

Nexus between Dividend Payment and Earnings Quality of Quoted Manufacturing Firms in Nigeria

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Abstract

The objective of this study is to ascertain the nexus between dividend payment and earnings quality of quoted manufacturing firms in Nigeria. The study adopted the ex-post facto research design. It covered a period of ten years spanning from 2012 to 2021. The population of the study was 44 quoted manufacturing firms out of which 32 were selected as sample size using purposive sampling techniques. The data were collected from financial statement of the selected firms listed on the Nigeria Exchange Group as at 31st December, 2021. The data were analyzed using Ordinary Least Square and operated by E-Views 11. The results showed that there is a significant and positive relationship between dividend-paying status and earning quality, there is a significant and negative relationship between dividend size and earning quality, there is a significant and positive relationship between dividend changes and earning quality, and there is a significant and negative relationship between dividend persistence and earning quality. This study concluded that there is nexus between dividend payment and earnings quality of listed manufacturing companies in Nigeria. It was recommended that, managers should maintain an increase in the value of the (cash) dividends paid divided by the net income of the year. Shareholders should watchfully evaluate the size of dividend payments: This is because managers paying bogus dividends may mask unhealthy firm performance. Managers should adopt a fluctuating rather than static dividend policy for its positive signaling effect on earnings quality. Investors should prioritize a high dividend payout since dividends offer assurance regarding the company's financial stability. The shareholders and policy regulators should be watchful of companies consistently declaring profits even in unstable times.

Keywords: *Dividend Payout, Dividend Paying Status, Dividend Changes, Dividend Size, Dividend Persistence and Earnings Quality*

1.1 Introduction

Comprehending dividend policy has for many years been one of the most significant challenges in finance. In fact, the issue of dividend policy is a very important one in the current business environment. According to Uwuigbe, Jafaru and Ajayi (2012), dividend policy remains one of the most important financial policies, not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government. For a company, it is a pivotal policy around which other financial policies rotate. Dividend or profit allocation decision is one of the four decision areas in finance. Dividend decisions are important because they determine what portion of a firm's profits is distributed to investors and what proportion is to be retained by the firm for further investment (Ross, 2012). Dividends are an important indicator of external funding sources. Dividend distribution is a form of income or profit from companies. Investors will assess a company whether they have a sound financial and good profit from the payment of dividends. Dividend is a form of distributions to shareholders either in cash or stock. Profit is a reflection of the company's performance during the period. Profit is one form of assessment of the company to take the decision to distribute dividends or not.

Earnings quality refers to reporting of a company's earnings, holding fast to accounting standards and following the rules not only in words but also in spirit (substance over form). Good quality of earnings reportage brings within managers and outdoors investors to constant level of knowledge with relation to a company's future prospects and creates trust in the company's reported earnings. In other words, the quality of earnings reflects company's underlying economics precisely through increased transparency. Managers use dividend payment as an instrument to communicate with corporate shareholders to demonstrate its performance. Cash dividends are normally founded on actual earnings of a given form that reflect its performance, because it is difficult, abnormal and problematical for managers to pay dividends when there are no profits (Sirait & Siregar, 2014). One character of the quality of reported earnings is dividends (Breedon, 2016). Skinner & Soltes (2019), provided evidence on dividend payment as a better signal of earnings quality. Their findings confirmed that companies with dividend payment have higher earnings quality than non-dividend paying companies. In addition, dividends offer robust proof to investors on a good company's financial performance that may be maintained with a solid cash basis (Caskey & Hanlon, 2015).

Dividend payment and earnings quality can be linked to each other through two major theoretical channels, i.e., asymmetric information theory and agency theory. The agency downside is formed because the agents manage the company owned by the principals (Jensen, 2016). The principal and agent relationships between the manager and shareholders create concerns for residual claimants if the managers are not disciplined in the utilisation of free cash flow available to them. Availability of free cash flow makes managers to divert the cash for their private benefit and underpay dividends. Good earnings quality helps mitigate such problem by administering discipline in managers through making such bad investments more visible (Biddle, Hilary, & Verdi, 2019). Consequently, managers' incentives to underpay dividends are reduced. Therefore, this view, also termed as the outcome view in the literature (Jensen, 2016; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2020), predicts that higher earnings quality interprets into higher dividend payments.

Earnings quality and its relationship with dividend payment has emerged as an issue of interest to investors, analyst, managers and other market participants (Lipe 2020; Chan, Jegadeesh & Lakonishok, 2016; and Cahan, Emmanuel & Sun, 2019). Managers are much concerned about meeting analyst forecast by maintaining sustainable growth of the companies as means to protect themselves (Gregory, 2014). On the other hand, analysts are interested on how best to measure the quality of earnings so as to maximize the portfolio of investors. It therefore becomes difficult for analyst, managers and investors generally to ignore the role of earnings quality in resources allocation. The payment of dividends can discourage companies from coverage artificial profits that will not lead to realization of actual cash flows to support cash dividends (Glassman 2015). Malkiel (2013), Stated that “in an environment whose reported earnings are viewed with some degree of skepticism, cash dividends will provide a very strong signal to investors of true financial strength and of the credibility of earnings reports”. These examples suggest that some investors, academics and policy makers believe dividends are indicative about the quality of earning. It is noted that dividend paying firms on average have better earnings quality than non-dividend paying firms lend some credence to this belief.

