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The Role of Dividend Payout in the Determination of the Relationship Between Earnings Before Interest and Tax Cash Flow From Operations, Capital Expenditures and Firm Sustainable Cash Flows: A Case Of Non-Financial Firms

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Abstract

The prime objective of the current study is to determine the predictive ability to earnings before interest and tax, cash flow from operations, dividend payout, and capital expenditures for free cash flows. In addition to the current study is also intended to highlight the moderating role of dividend payout predictive ability to earnings before interest and tax, cash flow from operations, and capital expenditures for free cash flows. To achieve the objective of the study the data of 100 listed non-financial firms are collected from the annual report of the firms listed on the Iraq Stock Exchange. The data is collected over a period of six years from 2012-2017. To achieve the first set of objective regarding the direct results we have chosen OLS as a final statistical test after undergoing basic diagnostic analysis. To achieve the second set of objectives regarding the indirect effect of dividend payout, we have used the hierarchical multiple regression models.The statistical software, STATA is used for the analysis purpose. The findings of the study have shown a great deal of agreement with hypothesized results and also provided support to the pecking order theory and theory of free cash flow. The findings of the study will be helpful for policymakers, investors, scholars, and students in understanding the key factors which affect the free cash flow decisions and determine its predictability.

Keywords: Cash flow from operations; Dividend Payout; Earnings before interest and tax; Capital expenditures'; Sustainable cash flows.

1. Introduction

Dividend policy is one of the most important issues in modern financial literature. It is one of the topics that has created the most interest and thus has been extensively researched (Al-Gharaibeh et al., 2013). Dividend policy is regarded as one of the most controversial subjects in finance among researchers. This situation has led to the emergence in a number of researchers who competed to write out the theoretical explanations about dividend policy. In previous studies, the majority of the empirical work did not have sufficient explanations regarding the dividend policy matters and corporate values in firms (Jabbouri, 2016).

Free cash flow is the excess funds that remain in the company's balance, after all the activities that keep the company running. These excess funds or free cash flow can be utilized for future investment or this amount can be paid to equity and debt holders of the company. However, managers or executives can misuse or manipulate these funds by increasing their remuneration. These managers can also invest these funds in negative NPV projects (Yahya and Ghazali, 2017). Jensen et al. (1986) has introduced free cash flow hypothesis in which he argued that the use of debts could decrease agency costs or free cash flow because funds for new projects can be acquired from other financial institution like banks that have a better position in the administrating of corporate activities (Ahmed and Jahangir Ali, 2013).

In addition, overinvestment problem or capital expenditures can also be caused by free cash flow. For Instance, Richardson (2006) found that when free cash flow is high there is the probability of overinvestment by managers as he revealed a high correlation between free cash flows and overinvestment. Moreover, a high amount of free cash flow means the company has high agency costs. Managers can use free cash flow for empire building or overinvestment, which further effect shareholder value negatively. Additionally, paying dividends to shareholders is also the solution for agency conflicts as it leads to lower free cash flows and lower agency costs. Easterbrook (1984) also purported that dividend can be utilized to avoid misusing funds by executives. To meet the needs of new investment opportunities, executives approach the capital market for funds. This effort would impose a discipline on the managers and thus reduce the cost of monitoring the managers or executives. Consistent with this hypothesis, dividends can reduce agency conflicts and could also be utilized as a substitute control device (Al-Kuwari, 2009).

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Many studies examined cash flows from operations and earnings in some countries such as Australia, Nigeria, and Malaysia (Efeyana, 2015). They found that CFO is better than earnings as a predictor for future cash flows. Moreover, they concluded that the data from different countries may provide different results such as those in the US. UK. and Australia were found that earnings are better than CFO. This is because different factors (country, market size, investors) will affect the information of earnings and cash flows from operations (Bartov et al., 2001). Several previous studies have supported the results of cash flows from operations and earnings in forecasting future cash flows. This study focuses on free cash flow for Iraqi companies. Data were obtained from the DataStream, using a sample of 100 companies listed on the main board of the Iraq Stock Exchange between 2012 to 2017. This study expects that the positive relationship between dividend per share, operating cash flow, capital expenditures, earnings, and free cash flow.

