

Financial Restatements and Dividend Policy: Compensation and Signaling in the Brazilian Capital Market

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Abstract

Objective: This study examines whether companies that issue financial restatements compensate their shareholders with higher dividends in the years following a restatement.

Method: Data from 275 companies listed on the Brasil, Bolsa, Balcão (B3) from 2010 to 2020 were analyzed using descriptive statistics, mean difference tests, and panel data regression analysis.

Results and Contributions: The findings indicate that, unlike companies that do not issue restatements, those that do compensate their shareholders with higher dividends. Moreover, dividends in the subsequent year tend to be even higher, reinforcing the hypothesis that dividends serve as a signaling mechanism to reduce information asymmetry and compensate shareholders. These results provide insights for researchers, managers, accountants, auditors, regulators, and other stakeholders interested in the implications of restatements for the dividend policies of publicly traded companies.

Gap: While previous research suggests that companies with lower-quality financial information typically pay lower dividends, an alternative explanation is that these companies attempt to signal financial stability by compensating shareholders with higher dividends. This study fills in this gap by presenting evidence in the Brazilian capital market.

Relevance: This study is relevant because it shows that companies with lower earnings quality, as indicated by financial restatements, tend to compensate investors in subsequent periods through higher dividends.

Impact: Unlike previous research, this study shows that companies with lower earnings quality, with restatement as a proxy, may use dividend policy as a strategy to appease investors. Therefore, this study contributes to the risk assessment processes of auditors, investors, governance and audit committee members, and regulators.

Keywords: Financial Restatements; Dividend Policy; Signaling Theory.

1 Introduction

Regulatory bodies have made efforts in recent years to enhance the governance environment and improve the quality of financial information (Brugni, Bortolon, Almeida & Paris, 2013). This regulatory and institutional progress, coupled with economic conditions and greater capital market integration, has increased transaction volume (Dias, Silva & Dionísio, 2019). On one hand, this growth reflects the interest of international investors seeking higher returns in the Brazilian market. On the other hand, domestic non-institutional investors, discouraged by the declining appeal of fixed-income investments, have turned to the capital market to capitalize on share appreciation or dividend payments (Zagonel, Terra & Pasuch, 2018).

In this context, disclosed financial information plays a crucial role. First, it allows investors and other stakeholders to monitor companies' performance (Bardos & Mishra, 2014). Second, analysts and other market participants rely on this information to estimate a company's value, profit potential, and future dividends (Farooq, Shehata, & Nathan, 2018). Therefore, the quality of financial information is essential for accurately assessing performance and projecting a company's profitability and dividend-generating potential (He, Ng, Zaiats, & Zhang, 2017).

However, financial statements do not always meet the expected standards and sometimes require restatement (Marques, Barcelos, Patrício, Correia & Fernandes, 2016). A restatement involves correcting a material error or fraud and is commonly regarded as an indicator of low financial reporting quality and information asymmetry (Dechow, Ge & Schrand, 2010).

When a company restates its financial information, it may signal an intention to enhance transparency and mitigate adverse effects on various stakeholders (Marques et al., 2016). However, restatements can also indicate an attempt to manipulate prior information and mislead users into making inappropriate decisions (Ramalingegowda, Wang & Yu, 2013).

From this perspective, it is important to emphasize that users rely on financial information to assess a company's performance and estimate its future earnings potential. Consequently, using manipulated information increases the risk of making unfavorable decisions and/or mispricing investment opportunities (Koo, Ramalingegowda & Yu, 2017; Lin, Chen & Tsai, 2017).

The literature on financial restatements aims to understand their empirical implications. For example, Bardos and Mishra (2014) examined whether restatements lead to a higher risk of litigation and increased cost of capital, while Qasem, Aripin, and Wan-Hussin (2020) explored the relationship between restatements and analysts' recommendations. Overall, the literature suggests that lower-quality financial information can reduce the informativeness of earnings, alter company performance indicators, diminish shareholder value, and impact risk proxies (Dechow et al., 2010).