The role of managers in the success or failure of a company cannot be over emphasized. The decision of managers have a direct bearing on the goals and future of the company. An asymmetric information channel implies that managers are the most knowledgeable about their company's future prospects. However, if the investors are not sure about the prospects of a company, they avoid involvement in the external financing activities of the company to safeguard themselves from the risk adverse associated to such activities. The earnings quality of a company can reduce skepticism and boost investors' confidence in the company. Pathak & Ranajee 2020 asserts that investors rely on quality of earnings reported by managers to make decision about prospective investment. When managers pay dividends, it is usually assumed that the earnings are of good quality. However, companies still fail despite the regular payment of dividend to investors. This may be an indication that there is a need to look at the effect of dividends on earnings quality of companies. A number of studies on the relationship between dividend payment and earnings quality have been conducted, but the results have been mixed. Some of these studies found that the positive significant between dividend payment and earnings quality (Kowerski, 2013; Lu Deng, 2016; Tong & Miao, 2011; Nguyen & Bui, 2019). While others found negative significant relationship between dividend payment and quality of earnings (Pathak & Ranajee, 2020). The studies on the relationship between dividend payment and earning quality have been growing in volume but such studies are rare in Nigeria notable is the study of Ibrahim, Bala and Garba (2015), also tested the impact of earnings management on dividend policy. Also the study of Salawu, (2018) examined the trend and impact of earnings quality on the financial performance of firms from the perspective of accounting information. Moreover, to the best of knowledge of researcher, there is dearth of study that examined the influence of dividend payment on earnings quality in Nigeria. It is against the backdrop of the preceding discussion that the main focus of this study is to ascertain the association between the dividend payments and earnings quality of listed manufacturing companies in Nigeria. The specific objectives of this study are to:

- i Evaluate the effect of dividend-paying status on earning quality of listed manufacturing companies in Nigeria.

- ii. Assess the influence of dividend size on earning quality of listed manufacturing companies in Nigeria.
- iii. Identify the influence of dividend changes on earning quality of listed manufacturing companies in Nigeria.
- iv. Determine the effect of dividend persistence on earning quality of listed manufacturing companies in Nigeria.

2.1 Conceptual Review

2.1.1 Dividend Payout

Pandey (2011), defines dividend as the portion of a company's net earnings recommended by the board of directors to be paid to shareholders in proportion to their shareholdings in the company. It is typically expressed as a percentage of the company's nominal share capital or as a fixed amount per share. According to William and Scott (2006), a dividend is a periodic cash payment made by a company to investors who own preferred or common stock in the company. In developed countries, both investors and management have taken the decision between paying dividends and retaining earnings seriously, and it has been the subject of extensive research by economists over the last four decades. (Lintner, 1956; Britain, 1964; Modigliani and Miller, 1961; Black and Scholes, 1974; Dhillon and Johnson, 1994; Amihud and Murgia, 1997; Chariton and Vafeas, 1998; as cited in Adelegan (2001). According to Van Horne, (2017), Omaliko and Okpala (2020), dividend policy entails the distribution of profits to shareholders as well as reinvestment in the company. Retained earnings are an important source of funds for financing corporate growth, whereas dividends are cash flows that accrue to shareholders.

2.1.2 Dividend Paying Status

Dividend paying status is an indication of earnings quality, regardless of how much dividends are distributed (Sirait & Siregar, 2014). Dividend-paying firms can send signals to the market about their better earnings quality which cannot be replicated by non-dividend paying firms. Since dividend policy is sticky, dividend initiations and/or dividend increases signal management confidence about the future earnings streams of the company. In this way, these dividend-paying firms would experience positive abnormal returns on the announcement date of dividend initiation/increase. However, there is no study so far on whether the earnings quality of dividend-paying firms is actually better than that of non-dividend paying firms.

Tong and Miao (2011), examined whether dividend paying status is associated with the quality of earnings. We find dividend paying status is associated with lower absolute values of discretionary accruals; lower standard deviation and absolute magnitude of the errors associated with the mapping of accruals into cash flows; and more value relevant earnings. We also find evidence that the positive association between dividend paying status and earnings quality is stronger weaker when the size of dividend payout is larger smaller. Dividends may serve as a barometer of earnings quality. Dividend-paying companies are expected to have higher earnings quality than non-dividend-paying companies. There are two arguments in favor of this idea. First, a dividend is thought to play a role in reducing agency conflicts between managers and

shareholders, according to agency theory. Easterbrook (1984) suggests that dividends help to reduce agency costs by allowing the capital market to monitor managerial actions and performance, making it difficult for managers to manipulate earnings. Myers (2000) implies that investors have a right to a company's assets, but it's difficult to keep insiders (management) from misusing cash flows. As a result, management is expected to distribute dividends in sufficient amounts to investors on a regular basis. Dividends are viewed as a means for managers to communicate with shareholders in order to demonstrate the firm's performance.

2.1.3 Dividend Size

A dividend has several characteristics that we expect to be related to earnings quality. The size of dividend payments is one of these characteristics. Dividends are regarded as a sign of the dependability and credibility of reported earnings. (Malkiel, 2013). Firms with high earnings quality are willing and able to pay dividends on a regular basis because their future earnings can be sustained, as opposed to firms that engage in earnings management practices, which do not generate cash. Earnings from such practices are not long-term. Firms with higher dividend payment have higher earnings quality, because they must be sustained by a strong cash basis. Firms tend to raise their dividend payment if they are expecting an increase in their future earnings (Caskey & Hanlon, 2005). Gopalan and Jayaraman, (2012). Argued that dividend payment can help to reduce earnings management, because dividends will limit private control benefits for managers inside the company, which may reduce the possibility to manipulate earnings. In this line, Leuz, Nanda, and Wysocki, (2013). provided evidence on when private control benefits of corporate managers are limited, earnings management is less pervasive.

2.1.4 Dividend Changes

Firms are more likely to increase dividends when they experience high profits or cash flows Benartzi, Michaely, and Thaler (2017). Hence, firm-specific measures of profitability, or economywide measures of performance (forexample, the rate of change in the industrial production index), are likely to contain information about the expected change in dividends. Companies may alter their dividend payout ratio. Companies pay lower dividends due to lower earnings persistence. (Skinner and Soltes, 2011). Moreover, manipulated earnings have no relationship with cash flows. Adaoglu, (2000). argues that when a firm's earnings potential changes, the firm's dividend policy tends to change. If they believe there is a good future earnings potential and they can sustain the dividend increase, they will raise the dividend level.