2. Literature Review
2.1. The Predictive Ability Earnings in Forecasting Future Cash Flows

The primary activity in decision making is a financial prediction (Almeida et al., 2004; Harford et al., 2014). This is because decision-making reflects whatever will appear in the future. Each decision- making involves an expectation of receiving greater benefits in the future. Thus, the prediction is an important aspect of the decision-making process. The decision makers, such as investors and stakeholders, need to predict the effect of decision-making and choose it to obtain better benefits. Previous studies (McGowan et al., 2015), presented that cash flows from operations and earnings were important information to investors and stakeholders because they had an explanatory ability to forecast future cash flows in Australian capital markets in order for investors and stakeholders to make investment decisions. This means cash flows from operations is a measure of a firm's performance and investors and stakeholders also recognize that cash flows from operations are a sustainable performance measure for a firm's valuation.

The result provided evidence that cash flows from operations are better than earnings in predicting future cash flows and traditional cash flows measures also. Consistent with the studies, documented that cash flows are more useful than earnings in the firm's valuation. They presented annual earnings had a lower relationship to future cash flows. They also found that earnings make cash flows forecast errors. Therefore, they proposed investors to show interest in cash flows forecast rather than earnings in security valuations. The findings are consistent with the prior findings of Al-Attar and Hussain (2004) on the sample of UK based firms. Some studies have shown that it could not be concluded whether earnings or cash flows are better as a predictor. In an effort of investigating the ability to earn in determining the cash flow, Atwood et al. (2011) found a positive and significant relationship between them. Givoly et al. studied the quality of analysis of the cash flow forecast. The results showed that the forecasts of cash flows were less accurate than earnings.

The following reasons indicate that earnings can be used as a predictor of future cash flows. First, earnings provide information for the dividend payment ability of the companies for future (Lipe, 1990). Second, earnings are the basic reported earnings measure and most common variable to be analyzed in the literature of accounting based on historical cost accounting reported that earnings could themselves suffer from timing and matching problem that may contribute to error in the measurement of firms' value.

Kim and Kross (2005) described the relationship between earnings and future cash flows one-year-ahead. Their data period from 1972 to 2001 was under the FASB. They demonstrated that current earnings-related positively to one-year ahead of future cash flow from operations, whether for large or small firms, dividend- paying or non-dividend-paying, firms with profit or losses. They suggested the accuracy of earnings to forecast future cash flows increased over time. In addition, earnings can predict future cash flows beyond one year into the future. They also proposed earnings-related increasingly to future cash flows with industries, which applied conservative accounting standards. In the same way, Liu and Wang (2009) examined the ability of earnings, cash flows, and accruals to predict future cash flows in Hong Kong, Singapore, Malaysia, and Thailand. Their evidence suggested that coefficient of earnings, cash flows, and accruals had the same significant level, which means all three independent variables were useful to forecast future cash flows in all periods.

H1: Earnings before interest and tax from the operation has a significant positive impact on the future cash flows

2.2. The Predictive Ability of Cash Flows from Operations in Forecasting Future Cash Flows

The study of Jordan et al. (2007) compared the cash flows from operations, earnings and sales in forecasting future cash flows. Their data were collected on a randomly selected 100 fortune1000 companies. The data covered the period from 2002 to 2004. Based on regression analysis, the results showed that cash flows from operations had the weakest explanatory power when compared with sales and earnings.