This study aims to analyze the relationship between financial restatements and dividend distribution in the current period and determine whether companies that restated their statements compensated investors with higher dividends in the subsequent period. According to Koo et al. (2017), Nguyen and Bui (2019), and Pathak and Ranajee (2020), higher-quality financial information is associated with higher dividend payments. Dechow et al. (2010) consider restatements a proxy for low-quality financial information; in this context, dividend distributions tend to be lower (Farooq et al., 2018). However, Koo et al., (2017) emphasize that because restatements correct previous errors or fraud, managers may use dividend policy as a compensatory mechanism to reduce asymmetries and mitigate the adverse effects of uncertainties stemming from prior restatements.

Given this context, this study seeks to answer the following question: **How do financial restatements affect the dividend policy of Brazilian companies listed on the Brasil, Bolsa, Balcão (B3)?** The objective is to determine whether companies that restated their financial statements compensated shareholders with higher dividends in the years following a restatement. To this end, data from 275 companies listed on B3 from 2010 to 2020 were analyzed. The study employs descriptive statistics, mean difference tests, and panel data regression analysis.

The relationship between restatements and dividend policy has been widely explored in the international literature (Bhuiyan & Ahmad, 2022; Harakeh, Matar & Sayour, 2020; Koo et al., 2017; Lin et al., 2017; Nguyen & Bui, 2019; Pathak & Ranajee, 2020). However, these associations require further investigation in the Brazilian literature, as prior studies have primarily focused on understanding the determinants of restatements (Huang & Nardi, 2020; Marques, Amaral, Souza, Santos & Belo, 2017), the relationship between restatements and earnings management (DeLuca, Viana, Sousa, Cavalcante & Cardoso, 2020; Murcia & Carvalho, 2007), and the impact of restatements on stock prices (Netto & Pereira, 2010).

In this context, this study contributes by analyzing data from Brazil, which has experienced a growing investor base and presents distinct institutional characteristics. By addressing this gap, this study provides evidence that companies issuing restatements tend to adjust their dividend policies in subsequent periods. These findings have important implications for risk assessments conducted by investors, analysts, and other stakeholders. From a practical standpoint, the evidence presented can assist auditors, analysts, and members of governance and risk committees in developing strategies to reduce and/or mitigate the occurrence of restatements, even when voluntary, since they introduce uncertainty and the risk of shareholder expropriation.

2 Literature Review

2.1 Relevance and quality of accounting information: the issue of financial restatements

The purpose of financial information disclosure is to reduce information asymmetry between managers and stakeholders, enabling timely and well-informed decisions (Dantas, Chaves, Silva & Carvalho, 2011). However, financial statements may sometimes contain inaccuracies or distortions, requiring restatements to correct errors and update past financial data (Zhang, 2012). Wu, Gao, Chen, and Li (2016) point out that restatements can weaken trust in a company's financial disclosures, raising concerns about credibility.

Therefore, restatements may signal low-quality financial reporting (Ramalingegowda et al., 2013) and poor company performance (Salehi, Farhangdoust & Vahidnia, 2017). This can trigger adverse market reactions, as adjusted earnings may affect the company's valuation (Dechow et al., 2010, p. 375).

According to Papík and Papíková (2019), measurement and recognition errors related to revenues, administrative expenses, and current items in the balance sheet are associated with restatements. Such errors can impact a company's financial results and, consequently, affect the profits available for distribution (Eng, Rao & Saudagaran, 2012).

In this context, restatements—particularly those involving fraud—can have even more severe consequences (Herly, Bartholdy & Thinggaard, 2020). For instance, Wu et al. (2016) found that restatements can damage a company's reputation, mainly from deliberate distortions to conceal the risk of bankruptcy or adverse economic conditions. Similarly, Qasem et al. (2020) observed that restatements are associated with lower accuracy in analysts' estimates.

The literature suggests that restatements are associated with companies exhibiting lower performance (Papík & Papíková, 2019), more volatile financial results (Wu et al., 2016), and reduced predictability of potential gains (He et al., 2017). Consequently, restatements are often linked to a heightened perception of risk (Amel-Zadeh & Zhang, 2015) and a loss of market value (Ali, Besar & Matuki, 2018). Therefore, low earnings quality can significantly impact a company's dividend policy.

