (r = -0.0155), indicating the possibility of more leverage firms paying slightly lower dividends to maintain liquidity.

4.2.2. Diagnostics tests

Table 4. Normality test

Variable	OBS	W	V	z	Prob>z
DIVP	484	0.94593	17.664	6.893	0.00000
FCF	484	0.71298	93.766	10.899	0.00000
ICF	484	0.16562	272.578	13.461	0.00000
OCF	484	0.32148	221.662	12.964	0.00000
FSIZ	484	0.98664	4.364	3.537	0.00020
LEVG	484	0.41587	190.826	12.605	0.00000

Source: STATA 17.0 Output, 2025.

Table 4 presents the results of the normality test to analyze whether distributions of the study variables match the assumption of normality using the ShapiroWilk test. The null hypothesis of the test assumes that data are normally distributed. The test provides the W-statistic, z-score, and p-value (Prob > z) of each variable. A p-value which is less than 0.05 results into null hypothesis of normal distribution. The p-values in all variables are lower than 0.05, which shows statistically abnormal deviations (as can be seen in the table). These findings indicate that the variables are not usually distributed. To counter these breaches of the assumption of normality, the present study has applied robust standard errors to the panel regression estimator used to analyze the data to reduce the effects of non-normal residuals.

Table 5. Multicollinearity Test

Variable	VIF	1/VIF
FCF	1.69	0.593000
OCF	1.68	0.596309
LEVG	1.04	0.963372
FSIZ	1.03	0.969056
ICF	1.01	0.988688
Mean VIF	1.29	

Source: STATA 17.0 Output, 2025.

The results of the multicollinearity test based on the Variance Inflation Factor (VIF) corresponding to the measure of the level of linear correlations between the independent variables are shown in Table 5 VIF greater than 10 is usually indicative of severe multicollinearity whereby VIF ranges between 1 and 5 are normal. The values of VIF in this research are very far below the threshold of 10, with the minimum of 1.01 (ICF) and the maximum of 1.69 (FCF), and the mean of VIF equals 1.29, which means that multicollinearity is not an issue. It means that the explanatory variables, including Financing Cash Flow (FCF), Operating Cash Flow (OCF), Investment Cash Flow (ICF), Firm Size (FSIZ), and Leverage (LEVG), are independent of each other to a level that the individual effects on the dependent variable (dividend payout) can be precisely determined without inflation/distortion of the standard errors.

Table 6. Heteroskedasticity for fixed effect regression model

Modified wald test for groupwise heteroskedasticity in fixed effect regression model	
H0: $sigma(i)^2$	= $sigma^2$ for all i
Chi^2 (44)	= 28007918.43
Prob > chi^2	= 0.0000

Source: STATA 17.0 Output, 2025.

The outcome of the Modified Wald test in testing a groupwise heteroskedasticity of the fixed effects regression model is shown in Table 6 The test measures the constantness of the variance of the error terms of all the cross-sectional units (firms). The null hypothesis (H0) is a hypothesis that involves homoskedasticity, whereas the alternative hypothesis points at heteroskedasticity. The null hypothesis is highly rejected with a very low p-value of 0.0000 and a Chi-square value of 28,007,918.43 which is the indicator that there is perfect groupwise heteroskedasticity in the model. This breach of the constant variance assumption shows that the standard errors might be biased unless they are adjusted. Thus, the paper correctly used standard errors that can withstand the test of robust regression to ensure the validity of statistical inference by addressing this problem in a fixed effects regression.

Table 7. Cross-Sectional Independence

Pesaran's Test of Cross-Sectional Independence	= 3.251	Pro = 0.0012
Average absolute value of the off-diagonal elements	= 0.273	

Source: STATA 17.0 Output, 2025.

