



Impact of IAS 7 Cash Flow Disclosure on Dividend Policy of Multinational Corporations Listed on the Rwanda Stock Exchange (2015–2024)

Jean Paul Mpakaniye*, Syed Ahmed Salman

School of Business & Management, Lincoln University College, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia

*Corresponding Author's E-Mail: mpakaniye10@gmail.com

Abstract

Background: The increasing adoption of International Financial Reporting Standards has reshaped corporate financial disclosure practices in emerging and frontier economies. Among these standards, IAS 7 requires detailed reporting of cash flow activities, which may influence corporate payout behavior. **Objective:** This study investigates the relationship between cash flow disclosure under IAS 7 and dividend payout patterns among multinational corporations listed on the Rwandan Stock Exchange from 2015 to 2024. **Methods:** Panel data obtained from eight listed firms were analyzed using a firm-level fixed-effects model. Cash flow components were examined alongside profitability, leverage, and firm size. A mediation framework was applied to evaluate whether profitability serves as a transmission channel between operating cash flow and dividend payouts. **Results:** Firms with stronger operating cash generation tend to report higher dividend distributions; however, this relationship diminishes once profitability is incorporated, indicating an indirect pathway. Investment-related cash outflows correspond with lower payout ratios, while financing cash flows show limited statistical relevance. **Conclusion:** The findings indicate that dividend practices in Rwanda are associated with both liquidity conditions and earnings performance. Enhanced cash flow disclosure appears linked to payout decisions grounded in observable financial fundamentals.

Keywords: Dividend Policy; Frontier Markets; IAS 7; Operating Cash Flow; Rwanda Stock Exchange

Introduction

Financial reporting reforms have played a central role in strengthening capital market transparency across developing economies. In many frontier markets, the adoption of International Financial Reporting Standards (IFRS) represents a structural shift toward globally harmonized disclosure frameworks. Within this system, IAS 7 governs the presentation of cash flow information, requiring firms to distinguish clearly between operating, investing, and financing activities (IFRS Foundation, 2023). Rwanda formally implemented IFRS requirements for listed entities in 2010, marking a significant milestone in its capital market development (IFRS Foundation, 2017).

Dividend policy has long attracted scholarly attention due to its implications for corporate governance, shareholder wealth, and financial sustainability. Traditional analyses emphasize profitability as the primary determinant of payouts. However, accounting earnings alone do not necessarily reflect liquidity conditions. Firms reporting similar profit levels may exhibit substantially different capacities to distribute dividends depending on working capital dynamics and cash conversion efficiency. Evidence from

companies listed on the Rwanda Stock Exchange suggests that internal liquidity conditions increasingly influence payout practices (Ngoboka & Singirankabo, 2021).

The disclosure of cash flow information may therefore play a critical role in shaping dividend decisions. Transparent reporting of operating cash generation enables investors to evaluate whether dividend distributions are supported by sustainable internal resources. From an agency perspective, allocating excess cash to shareholders can limit managerial discretion and reduce potential agency costs (Jensen, 1986; La Porta *et al.*, 2000). At the same time, pecking order theory suggests that firms prioritize funding profitable investment opportunities before committing resources to dividends (Myers & Majluf, 1984). In settings characterized by informational opacity, dividends may serve as signals of financial strength (Bhattacharya, 1979). However, enhanced disclosure regimes may reduce reliance on signalling by making financial fundamentals more observable.

Although numerous studies examine dividend determinants in developed and emerging markets, empirical evidence from frontier economies remains limited. Recent research on multinational firms operating in Rwanda highlights the importance of operating cash flow in payout behavior but does not explicitly evaluate the role of IAS 7 disclosure structures (Mpakanīye & Salman, 2025). This study addresses that gap by analyzing whether distinct cash flow components are statistically associated with dividend payout ratios among listed multinational corporations during the period 2015–2024.

Based on the theoretical considerations, three hypotheses are formulated:

H1: Operating cash flow is positively associated with dividend payout ratios.

H2: Investing cash outflows are negatively associated with dividend payout ratios.