2.1.5 Dividend Persistence

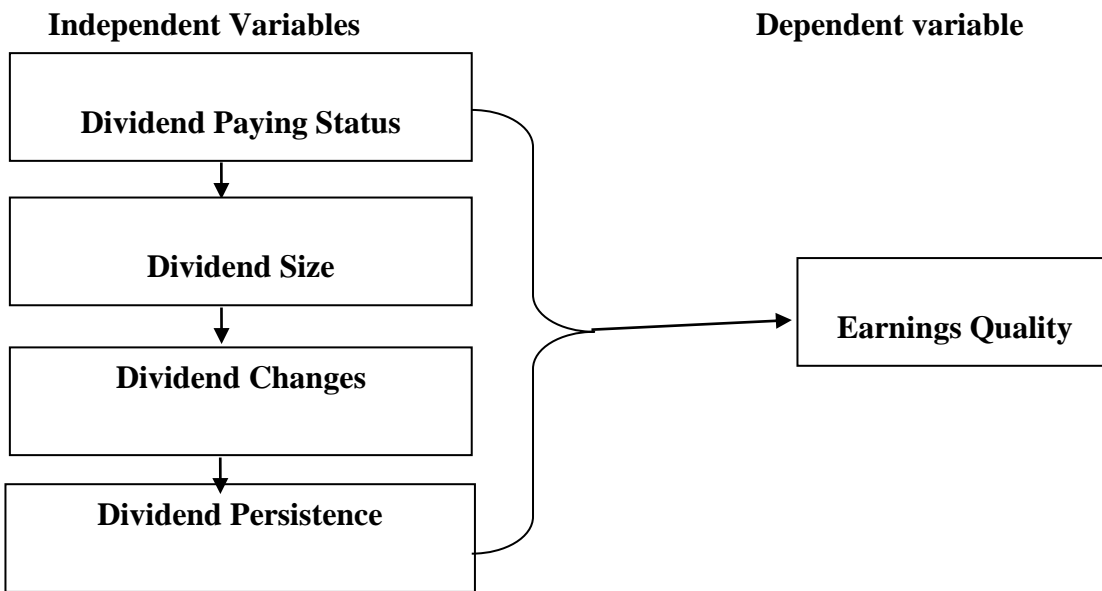
A persistent dividend is one that is paid on a regular basis. Firms that pay regular dividends should have enough cash, which should be supported by good operational performance. (Tong & Miao, 2011). Lintner's path-breaking dividend behavior model posits that dividends are smoothed relative to earnings as corporations refrain from increasing dividends in response to earnings increases that might be temporary, thus avoiding the ire of investors who would not respond favorably to a cut in dividends (Lintner, 2016). Companies therefore increase dividends only in response to a permanent increase in earnings, not to a current rise in earnings if the

dividend increase might subsequently have to be rescinded should the earnings rise not be permanent. Dividends are thus ‘smoothed’ relative to earnings and are consequently strongly persistent.

2.1.6 Earnings Quality

Earnings quality refers to the flexibility of the present earnings to forecast future earnings (Penman & Zhang, 2012). Earnings are of excellent quality if no earnings reversals are forecasted. With valuation in mind, the investors have an interest in future earnings, that is, they buy future earnings using this ones. Further, earnings are said to be of poor quality if this reported earnings do not seem to be good indicators of future ones. Schipper and Vincent (2003) described earnings quality because the extent to which reported earnings truly represent Hicksian income, including the change in net economic assets aside from transactions with owners. Hicksian income is that the maximum that would be spent while leaving real wealth intact.

Fig. 2.1 Conceptual Diagram Representing Independent and Dependent Variables



Source; Researcher's Concept (2023)

2.2 Theoretical Framework

2.2.1 Signalling Theory

This study is anchored on the signalling theory propounded by Spence in (1973) suggests that information asymmetry exist between managers and owners; that is, a situation where by managers have more information about the firms they manage than the real owners. Thus, they declare dividend in order to give signals to investors that the firm is performing well. The signalling dividend hypothesis suggests that dividend policy can be used as an indicator about the current performance of the firm and its future prospect, dividend payment usually facilitates

reporting high quality of earnings that result in realization of actual cash flow to support cash dividend. This shows that accrual-based earnings management discourage cash dividend. This is because, too much discretionary accruals indicate poor earnings (low cash flow) and dividend is paid out of cash. In a firm whose reported earnings are viewed with some degree of scepticism, cash dividends can provide a very strong signal to investors of true financial strength and of the credibility of earnings reports.

2.3 Empirical Review

Siladjaja, Muljanto, Anwar, and Djan (2022), studied the Relationship between Dividend Policy and Earnings Quality: The Role of Accounting Information in Indonesia's Capital Market; . This study uses dividend policy as a moderated multiple regression, which plays a critical role in achieving a high obedience to accounting standards. The causal research involved 154 of the companies listed on the Indonesia Capital Market and 384 observations in the industrial manufacturing sector for 2015–2020. By mulling over the effect of the COVID-19 pandemic in 2020, and predicting the future market using zero growth with no assumed growth in the future, this empirical study shows that dividend policy is critical when minimizing opportunity behavior. This research provides a mapping of the decision tree model as an implication of game theory because of the interactive feedback between the earning quality and future market value. A sign such as “good” news significantly stimulates the perception of optimistic investors, with no negative manipulation and accruals. It paves the way for investors to strictly control and monitor strategic decisions to obtain significant improvement in prospects.

Pathak and Ranajee (2020), investigated the role of accounting quality as an antecedent of dividend payout decision of firms, for both dividend levels and dividend event, in an emerging market context. Using the data for Indian firms through the years 2006–2016. The study evaluated the impact of discretionary accruals on payout decision employing Tobit and Logit regression models amid set of idiosyncratic controls. The study reports that better earnings quality, on average, is associated with large dividend payments for Indian firms. Moreover, the likelihood of dividend payment reduces with poor earnings quality and more so when earnings manipulation is done to increase earnings. Nonetheless, results show that higher earnings quality reduces dividends during the crisis period and also for group affiliated.