Table 7 shows the output of the Pesaran Test of the independence of cross-section (residuals are correlated among entities, firms in this case). The null hypothesis has cross-sectional independence to say the least whereas the alternative hypothesis has the residuals to be cross-sectionally correlated. It rejects the null hypothesis, at the 1 percent significance level, and the test statistic is 3.251 whilst the p-value is 0.0012 which shows that the null hypothesis is rejected. Moderate off-diagonal elements correlation is also evidenced by their mean absolute value (0.273). This interdependence may be as a result of macroeconomic shocks or sector wide factors. In its turn, this interdependence necessitates the use of robust standard errors in the fixed effects regression model to ensure sound inference. The LevinLin Chu (LLC) unit root test in Table 8 is conducted to evaluate whether the variable on dividend payout per share

Table 8. Levin–lin–chu unit-root test for DIVP

H0: Panels contain unit roots	Number of panels =	44
Ha: Panels are stationary	Number of periods =	11
LR Variance: Bartlett kernel, 7.00 lags average (chosen by LLC)		
Unadjusted		t = -1.103
Adjusted	t* -1.203	p-value = 0.0000

Source: STATA 17.0 Output, 2025.

percentage (DIVP) is stationary during the panel data time. The null hypothesis states that the data series in all the firms will have a unit root, i.e. non stationarity whereas the alternative hypothesis states that the series is stationary. The test offers a good statistical support to reject the null hypothesis since the adjusted t-statistic is -1.203 and the p-value is 0.0000. Such a result indicates that the DIVP variable is stationary, that is, its statistical characteristics like the mean and variation do not vary with time. The crucial role of stationarity in assuring that

the regression estimates are not influenced by the spurious trends helps to justify the validity of the panel data analysis as used in this research.

The Hausman specification test as shown in Table 9 is employed in selecting between the fixed effects and random effects panels data analysis model. The test is used to determine the existence of difference between the coefficient estimates of the two models is significant or not. The null hypothesis holds that the random effects model is suitable and the alternative that the fixed effects model is preferable in case there is correlation of regressors with the individual-specific error term. The test provides a statistic of Chi-square 19.00 and the p-value is 0.0000, which means the null hypothesis ought to be rejected. This approves that the fixed effects model works best on the data, as it offers consistent estimates by addressing firm-level heterogeneity. Consequently, the fixed effects regression method, using robust standard errors was justifiable in the final analysis presented in table 10.

Table 9. Hausman specification test for random and fixed effect regression

	(b)	(B)	(b-B)	sqrt(diag(V_b V_B))
	Fixed	**Random**	**Difference**	**Std. Err.**
FCF	9.282698	8.357182	.9255154	1.461558
ICF	2.917915	2.364596	.5533187	.1798893
OCF	-.5754467	-.0336818	-.5417649	.4410143
FSIZ	-3.657251	3.25445	-6.911701	2.429079
LEVG	-.2177867	-.3014766	.0836899	.0496429
Chi^2 (5)				= (b-B)'[(V_b-V_B)^(-1)](b-B)
				= 19.00
Prob > chi^2				= 0.0000

Source: STATA 17.0 Output, 2025.

4.2.3. Panel Regression result

This section presents the robust fixed effects regression results, which examine the impact of cash flow components on the dividend payout policy (DIVP) of listed manufacturing firms in Nigeria, while controlling for firm size (FSIZ) and leverage (LEVG). The model accounts for individual firm effects and corrects for violations of classical assumptions, including heteroskedasticity and non-normality, by using robust standard errors. The aim is to test the three null hypotheses stated earlier, which posit that each component of cash flow has no significant effect on dividend policy.

Table 10. Robust fixed effect regression results

DIVP	Coefficient	Robust Std. Err.	t	P>t
FCF	9.282698	9.774171	0.95	0.348
ICF	2.917915	.6191713	4.71	0.000
OCF	-.5754467	3.849841	-0.15	0.882
FSIZ	-3.657251	4.165582	-0.88	0.385
LEVG	-.2177867	.1879389	-1.16	0.253
_Cons	80.68584	68.30254	1.18	0.244
OBS		=		482
F(5,43)		=		5.01
Prob > F		=		0.0011
R-squared		=		0.2811

Source: STATA 17.0 Output, 2025.

4.3. Test of hypothesis

The value of F-statistic 5.01 and p-value 0.0011 determines that the overall model is significant at the 1% level. This implies that when all the explanatory variables are put together, they equally affect dividend policy. The value of R-squared at 0.2811 implies that 28.1% of the variation of the dividend payout ratios could be attributed to the model which is acceptable in firm-level panel data study.