Many studies as mentioned above have examined cash flows from operations and earnings to forecast future cash flows. However, their results are inconsistent. In addition, most studies have been undertaken in Australia and the United States. There has been just one published research undertaken in Thailand that is conducted by Chotkunakitti (2005). The study, however, only covered the period from 1996 to 2002. Recent years witness changes in Thailand economy. The economy has improved compared to years prior to 2002. As reported by the Bank of Thailand (2009), Thailand has been attracting more foreign investors due to the favorable business environment. In addition, the quality of financial reporting in Thailand has improved. Beginning 2006, preparation of financial

reporting in Thailand must be in accordance with the International Financial Reporting Standards (IFRS). These changes in a business environment affected the usefulness of accounting numbers reported by financial reporting.

Cash that generated from operations by one company acts as the most important sources used to pay dividends. The company cannot maintain its dividend payout over a long time of period if the operating cash that generated by the company was not sufficient to pay the cash dividend. Based on a study by Robinson and Sensoy (2016). found that cash flow affects the dividend payout by the companies and act as an important role in enhancing the company's ability to pay dividends. The result is supported by Jordan. Meanwhile, the studies that generated a negative relationship between operating cash flow and dividend payout were found in the research by Faulkender *et al.* (2012). Results from the studies revealed that cash flow in the companies does not influence the amount of profit that has divided to the investors. Referred to the previous research, the majority of studies regarding operating cash flow show a positive relationship. Other previous research that supported this result is Robinson (Goldman and Viswanath, 2013), Based on the above explanation, the following hypothesis is formulated:

H2: Cash flow from the operation has a significant positive impact on the future cash flows

2.4. The Predictive Ability of capital Expenditures in Forecasting Future Cash Flows

The capital expenditures are carried out for investment purposes. The investment decisions are interlinked with financing and cash decisions. Issues such as overinvestment or capital expenditures are also linked with free cash flow. For Instance, Richardson found that when free cash flow is high there is the probability of overinvestment by managers as he revealed a high correlation between free cash flows and overinvestment. Moreover, a high amount of free cash flow means the company has high agency costs. Managers can use free cash flow for empire building or overinvestment, which further effect shareholder value negatively. Additionally, paying dividends to shareholders is also the solution for agency conflicts as it leads to lower free cash flows and lower agency costs (Easterbrook, 1984; Javed and Basheer, 2017) also purported that dividend can be utilized to avoid misusing funds by executives. To meet the needs of new investment opportunities, executives approach the capital market for funds. This effort would impose a discipline on the managers and thus reduce the cost of monitoring the managers or executives. Consistent with this hypothesis, dividends can reduce agency conflicts and could also be utilized as a substitute control device.

In terms of stakeholders, like a creditors' lending decision, when cash flow in a firm decreases, it can provide the early warning signal of bankruptcy to them. Therefore, poor cash flow can be a good indicator of a problematic firm. This is the reason why cash flows prediction is important for creditors' lending decisions (Zwaig and Pickett, 2001). Meanwhile, from the business manager's perspective, cash flow is the lifeblood of a business because it must be obtainable when it is needed (Schaeffer, 2002). Prior researches have shown that cash flows have a role in forecasting future cash flows. However, the outcomes are inconsistent. Thus, this study has taken into consideration the cash flow variable in terms of operations and earnings, similar to many prior types of research that have been conducted. This is because financial transactions are recorded by historical cost based on the recognition of revenues and basic accounting principles . This may explain the efforts by the Financial Accounting Standard Board (FASB) to change the way earnings are measured even if the changes do not make sense (FASB, 1978). Furthermore, earnings in the capital market are a good proxy for companies' future cash flows. Several researchers have examined the ability of firms investment and doing capital expenditures in predicting future cash flows.