2.2 Determinants of dividend policy and effect of restatements

According to Lin et al. (2017, p. 2), dividend policy is one of the most critical decisions made by companies, as it reflects their ability to generate returns for shareholders. Various financial theories, including Agency Cost Theory, Pecking Order Theory, Bird-in-the-Hand Theory, and Signaling Theory, have been used to explain the factors influencing corporate dividend policies (Martins & Famá, 2012). In summary, companies tend to distribute higher dividends in environments characterized by uncertainty and information asymmetry.

This perspective is supported by previous evidence. For instance, Harakeh et al. (2020) found that higher levels of information asymmetry in the years following the enactment of the Sarbanes-Oxley Act led to increased dividend payments. The authors suggest that this policy aims to reduce information asymmetry and fulfill shareholder expectations regarding profit realization, aligning with Agency Cost Theory (Farooq et al., 2018) and Bird-in-the-Hand Theory (Dewasiri et al., 2019). The latter posits that investors prefer receiving dividends overbearing the risks associated with future capital gains (Lintner, 1956; Gordon, 1959).

From the perspective of Signaling Theory, higher dividend distributions signal to shareholders that the company is in a strong financial position; however, they may also suggest a lack of attractive internal investment opportunities (Nguyen & Bui, 2019). From the viewpoint of Pecking Order Theory (Myers & Majluf, 1984), firms prioritize using internally generated cash flow for investment decisions, meaning that dividend payments tend to be lower when promising investment projects are available. Additionally, companies with access to low-cost credit lines may prefer to raise external funds to finance new projects while allocating profits to shareholders through dividends.

Thus, dividend-paying companies tend to exhibit lower asymmetries, greater credibility, and more reliable financial information. In environments characterized by information asymmetry, dividend payments become even more valued by shareholders as they signal credibility in earnings reporting (Farooq et al., 2018). In this context, numerous studies have sought to identify the factors influencing corporate dividend policy, particularly in settings where information asymmetry is prevalent.

Rodrigues Sobrinho, Rodrigues, and Sarlo Neto (2014) and Pathak and Ranajee (2020), using discretionary accruals, and Deng, Li, and Liao (2017), using earnings persistence as proxies for earnings quality, found that companies disclosing higher-quality financial information tend to pay more dividends to shareholders. In contrast, firms with lower-quality financial information typically distribute fewer dividends due to higher funding costs and limited access to credit lines. As a result, these companies are pressured to allocate available cash flow toward financing their operations and investment opportunities, reducing the free cash flow available for dividend distribution (Harakeh et al., 2020; Koo et al., 2017; Lin et al., 2017). Based on this discussion, this study aims to examine the following hypothesis (H_1):

H_1 : Financial restatements are associated with lower dividend distribution in the current period.

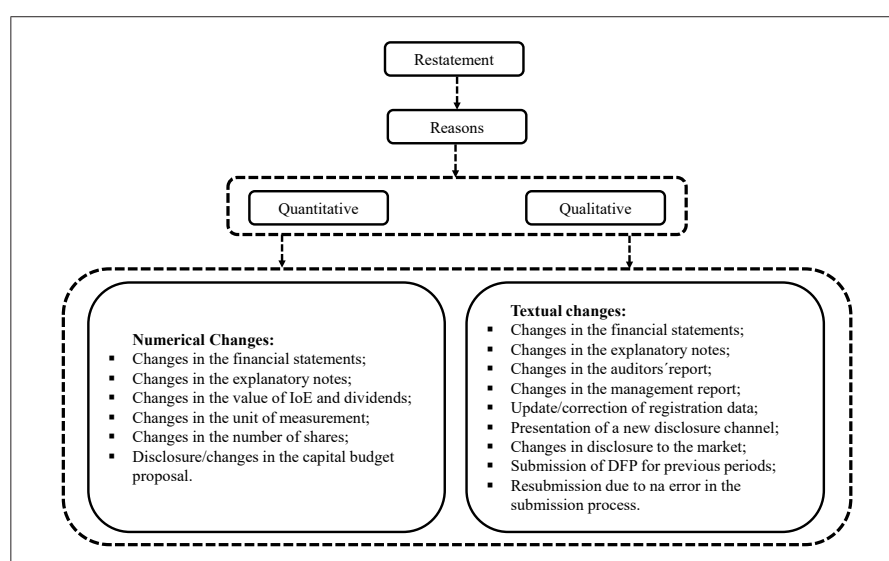
The literature highlights that restatements serve as a proxy for low-quality financial information (Dechow et al., 2010). In this context, dividend distributions tend to be lower (Farooq et al., 2018). However, because restatements correct prior errors or fraud, managers may use dividend policy as a compensatory mechanism to reduce asymmetries and mitigate the adverse effects of uncertainties caused by restatements (Koo et al., 2017). Additionally, research suggests that companies that distribute higher dividends tend to have less discretion in accruals and signal a stronger financial position to the market (Deng et al., 2017; He et al., 2017; Pathak & Ranajee, 2020; Nguyen & Bui, 2019). Therefore, to examine whether restatements influence subsequent dividend distributions, the following hypothesis was formulated:

H₁: Financial restatements are associated with higher dividend distribution in the subsequent period.

3 Methodological Procedures

3.1 Sample, data collection and treatment

The initial sample consisted of 481 companies listed on Brasil, Bolsa, Balcão (B3), totaling 5,928 observations from 2010—the year Brazil adopted International Financial Reporting Standards (IFRS)—to 2020. Following the methodology of Rodrigues Sobrinho, Rodrigues, and Sarlo Neto (2014), Deng, Li, and Liao (2017), and Pathak and Ranajee (2020), companies in the financial sector were excluded due to their distinct financial structures (Manneh & Naser, 2015; Martinez, 2002). Additionally, Herly et al. (2020) noted that the quality of accruals and earnings in this sector cannot be measured or compared with non-financial companies. After these exclusions, the sample was reduced to 327 companies, totaling 3,486 observations. Further analysis and classification of restatements resulted in 2,331 observations from 275 companies where restatements were attributed to quantitative reasons. Data on restatements were obtained from the Reference Form available on the CVM website. Each restatement was classified, according to Marques et al. (2017), into three categories: quantitative, qualitative, or both qualitative and quantitative. This study focuses exclusively on restatements involving quantitative (numerical) adjustments to financial statements, as these have the potential to impact distributable profits and dividends (Ramalingegowda et al., 2013). Figure 1 presents the classification of restatement reasons into qualitative and quantitative categories.



Source: Adapted from Marques et al. (2016).

Figure 1. Classification of restatements as quantitative and/or qualitative.

As outlined in Technical Pronouncement CPC 23 – IAS 8 (2009), financial statements may also be restated due to changes in accounting policy, resulting in widespread quantitative adjustments. However, such cases were not considered in this study, as the financial statements are entirely replaced by new versions, making comparisons with previously disclosed statements unfeasible.

Accounting data were collected from the Comdinheiro website, with the Perlin (2020) data repository used as a supplementary source to reduce missing data. Data were normalized using the z-score method to address outliers, and observations with values below -3 or above +3 standard deviations were excluded. Subsequently, the data were winsorized at the 1st and 99th percentiles. The econometric procedures followed the methodologies proposed by Baltagi (2021) and Wooldridge (2018) and included (1) model estimation using Ordinary Least Squares (OLS); (2) Chow, Breusch-Pagan, and Hausman tests to determine the most appropriate panel data model; (3) assessment of multicollinearity, heteroscedasticity, and serial correlation in the residuals; and (4) comparison of models estimated using Generalized Least Squares (GLS) and robust standard errors clustered at the firm level. All analyses were conducted using R software.

It is important to note that OLS regressions may violate econometric assumptions, potentially compromising data inference (Schiozer, Mourad & Martins, 2021). Therefore, to obtain more robust results, the GLS regression model was applied to mitigate issues related to heteroscedasticity and serial correlation (Baltagi, 2021; Gujarati & Porter, 2009). Additionally, to address endogeneity concerns, the Generalized Method of Moments (GMM) was employed, as it enables the estimation of coefficients with greater robustness, even in the presence of endogeneity, by using the lagged dependent variable as a control (Forti et al., 2015).