Adeiza, Sabo, and Abiola (2020), studied dividend payout effects on firm performance in Nigerian oil and gas sector; the research made use of secondary data obtained from financial reports of the companies. The study found that Dividend Payout Ratio had a negative and insignificant effect on firm performance of Mobil Plc and Total Plc in 2017 and 2018, while the results showed significant effect in 2015 and 2016 for Total Plc, and significant effect for Mobil Plc in 2015 but insignificant effect in 2016. Inclusively, the study concluded that payment of dividend and the payout ratio conveys to shareholders that the companies are profitable and financially strong and recommended that managers: devote time to as well as design dividend policies that will enhance financial performance and shareholders' value; and reduce company total debts to increase financial performance of firms and shareholder value.

Kalyani , Ketan and Wasan (2019), studied dividends and earnings quality: evidence from india. this study determine the association between dividend payment and earnings quality. Four features of dividends have been examined in the study–dividend paying status, size of dividends, changes in dividends and dividend persistence. The sample consists of 107 companies listed on S&P BSE200 and, for analysis, 12 years, that is, 2004 to 2015, are considered. Multiple regression analysis is used for analysis. It is evident that dividends convey information about a firm’s earning quality. Payment of dividends, changes in dividends and dividend persistence communicate information about quality of earnings, but size of dividend does not have a significant relation with earnings quality.

Nguyen and Bui. (2019), investigate dividend policy and earnings quality in vietnam; the sample used includes firms listed on Vietnam stock exchange during the period between 2010 and 2016. The firms’ dividend policy is captured by dividend paying status. This is a dummy variable that takes the value of 1 if the firm pays dividends and 0 otherwise. In addition, dividend yield and dividend payout ratio, which are continuous variables, are also used in this study proxies for dividend policy Using panel data analysis, this study documents that dividend payers have higher earnings quality than dividend non-payers. Dividends are an indicator of earnings quality. These findings are consistent with prior studies. After controlling for variables that may be related to earnings quality as well as for the year and industry fixed effects, this relation remains unchanged. In addition, this result is also robust after controlling for firm fixed effects.

Marobhe and Hembe. (2019), studied the nexus between dividend policy and financial gearing of listed non-financial companies in Tanzania; the study used seven (7) non-financial companies listed at Dar es Salaam Stock Exchange (DSE). Unbalanced panel data from these companies’ annual reports were used, covering 2002 to 2018. Generalized linear regression analysis was used to examine the phenomenon mentioned above with Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) to select the most appropriate models. The results from generalized linear regression analysis indicated that companies with higher dividend payouts have lower gearing. Further results show that higher dividend payouts are associated with a lower cost of debts as debt providers deem these companies to be stable and less risky. So this study urges profitable firms to pay out dividends as a sign of financial strength which eventually reduces the cost of debt. But caution must be taken by financial managers to ensure that a sufficient amount of internal funds are retained after paying dividends for future endeavours.

Mousa and Desoky (2019), examined the effect of both dividend payments (DP) and five firm’s attributes (firm size, firm leverage, firm performance, legal form and audit quality) on earnings quality (EQ) of the most active listed firms in Egypt. A sample of 552 firm-year observations during four years from 2014 to 2017 was used. Hierarchical Multiple Regression (HMR) was used to regress the six independent variables on firms’ EQ through the absence of firms’ earnings management (EM), which was estimated through discretionary accruals (DAC). Main results show that there is some divergence in EM practices over the four years and might suggest that EM by listed firms in Egypt exists especially in the first two years (2014 and 2015); however, relatively lower EM practices are found in the last two years (2016 and 2017). Correlation results show a number of significant relationships between the EM and three independent variables (firm leverage, legal form and audit quality)

3.0 Methodology

The study adopted *ex-post facto* research design, *Ex-post facto* research design is a systematic empirical inquiry, in which the observer has no direct control of the variables because their manifestations have already occurred or because they are inherently not manipulated. The area of the study is Nigeria, as the study focuses on quote manufacturing companies listed on the Nigerian Exchange Group (NGX). The population of this study consists of all (44) manufacturing firms listed on the Nigerian Exchange limited as at 31st December, 2021. This study used purposive sampling technique to select the sample size from the total population, the sample size used in this study is 32 out of 44 total population. Secondary data were collected and analyzed in the form of descriptive statistics, correlation and regression analysis using EVIEW 11.

Multiple regression analysis was used to evaluate the relationship between the independent variables on the dependent variable.

Operationalization of Variables

Variables	Measurement	Sources
Dependent Variable		
ERNQL: Earnings Quality	Change in working capital accruals of firm i in year t,	Dechow and Dichev (2002); Yahaya, Tanko and Muhammad (2017).
Independent Variables		
DIVPYS: Dividend Paying Status	Dividend-paying status is measured as the value of (cash) dividends paid divided by net income of the year	Chai, 2010; Okoro, Ezeabasili, and Alajekwu (2018).
DIVSZ: Dividend Size	dividend size is measured as the logarithm of dividends declared on common stock in year t and scaled by total assets at the end of year t.	Amberger (2017); Desai and Jin (2011).
DIVCG: Dividend Changes	measured as the change in the amount of dividend for current year relative to the preceding dividend amount	Mellado-Cid & Ngo (2014)
DIVPST: Dividend Persistence	Dividend persistence, 1 if firms consistently paid dividend for five years and 0 if otherwise	(Sirait & Siregar, 2013).

Source: Researcher's Concept (2023)

Model Specification

This study will adopts the model from the study of Mulchandania, Mulchandani and Wasan (2017), $ERNQL_{it} = \beta_0 + \beta_1 DIVPYS_{it} + \beta_2 DIVSZ_{it} + \beta_3 DIVCG_{it} + \beta_4 DIVPST_{it} + \epsilon_i$

The model will be modified to suit the variables to be used. Hence the model for the study will be anchored on the objective.