H3: Capital expenditures have a significant positive impact on future cash flows

2.5. The Impact Dividend on the Predictive Ability of Cash Flows from Operations, and Earning in Forecasting Future Cash Flows Forecasting Future Cash Flows

The dividend was defined in a simple word as a percentage of earnings that paid to shareholders in term of the dividend. In previous studies, the researchers found that there were various types of characteristics that might have a relationship with the dividend payout. The various types of characteristics are the profitability of firms, growth opportunities, investment opportunities, financial leverage and others (Adil *et al.*, 2011; Basheer M. F. *et al.*, 2018). Al-Gharaibeh *et al.* (2013) an important element in the financial area that they should manage. They also have mentioned that, based on the majority economists, they suggest that the investor should not only focus on whether a firm pays dividends or otherwise. This is because the investor already owned the firm by investing in that firm and they will just either obtained the dividend or just invest it back in the firm business. Referred to Setiawan & Phua, in their research stated that minority shareholders preferred the dividend payment more than reinvested firm's earnings to the company. That is one strategy that the investors used to ensure their rights on dividend payment that have promised by the company.

In the investor's thought, the dividend payment was an important right that they should obtain when they invested in any company's stock. There were no investors that willing to invest in one company with not obtaining the profit. Research by Ullah *et al.* (2012) and Basheer M. *et al.* (2019) have suggested that dividend payment that announced by a company could create a conflict among the managers and shareholders Here, agency conflict will occur as the goal of managers and shareholders were different. In the previous research by Easterbrook stressed that dividends play an important role in control the agency problem between manager and shareholders. Thus, by monitoring the capital market activities, it indirectly will control the firm's performance. This is because the probability that one company will sell new common stock market will increase if the firms have the ability to pay higher dividends. This performance that shows by a company attracted the attention of many shareholders such as a financial institution, bank, capital supplier and others. Belo *et al.* (2015) mentioned that a firm could be forced by the dividend payment to frequently focus only on the external market. Because of that, the company must lead the

investigation in the external market and also must raise the new capital through the regulatory communities to protect their performance.

The issue of appropriate dividend policy has generated a lot of attention and debate in the business environment and among researchers. This is because of the digressed relationship among firms' specific issues such as the firm's value and dividend policy. Nevertheless, it is the examination of this relationship that has led to the current state of the subject being categorized into three dimensions: the view of generous dividend payment, dividend irrelevance and complete retention of corporate earnings. Dividend payout policy of any organization depends on the expected cash inflows and can be defined as the percentage of the amount distributed among shareholders out of profit. Dividends are normally paid either in form of cash or stock dividend that might be stock of other company as well, which is subsidiary of parent company announcing dividend (Hashemijoo et al., 2012).

In general, investors will not invest in a company, which does not have a fair dividend policy or will definitely divest from such. This could clarify why firms adhere to certain dividend strategy and management tries to at-least maintain a constant amount of 2 dividends and only follows this optimistic approach when they can maintain the same dividend amount. Investors are equipped with information in an imperfect market and as a consequence whatever information they can get is considered with utmost seriousness. Intention to pay a dividend by the company is taken as a sign that the company will be sustainable. These factors prove the relevance and necessity of dividend. Every company formulates its own policy regarding dividend, and this is mostly determined by numerous factors and conditions prevailing during that period. Of many firms' policies that influenced decision-making, dividend policy is said to be affected by corporate ownership structure. Several studies investigated the relationship between ownership structures and dividend payout. Most of these studies are empirical in nature (Abdelsalam et al., 2008; Al-Gharaibeh et al., 2013). Corporate theories available back the relationship between ownership structure and dividend payout because of agency problem. Agency theory postulates that outside shareholders favor dividends over retained earnings, in light of the fact that insiders may abuse cash retained within the firm. Likewise, Mitton opined that favoring dividend may be considerably intense in developing markets with fragile investor's protection as outside shareholders see a more serious risk of expropriation by insiders in such markets.

Apart from that, the researchers also mentioned that the dividend payments used in a company act as a bonding or as a function that monitored the companies to decrease the agency costs of equity in their business framework. Research by Al-Najjar and Clark (2017) revealed that the dividend payout was a major corporate decision that faced by managers, but it will remain as one of a puzzle in the corporate finance that has been mentioned in few studies. Moreover, referred to the research by Al-Shubiri et al. (2012) said that decisions to pay the dividend are one of the fundamental items in corporate policy and on the other hand have been classified as one of the issues that interest in the financial research literature.