3.2 Models and variables

Model (1) was used to analyze hypothesis 1 (), which posits a negative and contemporaneous association between financial restatements and dividend distribution. Thus, the dependent variable in the model is represented by the dividend distribution index (). The payout index indicates the percentage of earnings distributed to shareholders as remuneration, i.e., the proportion of profits distributed to investors. The number is obtained by summing dividends and interest on equity (IoE) divided by the company's net income (Dewasiri et al., 2019; Manneh & Naser, 2015; Patra, Poshakwale & Ow-Yong, 2012; Rosa, Araújo & Rogers, 2021).

The independent variable was a financial statement restatement dummy, as defined by Marques et al. (2016). A value of 1 was assigned if the company issued a restatement for quantitative reasons and 0 otherwise.

$$Payout_{it} = \beta_0 + \mathbf{D_1 Reapr}_{it} + \beta_k \sum_{k=1}^{14} \text{Controles}_{it} + \varepsilon_{it} \quad (1)$$

Model (2) was used to analyze hypothesis 2 (H_2), which assesses the positive relationship between restatement and subsequent dividends ($Payout_{it+1}$).

$$Payout_{it+1} = \beta_0 + \mathbf{D_1 Reapr}_{it} + \beta_k \sum_{k=1}^{14} \text{Controles}_{it} + \varepsilon_{it} \quad (2)$$

An inverse relationship is expected in Model 1 between restatements and shareholder remuneration, as high information asymmetry tends to reduce dividend payments (Harakeh et al., 2020; Koo et al., 2017; Lin et al., 2017; Ramalingegowda et al., 2013). In contrast, Model 2 anticipates a positive relationship based on the alternative explanation that firms issuing restatements may use subsequent dividends to compensate shareholders, mitigate uncertainty, and minimize reputational damage (Deng et al., 2017; He et al., 2017; Nguyen & Bui, 2019; Pathak & Ranajee, 2020).

3.2.1 Operationalization of the models' control variables

Control variables selected from studies analyzing the implications of restatements on dividend policy and other accounting and market variables were used to control incentives and constraints on the dependent variables (Dechow et al., 2010; Herly et al., 2020; Marques et al., 2017; Soares, Motoki & Monte-Mor, 2018; Zhang, 2012). Table 1 summarizes the operationalization, the expected signs for each control variable, and the background work.