H01: Operating Cash Flow (OCF) does not have Significant effect the Dividend Policy

The OCF coefficient is -0.5754 with a strong standard error of 3.8498 and p- value of 0.882. The finding is not significant. Thus, H01 failed to be rejected. The result shows that operating cash flow does not make any significant difference in dividend payout decisions of listed manufacturing firms in Nigeria.

H02: The Investment Cash Flow (ICF) does not have significant effect on Dividend Policy

ICF has a coefficient of 2.9179 that is significant with small standard error 0.6192 and p-value 0.000 which implies that there is a very strong positive relationship between ICF and dividend payout. Therefore, the H02 is rejected. This discovery means that the cashflow of investment activities generates positive and significant dividend payments of listed manufacturing firms in Nigeria.

H03: Financing Cash Flow (FCF) Does Not Significantly Affects Dividend Policy

The FCF coefficient is 9.2827, that have the robust standard error of 9.7742 and a p-value of 0.348 that is not significant. Thus, the null failed to be reject H03. The result indicates that financing activities cashflow do not significantly influence the dividend payout of listed manufacturing firms in Nigeria.

4.4. Discussion of findings

4.4.1. Operating Cash Flow (OCF) and dividend policy

This result shows that operating cash flow (OCF) has no considerable impact on the dividend payout policy of listed manufacturers in Nigeria, this was observed by Akpan (2024) and Ansir (2021), who discovered that free and operating cash flow exhibited no or little effect on the dividend policy or firm value in their respective areas. Just like in the case of Modum *et al.* (2023), the influence of the cash flow on the performance of firms was inconclusive, which is an indication that the case of OCF may not have a universal significance in sectors and its role over time may vary. These contracts demonstrate the contingent conditions of the dividend policy particularly in the manufacturing industry in Nigeria where reinvestment requirements, financial prudence or macroeconomic fluctuations might make the companies want to keep money on hand despite cash surpluses.

But according to other researches like Putri and Santoso (2022), Odo and Theophilus (2021) and Odoh and Okwo (2022), there was a positive and significant correlation between the operating cash flow and dividend payments. A sectoral dynamic difference could explain the deviation and perhaps the finance and consumer goods sectors may have more predictable cash inflows or may have regulatory pressure to maintain constant dividends. Conversely, manufacturing businesses in Nigeria are usually characterized by high costs of inputs, energy availability, and fluctuations in the market that forces the management to invest the operating profits in working capital or servicing the debt rather than pay dividends. Theoretically, the agency theory proclaims that payment of dividends may mitigate agency costs, as free cash is minimized and therefore cannot be used at the discretion of managers; nonetheless, the low degree of OCF influence implies that agency costs are countered by inner governance or investment interests. Pecking order theory also confirms this finding since according to the pecking order firms cut on internal funds meant to keep the firms operating more than to give to shareholders especially in a risky environment.

4.4.2. Investment cash flow (ICF) and dividend policy

The result of the study indicates that investment cash flow has significantly and positively influences the dividend payout policy of listed manufacturing firms in Nigeria, this result supports earlier researches conducted by Akpan (2024), Odo and Theophilus (2021) and Odoh and Okwo (2022) who all reported a strong and significant correlation between the investment cash flows and the dividend payouts. This result suggests that, the more the manufacturing companies in Nigeria who are able to derive positive cash flows by disposing long term assets or otherwise capital projects is to share profits with the shareholders. It represents a case of companies that, having realized a good investment performance, reward the shareholders so as to indicate that there are financially okay and thus will be invested in again. It is also in line with the agency theory in which the management employs the dividend payments as a source of signals to show efficiency in the use of its assets and minimize on the agency conflicts.

The result, however, is in conflict with that of Ansir (2021) who uncovered that effect of cash flows and investment cash flows on dividend policy is either small or insignificant among Indonesian manufacturing firms. The contradiction may be as a result of cross-country disconnection in the practices of corporate governance, expectations in the market, or standards of financial disclosures. In addition, no connection between investment cash flows and dividends was made by Putri and Santoso (2022), and this can be caused by choice of firm-specific strategies, accounting classifications within investment activities, or other reasons. The pecking order theory can be explained further by proposing that when companies meet their internal funding requirements, and excess cash flows are on hand to be used in investments, then firms shall resort to paying dividends when external sources of finance are unaffordable or unwanted. In that regard, the success of investment increases the confidence of investors, and firms are motivated to give dividends to show they are efficient in the effective use of their capital and effective liquidity resource.