H3: Profitability mediates the relationship between operating cash flow and dividend payout ratios.

By integrating financial reporting transparency with dividend theory in a frontier market context, this study contributes to a deeper understanding of how disclosure frameworks relate to corporate payout decisions.

Methodology

Research Approach

The empirical investigation adopts a longitudinal firm-level analytical framework to evaluate relationships between cash flow components and dividend payout ratios over time. A panel structure allows observation of within-firm variations across multiple financial periods while accounting for firm-specific characteristics that remain constant during the study window (Baltagi, 2021; Wooldridge, 2012). The analytical objective is to assess statistical relationships rather than to infer direct causality.

Sample Selection and Data Collection

The study focuses on multinational corporations quoted on the Rwanda Stock Exchange between 2015 and 2024. Firms were included if they met three conditions: (1) consistent publication of IFRS-compliant annual reports, (2) complete disclosure of cash flow statements under IAS 7, and (3) at least one recorded dividend payment during the observation period. Application of these criteria resulted in a dataset covering eight firms and generating 80 firm-year observations. Financial data were extracted manually from audited annual reports available through corporate disclosures and stock exchange archives.

Variable Construction

The dependent variable is the dividend payout ratio, computed as total dividends divided by net income. Three primary explanatory variables were derived from the statement of cash flows:

- Operating cash flow, scaled by total assets;
- Net cash used in investing activities, scaled by total assets;
- Net cash from financing activities, scaled by total assets.

To control for financial structure and performance effects, the model incorporates return on assets, firm size (natural logarithm of total assets), and leverage (total liabilities divided by total assets). To mitigate the influence of extreme values, financial ratios were winsorized at the 1st and 99th percentiles. Scaling by total assets facilitates comparability across firms of different sizes.

Econometric Specification

The empirical specification takes the following form:

$$DPR_{it} = \alpha + \beta_1 OCF_{it} + \beta_2 INV_{it} + \beta_3 FIN_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \mu_i + \varepsilon_{it}$$

Where μ_i captures observed firm-specific effects and ε_{it} represents the idiosyncratic disturbance term. Model selection was guided by a Hausman specification test, which indicated that firm-specific effects correlate with explanatory variables. Consequently, a fixed-effects estimator was applied. To address potential heteroskedasticity and serial correlation, robust standard errors clustered at the firm level were computed. Interpretation of coefficients is restricted to within-firm associations and does not imply causal inference.

Mediation Procedure

To examine whether profitability functions as a transmission mechanism between operating cash flow and dividend payout, a sequential modeling strategy was adopted. First, the relationship between operating cash flow and dividends was estimated independently. Second, profitability was incorporated into the specification. A reduction in the magnitude of the operating cash flow coefficient after inclusion of profitability was interpreted as indicative of partial mediation. The statistical significance of the indirect pathway was evaluated using established mediation testing procedures (Hayes, 2018).

Results

Table 1: Fixed-Effects Regression Results (Dependent Variable: Dividend Payout Ratio)

Variable	Model 1	Model 2
Operating Cash Flow	0.30** (0.10)	0.10* (0.06)
Investing Cash Flow	-0.22** (0.07)	-0.21** (0.06)
Financing Cash Flow	0.05 (0.08)	0.03 (0.07)
Return on Assets (ROA)	-	0.50** (0.10)
Firm Size (log assets)	-	0.01 (0.02)
Leverage	-	-0.04 (0.05)
Constant	0.20 (0.15)	0.08 (0.10)
Year Effects	Yes	Yes
Firm Effects	Yes	Yes
Observations	80	80
R ² (within)	0.12	0.47

Note: Robust standard errors clustered at the firm level are reported in parentheses

$p < 0.10$; ** $p < 0.01$

Table 1 summarizes the fixed-effects estimation results for dividend payout ratios across two model specifications. The first model includes only cash flow components, whereas the second specification introduces profitability and additional firm-level controls.