$ERNQL = f(DIVPY, DIVSZ, DIVCG, DIVPST) \dots \dots \dots 1$

This can be econometrically expressed as

$$\text{ERNQL}_{it} = \beta_0 + \beta_1 \text{DIVPYS}_{it} + \beta_2 \text{DIVSZ}_{it} + \beta_3 \text{DIVCG}_{it} + \beta_4 \text{DIVPST}_{it} + \varepsilon_i \text{-----}2$$

Equation 1 and 2 are the linear regression model used in testing the null hypotheses.

Where:

ERNQL= Earning Quality

DIVPYS= Dividend Payout Status

DIVSZ= Dividend Size

DIVCG = Dividend Change

DIVPST = Dividend Persistence

β_0 = Constant

β_1, \dots, β_4 , = are the coefficient of the regression equation

μ = Error term

i = is the cross section of firms used

t = is the year (time series)

Decision Rule

Accept Null if P-Value is greater than 5% and reject Alternate

Accept Alternate if P- Value is less than 5% and reject Null

4.0 Data Analysis

4.1 Descriptive Statistics

Table 4.1: Descriptive statistics of the model variables

	ERNQL	DIVPYS	DIVSIZE	DIVCG	DIVPER
Mean	0.284416	0.448375	5.875313	0.383438	0.812500
Median	0.290000	0.480000	6.485000	0.380000	1.000000
Maximum	0.490000	0.950000	7.980000	0.990000	1.000000
Minimum	0.110000	0.000000	0.000000	0.000000	0.000000
Std. Dev.	0.054699	0.242488	2.269860	0.262852	0.390924
Skewness	0.461246	-0.322561	-1.948715	0.134294	-1.601282
Kurtosis	6.416701	2.402372	5.461055	2.016711	3.564103
Jarque-Bera	166.9978	10.31122	283.2901	13.85329	140.9950
Probability	0.000000	0.005767	0.000000	0.000981	0.000000
Sum	91.01300	143.4800	1880.100	122.7000	260.0000
Sum Sq. Dev.	0.954450	18.75736	1643.572	22.04002	48.75000
Observations	320	320	320	320	320

Source: E-Views 11

Key: ERNQL-Earning Quality; DIVPYS-Dividend Payout Status; DIVSIZE-Dividend Size; DIVCG- Dividend Change; DIVPER-Dividend Persistence

The figures used in the empirical analysis are shown in Appendix I. The mean of ERNQL, i.e., measured as change in working capital accruals of firm i in year t , is 0.284 while its median value was 0.290. The maximum value of ERNQL was 0.490 while the minimum value was 0.110. This, therefore, means that companies with higher or equal to the average ERNQL are firms with high earnings quality while companies with a value below the average ERNQL are low earnings quality firms.

The case of DIVPYS, which is a measure of the value of (cash) dividends paid divided by the net income of the year showed a mean value of the sampled companies of 0.448; which implies that the sampled firms paid up to 40% of net income as cash dividends. The median value was 0.480; while the maximum value was 0.950 and the minimum was 0.000 which implies that some firms within the sampled period paid no dividends out. This, therefore, means that companies with a higher or equal to 0.448 DIVPYS are higher dividend-paying firms while companies with a value below 0.448 are low dividend-paying firms.

The mean of DIVSIZE, i.e., measured as the logarithm of dividends declared on common stock in year t and scaled by total assets at the end of year t , showed a mean value of 5.875 while its median value was 6.485. The maximum value of DIVSIZE was 7.980 while the minimum value was 0.000. This, therefore, means that companies with higher or equal to the average DIVSIZE firms have a high proportion of dividends to total assets while companies with a value below the average DIVSIZE have a low proportion of dividends to total assets.

In the case of DIVCG, which is a measure of the change in the amount of dividend for the current year relative to the preceding dividend amount showed a mean value of the sampled companies of 0.383; which implies that on average the sampled firms increased dividend payment more than 30%. The median value was 0.380; while the maximum value was 0.990 and the minimum value was 0.000 which implies that some firms within the sampled period paid up to 99% in dividends growth while some firms paid out nil. This, therefore, means that companies with a higher or equal to 0.383 DIVCG are higher dividend-paying firms while companies with a value below 0.383 are low dividend-paying firms. The mean of DIVPER, i.e., proxied as 1 if firms consistently paid a dividend for five years and 0 if otherwise showed a mean value of 0.813 approximately which implies that up to 81% of firms in the sample paid dividends. The median value was 1.000; while the maximum value of DIVPER was 1.000 and the minimum value was 0.000. The variables ERNQL, DIVPYS, DIVSIZE, DIVCG, and DIVPER showed standard deviation, lower than the mean which was suggestive of low variability of the data points in the analysis with the ERNQL having more clustering around the mean. The skewness values showed negative values for DIVPYS, DIVSIZE, and DIVPER; while ERNQL and DIVCG had positive values. The Jarque-Bera statistics showed values of 166.9978 for ERNQL ($p < .05$), 10.31122 for DIVPYS ($p < .05$), 283.2901 for DIVSIZE ($p < .05$), 13.85329 for DIVCG ($p < .05$) and 140.9950 for DIVPER ($p < .05$). The p values confirm the non-normality of the distributions.

4.2 Correlation Matrix

The Pearson correlation coefficient (correlation matrix) was used to examine the relationship between the variables, and the findings are shown in the table below.