4.4.3. Financing cash flow (FCF) and dividend policy

The result suggests that the financing cash flow does not impact dividend payout policy of listed manufacturing businesses in Nigeria, which is in line with the findings of the study by Akpan (2024) and Ansir (2021), who discovered that there was a limited impact of financing-related cash flows on dividend-related decisions or change in firm value. Such uniformity indicates that companies in the manufacturing industry in Nigeria are not extending large scopes of external financing (by means of obligations or equity issue) to pay dividends. It can also indicate a conservative dividend policy where the payment of dividends is done mainly on earnings that a company has retained or on its current operational surpluses instead of borrowed funds. The finding of a mixed effect of cash flow, established by the Modum *et al.* (2023) study also confirms that

funding flows might not have a direct influence on dividend payouts because of the different levels of leverage preferences and capital structure policies among firms.

On the contrary, Odo and Theophilus (2021) identified an equal impact of financing cash flows in terms of the profitability of a firm, which might indirectly have a related impact on the paying capacity of dividend, particularly in case of efficient management of financing. In the same breath, Ningsih and Soesetio (2021) emphasized that free cash flows including financing activities have an impact on stock returns meaning that shareholder value interacts in some way. The difference with the current study might be explained by the dissimilarity in the size, maturity or risk appetite of firms because established firms tend to finance themselves, whereas young firms are utilizing external sources of funds more actively. On theory, agency theory implies that the strong external financing could require big dividend payment as a measure to pacify the lenders and attain financial outlay of agency. Nevertheless, the insignificance of FCF effect in the given study could be explained by the idea that management is more inclined to reinvest funds borrowed, or pay off loans than to pay dividends. This concurs with the fact that when a firm considers financing activities to find some extra amount to pay as a dividend, this was last in the list of priority as the pecking order theory explains that firms believe in self-financing before seeking help of outside fund.

5. CONCLUSION

The study concludes that not all components of cash flow management has a general impact on dividend policy among listed manufacturing firms in Nigeria. Both the operating and finance cash flows are not important influencers suggesting that companies do not depend on their day-to-day operational income or their finance generating processes when determining dividend payout. But then the cash flow of investment becomes key as this affirms that capital investment management capabilities of listed manufacturing firms in Nigeria strengthens the capacity to maintain dividends.

It serves to validate the Agency Theory, according to which dividend payments can be seen as a means of eliminating agency costs that arise when the actions of the management of a company go against the shareholder interests since they are a signal to shareholders that the management is not being wasteful by redirecting surplus resources to pursue self-interests. The positive influence of ICF on dividends indicate that the firm utilizes dividends as an expression of productively ventured outcomes with the objective of aligning the management choices with those of shareholders. Conversely, the inability of OCF and FCF to have any influence on dividend payout reflects the argument put forward by the Pecking Order Theory that suggests that companies will utilize home grown funds when funding their operations and repaying financial commitments ahead of dividend distributions, especially in a volatile market scene such as Nigeria.

RECOMMENDATIONS

Recommendations of the study are as follows;

i. Nigerian listed manufacturing companies ought to coordinate capital investment policies with dividend strategy, which involves sustainable balance between long-term asset expansion and shareholder payout. High level of investment outflows and inadequate proportional returns can hinder the capability of the firm in maintaining dividends.

ii. Nevertheless, in spite of the fact that operational inflows make the business operate every day, the listed manufacturing companies in Nigeria need to enhance the operational efficiency and use performance-based dividend models that would link the operating surplus closer to dividend policies.

iii. Listed manufacturing companies in Nigeria ought to employ disciplined finance ways whereby decisions about debt and equity financing must be designed to maintain dividend-paying capabilities even though such streams may not directly implicate dividend treaties in the present-day scenario.

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