In the baseline model, internally generated operating cash displays a positive relationship with dividend distribution levels. Firms reporting stronger operating liquidity tend to distribute a higher proportion of earnings to shareholders. In contrast, net investment cash outflows are inversely related to payout ratios, suggesting that greater capital expenditure commitments coincide with lower dividend distributions. Financing cash flows do not demonstrate a meaningful statistical relationship with dividend payouts in this specific situation.

After incorporating profitability and control variables, the magnitude of the operating cash flow coefficient declines. Profitability (ROA) exhibits a strong positive association with dividend payouts, indicating that earnings performance remains a central factor in distribution decisions. The negative relationship between investing cash flow and dividend payouts remains stable across both

specifications. Financing cash flow, firm size, and leverage do not appear to exert statistically reliable influence within the observed sample.

The explanatory power of the model improves substantially when profitability is included, as reflected by the increase in within-R² from 0.12 to 0.47. The attenuation of the operating cash flow coefficient following the inclusion of profitability is consistent with a partial mediation pattern.

Descriptive Illustration

To complement the regression findings, Tables 2 and 3 provide firm-level illustrations of dividend practices. Table 2 compares net income and dividend distributions for two listed firms in 2024. BK Group distributed approximately half of its earnings, while Bralirwa Plc allocated its entire reported net income to shareholders. These contrasting payout ratios demonstrate heterogeneity in distribution strategies within the same regulatory environment.

Table 2: Dividend and Profit Performance of Selected Firms (2024)

Company	Net Income (RWF bn)	Dividends (RWF bn)	Payout Ratio
BK Group	91.0	46.1	50%
Bralirwa Plc	37.0	37.0	100%

Table 3 presents Bralirwa's earnings per share and dividend per share over the period 2021–2024. The firm maintained a consistent payout ratio of 100 percent across the four-year window, indicating creating a stable distribution policy during this period.

Table 3: Bralirwa EPS and DPS, 2021–2024 (RWF)

Year	EPS	DPS	Payout Ratio
2021	17.03	17.03	100%
2022	21.91	21.91	100%
2023	28.69	28.69	100%
2024	35.96	35.96	100%

Discussion

This study explored the relationship between cash flow disclosure under IAS 7 and dividend distribution practices among multinational firms operating within Rwanda's capital market. The empirical findings indicate that both liquidity conditions and profitability are central elements in explaining dividend behavior in this setting.

Interpretation of Hypotheses

The positive relationship observed between operating cash flow and dividend payout ratios suggests that internally generated liquidity plays a meaningful role in shaping distribution decisions. However, once profitability is incorporated into the analytical framework, the strength of this relationship diminishes. This pattern indicates that earnings performance serves as an important intermediary linking liquidity to payout levels. Firms, therefore, appear to consider both cash-generating ability and reported profitability when determining dividend allocations.

The inverse relationship between investment-related cash flows and dividend payouts reinforces the principle that capital expenditure commitments compete directly with shareholder distributions. In line with residual dividend logic, firms allocate available resources to investment activities before distributing remaining funds (Myers & Majluf, 1984). Where growth opportunities are present, reinvestment tends to take precedence over immediate payouts.

The attenuation of the operating cash flow coefficient after introducing profitability further supports the presence of a mediation pathway. Profitability appears to operate as a conduit through which liquidity influences dividend decisions. This interpretation aligns with mediation modeling approaches outlined by Hayes (2018), which emphasize indirect transmission mechanisms within regression frameworks.

Theoretical Implications

From an agency theory standpoint, the distribution of surplus liquidity can serve as a governance mechanism that constrains managerial discretion (Jensen, 1986; La Porta *et al.*, 2000). The evidence suggests that dividend decisions among the sampled firms are not arbitrary; instead, they reflect underlying financial capacity. Enhanced disclosure of cash flow components under IAS 7 may therefore strengthen alignment between managerial actions and shareholder interests by increasing the visibility of financial fundamentals.

The persistent negative association between investment outflows and dividends is consistent with pecking order considerations. Firms appear to rely primarily on internally generated funds to finance growth before committing to dividend payments. This pattern mirrors findings reported in emerging market contexts (Souza Junior *et al.*, 2024), suggesting that similar capital allocation principles operate in frontier environments.