The dividend is a reward to the shareholders for their fund invested and for uncertainty risk-bearing that they faced. But it was depended on several types of factors that will interfere between their dividend payout performances. The dividend also will act as the level of profit in one company that will notice by the investors as a level of a company's performance. The previous research by Alias et al. (2012) stressed that dividend payment has a long relationship to the firm's profitability and also the performance matters. According to the research by Kajola et al. (2015), the researchers found the result that the major factor which has affected the performance of one company is the dividend payout. The result obtained was strong means that managers need some enough time to decide the dividend payout because it will show the level of a company's performance to the new investors. It is important to examine whether having certain characteristics of board structure and firm's specific factors can enhance or can weaken or neither both with the firm's performance level.

H4: Dividend Payout has a significant impact on firm free cash flow.

H5: Dividend payout moderates the relation between earning and free cash flow.

H6: Dividend payout moderates the relation between cash flow from operation and free cash flow.

H7: Dividend payout moderates the relation between cash flow from operation and free cash flow.

3. Data and Methodology

3.1. Data Source

To investigate the dividend payout in the relationship between cash flow from operation, capital expenditures, earnings before interest and tax and cash flow variables is punched from the annual reports of companies. Data of four fiscal years (2012-2017) is collected from annual reports of the company. Initially, the entire listed firm in Iraq Stock Exchange was the target sample. However, later firms with missing data and liability financing more than the total asset value or negative value of equity are excluded from the analysis and the final sample is comprises of 100 firms with 600 firm's year observations.

3.2. Methodology

To achieve the objective the current study has adopted the panel data methodology. The panel data methodology advocates the polling of observation into smaller units of cross-sectional nature over many intervals of time or time periods. One of the advantages of this method is that it provides more detailed, comprehensive authentic findings which are not possible with other simple analysis such as time series or cross-sections. The general form of panel model is as follow

$$Y_{it} = \alpha_{it} + \beta X'_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. \tag{1}$$

in our case, as our sample is spread of 6 years from 2012to 2017 and the total number of firms is 100, therefore

$i=1,\ldots\ldots\ldots\ldots\ldots,100,\quad t=1,\ldots\ldots\ldots\ldots,6$

The error vector is given by

$$\varepsilon_{it} = v_{it} + u_{it} \qquad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \qquad (2)$$

Where v_{it} the individual is the effect of each of the industrial companies and u_{it} is the error which assumes a normal distribution.

To investigate the relationship between, dividend payout cash flow from operation, capital expenditures, earnings before interest and tax and cash flow we have used the following models

$$FCF_{it} = \alpha_0 + \alpha_1 EBIT_{it} + \alpha_2 SIZE_{it} + \alpha_3 LIQ + \alpha_4 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$
$$FCF_{it} = \alpha_0 + \alpha_1 CFFO_{it} + \alpha_2 SIZE_{it} + \alpha_3 LIQ + \alpha_4 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots.. (4)$$
$$FCF_{it} = \alpha_0 + \alpha_1 CEX_{it} + \alpha_2 SIZE_{it} + \alpha_3 LIQ + \alpha_4 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots.. (5)$$
$$FCF_{it} = \alpha_0 + \alpha_1 DPO_{it} + \alpha_2 SIZE_{it} + \alpha_3 LIQ + \alpha_4 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots.. (6)$$

Hierarchical multiple regression model is a minor extension form of classical linear multiple regression (Hair *et al.*, 2006). Hierarchical multiple regressions allow another variable between independent the ent and dependent variable to depend on the level of another independent variable. (i.e. the moderator)It is an appropriate method for detecting the effects of moderating variablesThis method improves the attempts of ordinary linear regression estimation by adding a third variable in the model