Table 4.2: Correlation analysis of the model variables

	ERNQL	DIVPYS	DIVSIZE	DIVCG	DIVPER
ERNQL	1	0.211382	-0.0248	0.168235	-0.07404
DIVPYS	0.211382	1	0.627833	0.390978	0.540107
DIVSIZE	-0.0248	0.627833	1	0.544116	0.754671
DIVCG	0.168235	0.390978	0.544116	1	0.369331
DIVPER	-0.07404	0.540107	0.754671	0.369331	1

Source: E-Views 11

The ERNQL positively correlated with DIVPYS and DIVCG; and, negatively associated with DIVSIZE and DIVPER, the above results show that there exist *weak* positive and negative correlations with none greater than .90. In the case of DIVPYS, we observed that there exists a positive correlation between DIVPYS with DIVSIZE, DIVCG, and DIVPER. For, DIVSIZE we observed that there exists a *moderate* positive association between DIVSIZE and DIVCG (i.e., 0.544 approximately) and, DIVSIZE and DIVPER (i.e., 0.755 approximately). Lastly, the correlation between DIVCG and DIVPER showed a *moderate* positive correlation between the two variables, the strength of the relationship was 0.369. To check for collinearity among the independent variables, the correlation results show that there is no *strong* association between any two independent variables since all the correlation coefficients were less than 0.90

4.3 Test of Hypotheses

Multiple regression analysis is used to test the hypotheses. Since correlation analysis does not necessarily imply a cause-and-effect relationship, the multiple regression results had to be calculated. This model focuses on calculating the effect of various dividend factors on the firms' earning quality. This tactic is similar to one that was previously used in Mulchandani, Mulchandani, and Wasan (2020) in India.

Table 4.3: Multiple linear regression output for the test of hypotheses

Dependent Variable: ERNQL

Method: Panel Least Squares

Date: 05/10/23 Time: 17:33

Sample: 2012 2021

Periods included: 10

Cross-sections included: 32

Total panel (balanced) observations: 320

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.283853	0.008008	35.44673	0.0000
DIVPYS	0.084490	0.015373	5.496077	0.0000
DIVSIZE	-0.006179	0.002269	-2.723871	0.0068
DIVCG	0.046244	0.013082	3.534943	0.0005
DIVPER	-0.023073	0.011312	-2.039686	0.0422
R-squared	0.135128	Mean dependent var	0.284416	
Adjusted R-squared	0.124145	S.D. dependent var	0.054699	
S.E. of regression	0.051191	Akaike info criterion	-3.090988	
Sum squared resid	0.825477	Schwarz criterion	-3.032108	
Log-likelihood	499.5580	Hannan-Quinn criter.	-3.067476	
F-statistic	12.30392	Durbin-Watson stat	0.628733	
Prob(F-statistic)	0.000000			

Source: E-Views 11

The F-statistic value of 12.30392 and its associated p-value of 0.000000 show that the regression model overall is statistically significant at a 1% level, this means that the regression model is valid and can be used for statistical inference. In the table above, the regression R-squared value showed 0.135128; and, the Adjusted R-squared (preferred to account for sample size adjustments), showed a value of 0.124145 which shows that about 12.4% of the systematic variations in ERNQL were jointly explained by all the independent variables. This suggests that not all of the independent factors chosen for the model's independent variables can fully explain ERNQL. This can be attributed to the exclusion of other independent variables that can impact ERNQL but are outside the scope of this study.

4.3.1 Test of Hypothesis One

Ho₁: There is no significant relationship between dividend-paying status and earning quality.

DIVPYS as an independent variable to ERNQL appears to have a positive (i.e., 0.084490) and significant influence on ERNQL at a 5% level of significance. This, therefore, implies that an increase in DIVPYS will cause an increase in ERNQL. This evidence, therefore, leads to a rejection of the null hypothesis and acceptance of the alternate hypothesis; thus, *“there is a significant relationship between dividend-paying status and earning quality”*.

4.3.2 Test of Hypothesis Two

Ho₂: There is no relationship between dividend size and earning quality.

DIVSIZE as an independent variable to ERNQL appears to have a negative (i.e., -0.006179) and significant influence on ERNQL at a 5% level of significance. This, therefore, implies that an increase in DIVSIZE will cause a decrease in ERNQL. This evidence, therefore, leads to a rejection of the null hypothesis and acceptance of the alternate hypothesis; thus, *“there is a relationship between dividend size and earning quality”*.

4.3.3 Test of Hypothesis Three

Ho₃: There is no significant relationship between dividend changes and earning quality.

DIVCG as an independent variable to ERNQL appears to have a positive (i.e., 0.046244) and significant effect on ERNQL at a 5% level of significance. This, therefore, implies that an increase in STI will cause an increase in ERNQL. This evidence, therefore, leads to a rejection of the null hypothesis and acceptance of the alternate hypothesis; thus, *“there is a significant relationship between dividend changes and earning quality”*.

4.3.4 Test of Hypothesis Four

Ho₄: There is no significant relationship between dividend persistence and earning quality.

DIVPER as an independent variable to ERNQL appears to have a negative (i.e., -0.023073) and significant effect on ERNQL at a 5% level of significance. This, therefore, implies that an increase in DIVPER will cause a decrease in ERNQL. This evidence, therefore, leads to a

rejection of the null hypothesis and acceptance of the alternate hypothesis; thus, “*there is a significant relationship between dividend persistence and earning quality*”.

4.4 Discussion of Findings

4.4.1 Discussion of Hypothesis One

There is a significant and positive relationship between dividend-paying status and earning quality. The findings are in alignment with the study by Kalyani, Ketan, and Wasan (2019) in India, which determined the association between dividend payment and earnings quality. Four features of dividends have been examined in the study: dividend-paying status, size of dividends, changes in dividends, and dividend persistence. The sample consists of 107 companies listed on the S&P BSE 200, and for analysis, 12 years, which is, 2004 to 2015, are considered. Multiple regression analysis is used for the analysis. The results showed that the payment of dividends communicates information about the quality of earnings. Yuliati and Wibowo (2019), studied the effect of dividend payment on earnings quality; the samples used in this study are 54 companies listed on Indonesia Stock Exchange starting from 2010 to 2014. The method used to select the sample in this study is purposive sampling. The result of this study is the status of the payment of dividends is influential and significantly positive on the earnings quality. According to Myers (2000), investors have a right to a company's assets, but it's difficult to keep insiders (management) from misusing cash flows. As a result, management is expected to distribute dividends in sufficient amounts to investors regularly. Dividends are viewed as a means for managers to communicate with shareholders to demonstrate the firm's performance.