Table 1

Operationalization of control variables

Acronym	Description	Operationalization	E.S.	Studies
$Alav_{it}$	Leverage	PO_{it}/PL_{it}	(-)	Forti et al. (2015); Harakeh et al. (2020); Koo et al. (2017); Neves, Cunha & Vilas (2020); Reyna (2017)
$Beta_{it}$	Company's risk	$Cov(r_i, r_m) / Var(r_m)$	(-)	Dewasiri et al. (2017); Forti et al. (2015); Harakeh et al. (2020); Koo et al. (2017); Lin et al. (2017); Manneh & Naser (2015); Pathak & Ranajee (2020); Patra et al. (2012)
$Big4_{it}$	Big4	Non-binary dummy is assigned 1 if the company is audited by DTT, 2 by EY, 3 by KPMG, 4 by PwC and 0 otherwise.	(+)	Klann & Brizolla (2016)
$Control_{it}$	Majority Control	Binary Dummy is assigned 1 if the company has majority control and 0 otherwise.	(+)	Forti et al. (2015); Koo et al. (2017); Manneh & Naser (2015)
$DualCEO_{it}$	CEO duality	Binary dummy is assigned 1 if the CEO is also the Chairman of the Board of directors and 0 otherwise	(+)	Forti et al. (2015)
$InvInst_{it}$	Institutional Investors	Binary dummy is assigned 1 if the company is controlled by institutional investors, and 0 otherwise	(+)	Reyna (2017)
$LiqCor_{it}$	Current Liquidity	AC_{it}/PC_{it}	(+)	Boțoc & Pirtea (2014); Dewasiri et al. (2017); Forti et al. (2015); Harakeh et al. (2020); Koo et al. (2017); Patra et al. (2012)
P/B_{it}	Price-to-book (growth opportunity)	$VmPL_{it}/VcPL_{it}$	(-)	Dewasiri et al. (2017); Forti et al. (2015); Lin et al. (2017); Pathak & Ranajee (2020)
$PrejAcum_{it-1}$	Accumulated loss	Binary dummy is assigned 1 if the company presented accumulated losses in the previous period and 0 otherwise.	(-)	Harakeh et al. (2020)
$QRCA_{it}$	Board of Directors Meetings	Number of meetings of the Board of Directors.	(+)	Dewasiri et al. (2017)
$Segm_{it}$	Corporate Governance Segment	Non-binary dummy is assigned 1 if the company is Level 1 (N1), 2 if Level 2 (N2), 3 if New Market (NM), and 0 otherwise.	(+/-)	Dewasiri et al. (2017); Forti et al. (2015)
$Tag100_{it}$	Tag Along of 100% of common shares	Binary dummy is assigned 1 if the company has Tag Along of 100% of its common shares, and 0 otherwise.	(-)	Forti et al. (2015)
Tam_{it}	Size	$Ln(AT_{it})$	(+)	Dewasiri et al. (2017); Forti et al. (2015); Harakeh et al. (2020); Koo et al. (2017); Manneh & Naser (2015); Pathak & Ranajee (2020); Reyna (2017).

Acronym	Description	Operationalization	E.S.	Studies
σROE_{it}	ROE Volatility	Quarterly coefficient of variation of ROE	(-)	Bořoc & Pirtea (2014); Campos et al. (2020); Dewasiri et al. (2019); Patra et al. (2012)
$Yields_{it}$	Dividend Yield	$Yields_{it}$ calculated by the ratio between the value of remuneration paid to shareholders and the share price.	(+)	Bořoc & Pirtea (2014); Dewasiri et al. (2017); Koo et al. (2017); Neves et al. (2020)

Note: E.S. – Expected Sign; $\ln(AT_{it})$ – Natural Logarithm of Total Assets; PL_{it} – Net Equity; $VcPL_{it}$ – Book Value of Net Equity; $VmPL_{it}$ – Market Value of Equity; AC_{it} – Current Assets; PC_{it} – Current Liabilities; PT_{it} – Third-party Capital; $Cov(r_i, r_m)$ – Covariance (market returns; asset returns); $Var(r_m)$ – Variance (market return); $Yields_{it}$ – Dividend yield paid in the previous period; $Yields_{it-1}$ – Dividend yield paid in the previous period; **DTT**: companies audited by Deloitte; **EY**: companies audited by Ernst Young; **KPMG**: companies audited by KPMG; **PWC**: companies audited by Price Water House Coopers; **Tag100_{it}**: minority shareholders are guaranteed the resale of their ordinary shares at market value to majority shareholders in the event of a change in control.

Source: developed by the authors.

4 Data Analysis and Results

4.1 Descriptive statistics and differences between groups

Table 2 presents the descriptive statistics of the quantitative variables and the mean difference test, comparing two groups: firms that issued financial restatements (424 observations) and those that did not (1,907 observations). The dataset includes 2,331 observations related to restatements for quantitative reasons, covering 275 companies.

The results in Table 2 indicate that, on average, companies that restated their financial statements exhibit slightly higher payout values ($Payout_{it+1}$) compared to those that did not. However, this difference is not statistically significant at the 5% level ($p = 0.073$) but is marginally significant at the 10% level. This finding provides partial evidence in support of Hypothesis 2 (H_2), which posits that financial restatements are associated with greater dividend distribution in the subsequent period.