The moderator hypothesis is accepted or rejected on the basis, if outcome the of interacting term is significant or insignificant.also highlighted that there may be direct as significant ant relationship between path a and path b with outcome variable, but these paths are not conically not relevant to test the moderating effect. The linear model of moderated relationship defines by Hair is as follow:

$$Y=Y_{it} = \alpha_0 + \alpha_1 X1_{it} + \alpha_2 X2_{it} + \alpha_3 X1_{it}X2_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (7)$$

Where:

α_0=Intercept

$\alpha_1 X1=$ Linear effect of X1

$\alpha_2 X2 =$ Linear effect of X2

$\alpha_3 X1\ X2=$ Moderating effect of X2 on X1

Thus, following Baron and Kenny (1986) and Hair the equations Moderating the moderating impact of dividend payout in the relationship between cash flow from operation, capital expenditures, earnings before interest and tax and cash flow moderating model for this study are as follows:

$$FCF_{it} = \alpha_0 + \alpha_1 EBIT_{it} + \alpha_2 EBIT * DPO_{it} + \alpha_3 SIZE_{it} + \alpha_4 LIQ + \alpha_5 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots (8)$$
$$FCF_{it} = \alpha_0 + \alpha_1 CFFO_{it} + \alpha_2 CFFO * DPO_{it} + \alpha_3 SIZE_{it} + \alpha_4 LIQ + \alpha_5 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots (9)$$
$$FCF_{it} = \alpha_0 + \alpha_1 CPEX_{it} + \alpha_2 CPEX * DPO_{it} + \alpha_3 SIZE_{it} + \alpha_4 LIQ + \alpha_5 LEV_{it} + \varepsilon_{it} \ldots\ldots\ldots (10)$$

Where i and t denote firm and year, respectively, FCF_{it} is free ash flow represents the flow of cash earned and spent in a company. This pattern reveals how much money is available in a company at a given time, DPR_{it} is the ratio of dividend paid by an ith observation during time t divided by the total asset , $SIZE_{it}$ is measured as the natural log of total asset asset for an ith observation during time t , LEV_{it} is the ratio of total liabilities to total assets an ith observation during time t . $EBIT_{it}$ is the ratio of earnings before interest and tax to total asset an ith observation during time t . $EBIT * DPO_{it}, CFFO * DPO_{it}, and CAPEX * DPO_{it}$ are intrection terms. $\alpha_1 - \alpha_5$ are coefficients of concerned variables and ε_{it} is random error term for the ith firm of time t .

4. Analysis, Results, and Discussion

4.1. Pre-test Specifications

To achieve the objectives of the current study, the data has undergone some primary diagnostic test of data as well as of the selection of appropriate methodology. For the selected t tion of most appropriate mythology the tests namely restricted Cook-Weisberg (CW) or, Breusch-Pagan (BP) test, Wooldridge test, and Husman specification test. The results of Breusch-Pagan (BP) test shows that OLS is the most appropriate methodology for currents study

4.2. Descriptive Statistics

The deceptive values of variables used in the current study have shown in Table 1 below

Table-1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FCF	600	0	1	0.21	0.088
CFFO	600	0	1	0.17	0.302
EBIT	600	0	1	0.23	0.187
CAPEX	600	0	1	0.23	0.187
SIZE	600	11	20	15.12	1.322
DPO	600	0	1	0.31	0.195
LIQ	600	0	1	0.22	0.218
LEV	600	0	1	0.43	0.252
Valid N (listwise)	600				

Source: Own calculations based on data from the firm's annual reports

4.3. Correlation Analysis

The correlation results shown in table 2 indicates that free cash flow, cash flow from operations and earnings before interest and tax are positively related with each other whereas the dividend payout and capital expenditures in a negative correlation.