This is supported by Rampershad and de Villiers (2018), on the relationship between dividend and earnings quality. The study uses three accrual-based earnings quality proxies on a large sample of 2,387 firm-year observations over 17 years in a developing economy, South Africa, and conducts univariate tests to identify differences in characteristics between dividend and non-dividend paying firms; and large and small dividend-paying firms. The study found that dividend-paying status is positively associated with accruals quality and that larger dividend-paying firms are associated with better accruals quality, and that this relationship is stronger among firms paying average-sized dividends.

Budagaga (2017), investigated dividend payment and its impact on the value of firms listed on the Istanbul stock exchange and the fixed effect is applied to panel data for 44 firms listed on ISE for the period 2007-2015, inclusive. The findings show a positive significant relationship between dividend payments and the value of firms. Sirait and Siregar. (2013), investigated the relationship between dividend payment and earnings quality. The samples of the study consist of 90 firms from the manufacturing industry in the years 2005-2009. Multiple regression is a technique used to test hypotheses. The findings show that dividend-paying status has a significant positive association with earnings quality. Tangentially, studies by Marobhe and Hembe. (2019), studied the nexus between dividend policy and financial gearing of listed non-financial companies in Tanzania using seven (7) non-financial companies listed at the Dar es Salaam Stock Exchange (DSE). The unbalanced panel data from annual reports, covering 2002 to 2018 were analyzed using generalized linear regression analysis. The results indicated that companies with higher dividend payouts have lower gearing.

4.4.2 Discussion of Hypothesis Two

There is a negative significant relationship between dividend size and earning quality. The findings are supported by the study by Pathak and Ranajee (2020), using the data for Indian firms through the years 2006–2016, employing Tobit and Logit regression models reports that better earnings quality, on average, is associated with large dividend payments for Indian firms. Moreover, the likelihood of dividend payment reduces with poor earnings quality and more so when earnings manipulation is done to increase earnings. Secondary data from the financial reports of the businesses were used in the study by Adeiza, Sabo, and Abiola (2020) on the effects of dividend payout on firm performance in the Nigerian oil and gas sector. The results of the study revealed that the dividend payout ratio had a negative and insignificant impact on the firm performance of Mobil Plc. and Total Plc. in 2017 and 2018, but that this impact was positive and significant in 2015 and 2016 for Total Plc. and positive but insignificant in 2015 for Mobil Plc.

However, contrarily, Kalyani, Ketan, and Wasan (2019) studied dividends and earnings quality: evidence from India. This study determined the association between dividend payment and earnings quality. Four features of dividends have been examined in the study: dividend-paying status, size of dividends, changes in dividends, and dividend persistence. The sample consists of 107 companies listed on the S&P BSE 200, and for analysis, 12 years, which is, 2004 to 2015, are considered. Multiple regression analysis is used for the analysis. They found that the size of the dividend does not have a significant relationship with earnings quality. Also, Marobhe and Hembe. (2019), on the nexus between dividend policy and financial gearing of listed non-financial companies in Tanzania; the study used seven (7) non-financial companies listed at Dar es Salaam Stock Exchange (DSE). Unbalanced panel data from these companies' annual reports were used, covering 2002 to 2018. The results from generalized linear regression analysis indicated that companies with higher dividend payouts have lower gearing. Also, Tharshiga and Velnamby (2019), studied an analysis of dividend policy and market value of listed manufacturing companies in Sri Lanka. For the study purpose, nineteen companies with eight years of data are drawn. Analyzed results explore that the dividend policy of the companies does not influence market value and at the same time market value also does not granger cause dividend policy.

4.4.3 Discussion of Hypothesis Three

There is a significant positive relationship between dividend changes and earning quality. The findings are supported by Kalyani, Ketan, and Wasan (2019) in India that evaluated the association between dividend payment and earnings quality. Four features of dividends have been examined in the study: dividend-paying status, size of dividends, changes in dividends, and dividend persistence. The sample consists of 107 companies listed on the S&P BSE 200, and for analysis, 12 years, which is, 2004 to 2015, are considered. Multiple regression analysis is used for the analysis. The results showed that changes in dividends communicate information about the quality of earnings. According to Skinner and Soltes (2011), managers' dividend decisions are influenced by their assessment of their firms' long-run sustainable earnings and, as a result, are likely to be informative about earning quality. They discover that dividend payers have higher earning quality than non-payers and that this relationship is independent of dividend size.

This implies that once a firm's earnings quality exceeds a certain threshold, it can commit to a regular dividend, but the size of the payout does not depend on earnings quality beyond that point.

Yuliati and Wibowo (2019), studied the effect of dividend payment on earnings quality; the samples used in this study are 54 companies listed on Indonesia Stock Exchange starting from 2010 to 2014. The method used to select the sample in this study is purposive sampling. The result of this study is the status of the payment of dividends is influential and significantly positive on the earnings quality. Also, Rampershad and de Villiers (2018), examined the relationship between dividend and earnings quality. The study uses three accrual-based earnings quality proxies on a large sample of 2,387 firm-year observations over 17 years in a developing economy, South Africa, and conducts univariate tests to identify differences in characteristics between dividend and non-dividend paying firms; and large and small dividend-paying firms. The study found that dividend-paying status is positively associated with accruals quality and that larger dividend-paying firms are associated with better accruals quality, and that this relationship is stronger among firms paying average-sized dividends.

Tangentially, this is also supported by Mousa and Desoky (2019) on the effect of both dividend payments (DP) and five firm attributes (firm size, firm leverage, firm performance, legal form, and audit quality) on earnings quality (EQ) of the most active listed firms in Egypt. A sample of 552 firm-year observations during four years from 2014 to 2017 was used. Hierarchical Multiple Regression (HMR) was used to regress the six independent variables on firms' EQ in the absence of firms' earnings management (EM), which was estimated through discretionary accruals (DAC). The main results show that there are significant relationships between the EM and three independent variables (firm leverage, legal form, and audit quality). Akinyomi (2014), investigated the relationship between dividend payout and the financial performance of manufacturing firms in Nigeria; Data were obtained from secondary sources, particularly five (5) years of audited financial statements of ten randomly selected companies, making a total of fifty firm years. The results of the regression analysis revealed a significant and positive relationship between dividend payout and profit after tax on one hand; but no significant relationship between dividend payout and shareholders' funds on the other hand. And, Chansarn and Chansarn (2016), researched the relationship between earnings management and dividend policy of 51 small and medium enterprises listed in the Market for Alternative Investment (MAI) of Thailand during 2005-2012. The study reveals that earnings management is found to have a positive influence on the dividend yield of listed companies in MAI.