Signaling theory posits that dividend payments may communicate private information in opaque markets (Bhattacharya, 1979). However, when detailed financial disclosure frameworks are in place, the need for signaling through dividends may be reduced. In Rwanda's IFRS-compliant environment, payout behavior appears more closely linked to observable liquidity and earnings indicators than to symbolic signaling motives.

Contextual Insights

Firm-level illustrations further highlight heterogeneity in payout practices within the same institutional framework. Some firms maintain consistently high payout ratios, while others adjust distributions in response to profitability and reinvestment requirements. Such variation underscores the relevance of transparent cash flow reporting in enabling investors to assess dividend sustainability.

Collectively, the findings indicate that dividend decisions within Rwanda's frontier market context are shaped by financial fundamentals reflected in cash flow disclosures and profitability performance.

The findings offer practical relevance for regulatory authorities, corporate governance bodies, and market participants operating within frontier capital markets.

Regulatory and Institutional Perspective

The evidence indicates that detailed cash flow reporting provides a transparent basis for evaluating the sustainability of dividend distributions. For regulatory institutions overseeing capital markets, consistent enforcement of IFRS disclosure requirements, particularly those related to operating, investing, and financing activities, can strengthen investor confidence by improving the visibility of firms' liquidity positions. Rather than prescribing dividend behavior directly, regulators may enhance market discipline by ensuring high-quality financial reporting standards are effectively implemented.

Corporate Governance and Managerial Perspective

For boards of directors and senior management teams, the results highlight the importance of grounding dividend policies in measurable financial capacity. Distribution decisions appear more sustainable when aligned with both earnings performance and internally generated cash flows. Embedding structured assessments of liquidity and reinvestment needs within annual dividend deliberations may support balanced capital allocation strategies. Transparent reporting practices further reinforce accountability by allowing shareholders to evaluate whether declared dividends reflect genuine financial strength.

Investor Perspective

From an investment standpoint, the findings emphasize the analytical value of examining cash flow components alongside accounting profits. Operating liquidity and capital expenditure patterns offer additional insight into a firm's ability to sustain dividend commitments. In markets where transparency standards are improving, investors can make more informed assessments of payout stability by incorporating cash flow analysis into valuation decisions.

In summary, strengthened disclosure frameworks appear linked to payout practices that reflect underlying financial performance, contributing to greater financial accountability within emerging and frontier market environments.

Limitations

Several constraints should be acknowledged when interpreting the findings of this study.

The empirical analysis is confined to eight multinational corporations listed on the Rwanda Stock Exchange. Although the dataset spans a decade, the relatively small number of publicly traded firms reflects the scale of the domestic capital market. As a result, caution is warranted when extending the conclusions to larger emerging or developed market environments.

The investigation relies exclusively on quantitative financial statement data derived from audited annual reports. While such data provide consistency and reliability, they do not capture qualitative dimensions such as board structure, ownership concentration, managerial incentives, or governance quality, all of which may influence dividend behavior.

Additionally, the observation window covers only the post-adoption period of IFRS in Rwanda. Without comparable pre-adoption data, it is not possible to evaluate structural shifts in payout practices attributable directly to reporting reforms.

Conclusion

The research analyzed the relationship between cash flow reporting under IAS 7 and dividend distribution practices among multinational corporations listed on the Rwanda Stock Exchange over the period 2015–2024. The empirical analysis reveals that internally generated liquidity and profitability are central considerations in dividend determination, while investment commitments correspond with lower distribution levels.

Future research may expand this line of inquiry by incorporating cross-country comparisons within Sub-Saharan Africa to assess whether similar relationships between cash flow disclosure and dividend policy are observable in other frontier markets. Integrating governance characteristics or ownership variables could further illuminate moderating influences on payout decisions. Longitudinal designs that examine regulatory transitions over time would also enhance understanding of how financial reporting standards interact with corporate distribution strategies.

Notwithstanding these limitations, the study contributes empirical evidence regarding the linkage between structured cash flow disclosure and dividend behavior in a frontier market context.

Conflict of Interest

The authors affirm that there are no conflicting objectives.

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