Table-2. Correlation Analysis

	FCF	*CFFO*	*EBIT*	*CAPEX*	*SIZE*	*DPO*	*LIQ*	*LEV*
FCF	1							
CFFO	0.3079*	1						
EBIT	0.2755**	0.2344*	1					
CAPEX	-0.2137	-0.2257	0.186	1				
SIZE	-0.0137**	0.1159**	-0.1117*	-0.2614*	1			
DPO	-0.0023**	0.2043*	-0.0711*	-0.1492*	-0.0312	1		
LIQ	0.2354***	0.1342**	-0.2545*	-0.0210*	0.0210	-0.1300	1	
LEV	-0.2243**	0.1242*	-0.2141*	0.0113**	0.1220*	-0.3210	0.3341*	1

Source: Own calculations based on data from the firm's annual reports

5. Direct Results

The results of first four hypothesis of currents study which is related to the hypothesized direct relationship between earnings before interest and tax, cash flow from operations, capital expenditures, dividend payout, and free cash flow and are molded as equation (3), (4), (5), and (6) respectively are shown in table 3.

The results of the model (3), indicates that earnings before interest and tax is one of the key detriments of free cash flow. The negative relation between leverage and free cash flow is also confirming the above-mentioned argument. Meanwhile, the relationship between firm size and cash flow is negative whereas of liquidity with free cash flow is positive.

Table-3. The Result of OLS Regression Analysis

Dependent Variable:*FCF*	(3)	(4)	(5)	(6)
EBIT	0.239***			
	(0.019)			
CFFO		0.299***		
		(0.020)		
CAPEX			0.281**	
			(0.002)	
DPO				0.021***
				(0.019)
SIZE	-0.548**	-0.882**	-0.571**	0.082**
	(0.226)	(0.229)	(0.226)	(0.003)
LIQ	0.676*	0.624*	0.682*	-0.500***
	(0.177)	(0.170)	(0.177)	(0.062)
LEV	-0.258***	- 0.884	-0.531***	-0.077**
	(0.018)	(0.026)	(0.062)	(0.003)
R^2	0.659	0.661	0.660	
Adjusted R^2	0.647	0.646	0.646	0.786
F-statistic	21.453	19.434	20.549	19.649
Prob.(F – Statistics)	0.000	0.000	0.000	0.000
S.E of Regression.	0.087	0.087	0.087	0.089
Number of firms	100	100	100	100

Source: Own calculations based on data from the firm's annual reports

The results of the model (4), indicates that cash flow from operation is one of the key detriments of free cash flow. The negative relation between leverage and free cash flow is also confirming the above-mentioned argument that under an increasing level of operating cash flow the relationship between leverage and cash flow as well as the firm size and free cash flow is negative. Meanwhile, the relationship of firm liquidity with free cash flow is positive. The regression results of the model (5) also confirm the hypothesized results between capital expenditures and firm cash flow. The regression results of equation (6) provide support to the hypothesized results between dividend and free cash flow by declaring a positive and significant relationship between dividend payout and free cash flow.

5.1. Results of the Hierarchical Multiple Regression Model

The results of the hierarchical multiple regression Model are shown in table 4. The direct results have shown consistency with the finding of direct results presented in table 3. The dividend payout appears as a strong moderator in all models.

Table-5. The Result of OLS Regression Analysis

Dependent Variable:FCF	(8)	(9)	(10)
$EBIT$	0.241***		
	(0.029)		
$CFFO$		0.342***	
		(0.012)	
$CAPEX$			0.351**
			(0.023)
DPO			
$SIZE$	-0.388**	-0.742**	-0.641**
	(0.126)	(0.139)	(0.236)
LIQ	0.456*	0.534*	0.532*
	(0.157)	(0.147)	(0.167)
LEV	-0.325***	- 0.765	-0.431***
	(0.028)	(0.026)	(0.032)
$EBIT * DPO_{it}$	0.548**		
	(0.226)		
$CFFO * DPO_{it}$		0.676*	
		(0.177)	
$CAPEX * DPO_{it}$			-0.258***
			(0.018)
Number of firms	100	100	100