4.4.4 Discussion of Hypothesis Four

The evidence showed that there is a significant negative relationship between dividend persistence and earning quality. This study supports the study by Siladjaja, Muljanto, Anwar, and Djan (2022), on Indonesia's Capital Market; using a moderated multiple regression, this empirical study shows that dividend policy is critical when minimizing opportunity behaviour. Pathak and Ranajee (2020), using the data for Indian firms through the years 2006–2016 evaluated the impact of discretionary accruals on payout decisions employing Tobit and Logit regression models. The study reports that the likelihood of dividend payment reduces with poor earnings quality and more so when earnings manipulation is done to increase earnings.

Nonetheless, results show that higher earnings quality reduces dividends during the crisis period and also for a group affiliated.

Adeiza, Sabo, and Abiola (2020) on the effects of dividend payout on firm performance in the Nigerian oil and gas sector made use of secondary data obtained from the financial reports of the companies. The study found that the dividend payout ratio had a negative and insignificant effect on the firm performance of Mobil Plc. and Total Plc. in 2017 and 2018, while the results showed a significant effect in 2015 and 2016 for Total Plc. and a significant effect for Mobil Plc. in 2015 but an insignificant effect in 2016.

According to Glassman (2005), companies that pay dividends are less likely to manipulate earnings because manipulated earnings do not generate the cash inflows required to pay dividends. As a result, managers who manipulate earnings are less likely to distribute or increase their dividends despite an increase in earnings because such an increase is not permanent. (Lintner, 1956). This is espoused by Kalyani, Ketan, and Wasan (2019) on dividends and earnings quality: evidence from India. This study determined the association between dividend payment and earnings quality. Four features of dividends have been examined in the study: dividend-paying status, size of dividends, changes in dividends, and dividend persistence. The sample consists of 107 companies listed on the S&P BSE 200, and for analysis, 12 years, which is, 2004 to 2015, are considered. Multiple regression analysis is used for the analysis. The results showed that dividend persistence communicates information about the quality of earnings. Also, Nguyen and Bui. (2019), investigate dividend policy and earnings quality in Vietnam using a sample of firms listed on the Vietnam stock exchange during the period between 2010 and 2016. This study documents that dividend payers have higher earnings quality than dividend non-payers. However, Tharshiga and Velnamby (2019) analyzed the dividend policy and market value of listed manufacturing companies in Sri Lanka. For the study purpose, nineteen companies with eight years of data are drawn. Analyzed results explore that the dividend policy of the companies does not influence market value and at the same time market value also does not granger cause dividend policy.

5.1 Summary of Findings

In this section, the researcher summarizes the outcome of the empirical data analysis for each independent and dependent variable of interest.

1. There is a significant and positive relationship between dividend-paying status and earning quality ($p < .05$).
2. There is a significant and negative relationship between dividend size and earning quality ($p < .05$).
3. There is a significant and positive relationship between dividend changes and earning quality ($p < .05$); and,
4. There is a significant and negative relationship between dividend persistence and earning quality ($p < .05$).

5.2 Conclusion

This study concludes with the nexus of dividend payment on the earnings quality of listed manufacturing companies in Nigeria. The study employs data from 32 firms quoted on the Nigerian Exchange Group (NGX) from 2012 to 2021 to analyze the effect of dividend-paying status, dividend size, dividend changes, and dividend persistence on earning quality of the quoted firms. The study relied upon the signalling and agency theory to analyze the influence of dividends on the earnings quality of firms because of the information asymmetry between managers and owners; and, the signalling properties of dividends to investors on the performance of a firm. The signalling hypothesis suggests that dividend policy is used by managers as an indicator of the current performance of the firm and its prospect. The data were analyzed using descriptive statistics, such as the mean, median, maximum, and minimum; while the hypotheses were tested using the pooled ordinary least squares consistent with prior studies. The study specifically finds that dividend-paying status and dividend changes positively affect the earnings quality of manufacturing firms; while dividend size and dividend persistence negatively affect the earnings quality of manufacturing firms.

5.3 Recommendations

The study makes the following recommendations for managers, shareholders, and policymakers in the Nigerian context as follows:

1. Managers should maintain an increase in the value of the (cash) dividends paid divided by the net income of the year. Dividend payments provide important information about a company's performance and future prospects as well as its willingness and capacity to make consistent dividend payments. Dividends are important for investors for two main reasons: they significantly boost stock investing earnings and give fundamental analysts another metric to use.
2. Shareholders should watchfully evaluate the size of dividend payments: This is because managers paying bogus dividends may mask unhealthy firm performance; the following are options that a corporation may choose from instead of paying out extra income as dividends: starting more projects, buying back the company's shares, buying new businesses and assets, and reinvesting in financial assets.
3. Managers should adopt a fluctuating rather than static dividend policy for its positive signaling effect on earnings quality. Investors should prioritize a high dividend payout since dividends offer assurance regarding the company's financial stability. Over the past few decades, businesses that have continuously paid dividends have typically been among the most stable businesses. Therefore, a business that distributes dividends draws in investors and increases demand for its stock.
4. The shareholders and policy regulators should be watchful of companies consistently declaring profits even in unstable times, as managers of such firms can employ borrowed funds with a high leverage ratio, thereby masking unhealthy firm performance. Investors may also use the information to choose whether or not to assess the Nigerian companies' earnings quality depending on their dividend policy.

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