Source: Own calculations based on data from the firm's annual reports

6. Discussion and Conclusion

The first and foremost task required in decision-making is cash flow predictions. This is due to the fact that cash flow has a vital part in most decision-making activities in firms. Investors and stakeholders focus on companies' cash flows because they consider cash flows as reflective of their future cash flows. They also have to ensure that a firm's future cash flow provides a clear indication of their investment decision (Basheer M. F., 2014). Nonetheless, the companies' future cash flows forecasting is a typical and fundamental part of analyzing a firm's status (Staubus, 2004). Interest payments, dividends or debt repayment are the basis for a firm's cash flows. In the capital markets particularly, investors need to evaluate the cash returns from their investment decisions.

For the sake of testable proposition of theoretical justification the current study has developed four models (3), (4), (5), and (6) for the direct impact of earnings before interest and tax, cash flow from operations, capital expenditures, dividend payout on the free cash flow. Whereas three models namely (8), (9), and (10) are developed to test the moderating role of dividend payout in the relationship between earnings before interest and tax, cash flow from operations, capital expenditures, and free cash flow. The results of the model (3), indicates that earnings before interest and tax are one of the key detriments of free cash flow. The relationship is positive and significant which is confirming the view broached by the theory of free cash flow and pecking order theory. The earlier i.e. theory of free cash flow considers, earning as a key source of determination of free cash flow of any firm. Whereas according to pecking order theory which considers internally generated cash as one of the cheapest and most suitable sources of financing argues that the earnings before interest and tax are a key determinant of free cash flow. The negative relation between leverage and free cash flow is also confirming the above-mentioned argument. Meanwhile, the relationship between firm size and cash flow is negative whereas of liquidity with free cash flow is positive.

The results of the model (4), indicates that cash flow from operation is one of the key detriments of free cash flow. The relationship is consistent with the theoretical justification by the theory of cash flow and pecking order theory. The negative relation between leverage and free cash flow is also confirming the above-mentioned argument that under an increasing level of operating cash flow the relationship between leverage and cash flow as well as the firm size and free cash flow is negative. Meanwhile, the relationship of firm liquidity with free cash flow is positive.

The regression results of the model (5) also confirm the hypothesized results between capital expenditures and firm cash flow. The capital expenditures are also seen as a proxy of firm growth; therefore, this relation indicates that the growing firm prefers to maintain a larger cash flow. The negative relationship between size and cash flow is also providing support to this the large or established firm rely on external financing as they are in better-negotiating power with investor and can easily raise funds. Whereas the growing funds are relying heavily on cash flows. The regression results of equation (6) provide support to the hypothesized results between dividend and free cash flow by declaring a positive and significant relationship between dividend payout and free cash flow. Interestingly the nature of the relationship of size in this equation is turned to positive which indicates that the large firms which are paying dividends are maintaining high cash flows. In nutshell, the results discussed in table three has provided support to the hypothesized results, prior findings and theoretical justifications.

The results of interaction term EBIT*DPO is positive and significant which indicates that the dividend payout has a significant moderating effect in the relationship between earnings before interest and tax and cash flow. Similarly, the results of the interaction term FFO*DPO also significant and positive. Whereas the results of interaction term CAPEX*DPO and cash flow is negative and significant, which indicates that the firm investing heavily do not consider dividend as a reason for large cash flow. The study is among few pioneering studies carried out to achieve the unique objective of testing the moderating role of dividend payout the relationship between earnings before interest and tax, cash flow from operations, capital expenditures, and free cash flow. The study is carried out on the non-financial firms listed in Iraq Stock Exchange. However, it is recommended to carry out a study, on a larger sample of more than one country. It is also suggested to carry out a competitive study of different sectors

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