Table 2

Descriptive statistics of quantitative variables and test of difference between means

Quantitative variables	No Restatement n = 1907					Restatement n = 424					t-test	
	μ	σ	Mean	Mín	Máx	μ	σ	Mean	Mín	Máx	Dif	σ -valor
$Payout_{it+1}$	28,148	59,252	7,051	-224,212	435,012	35,713	78,692	13,798	-224,212	435,012	-7,565	0,073
$Payout_{it}$	29,365	59,939	8,695	-224,212	435,012	29,562	66,213	12,098	-224,212	435,012	-0,197	0,955
$Payout_{it-1}$	29,028	61,501	9,755	-224,212	435,012	31,509	62,762	14,195	-224,212	435,012	-2,481	0,490
$Yields_{it+1}$	2,391	3,474	0,890	0,000	20,762	2,706	3,923	1,267	0,000	20,762	-0,315	0,143
$Yields_{it}$	2,390	3,502	0,880	0,000	20,762	2,407	3,547	1,013	0,000	20,762	-0,017	0,926
$Yields_{it-1}$	2,444	3,545	1,015	0,000	20,762	2,654	3,708	1,064	0,000	18,918	-0,210	0,323
$Alav_{it}$	1,618	6,109	1,126	-24,844	47,652	1,869	4,454	1,348	-23,789	31,569	-0,251	0,330
$Beta_{it}$	0,485	0,437	0,434	-0,425	1,877	0,493	0,413	0,475	-0,300	1,877	-0,008	0,745
$LiqCor_{it}$	1,916	2,349	1,404	0,010	21,410	1,785	2,115	1,406	0,010	21,410	0,131	0,256
P/B_{it}	6,782	55,696	1,140	-20,015	712,141	7,537	59,525	1,343	-20,015	712,141	-0,755	0,812
$QRCA_{it}$	10,913	10,524	10,000	0,000	200,000	9,271	11,983	6,000	1,000	189,000	1,642*	0,017
Tam_{it}	21,337	2,009	21,426	15,585	26,568	21,586	2,020	21,804	15,585	26,568	-0,249*	0,022
σROE_{it}	49,000	45,457	30,845	1,617	178,899	48,312	44,458	31,139	1,617	178,899	0,688	0,801

Note: μ : Means of variables by group; σ : Standard Deviation of variables by group; **Med**: Median of variables by group; **Min**: Minimum value of variables by group; **Max**: Maximum value of variables by group; **Dif**: Difference between the means of the Restatement and No Restatement groups; $Payout_{it+1}$: Dividend payout of the firm in the subsequent year; $Payout_{it}$: Dividend payout of firm/year; $Payout_{it-1}$: Dividend payout of firm in the previous year; $Yields_{it+1}$: Dividend yield of firm in the subsequent year; $Yields_{it}$: Dividend yield of firm/year; $Yields_{it-1}$: Dividend Yield of firm in the previous year; $Alav_{it}$: Firm leverage/year; $Beta_{it}$: Firm Beta Risk/Year; $LiqCor_{it}$: Liquidez Corrente da firma/ano; P/B_{it} : Firm's Price-to-Book/year; $QRCA_{it}$: Total number of meetings of the firm's Board of Directors/year; Tam_{it} : firm's size /year; σROE_{it} : Volatility of Return on Equity of the firm/year; *** Level of significance at 0.1%, ** Level of significance at 1%, * Level of significance at 5%, Level of significance at 10%.

Source: Study's data.

It is important to emphasize that the mean difference test between companies that issued restatements and those that did not provide preliminary evidence of an effect associated with the variable of interest. However, this analysis does not establish a causal relationship. Confirmation of the hypothesis will be further examined in the regression tables in subsequent sections.

Thus, the initial result from the mean difference test of the payout variable ($Payout_{it+1}$) contrasts with the findings of Marques et al. (2017) and Wu et al. (2016), which suggest that firms issuing restatements tend to exhibit weaker performance indicators (e.g., profits, ROA, ROE). However, it aligns with the studies of Lin et al. (2017) and Harakeh et al. (2020), which argue that higher dividends among firms that issued restatements may reflect an effort to signal financial stability, reduce information asymmetry, and mitigate potential reputational and valuation losses. Additionally, Koo et al. (2017) and Bhuiyan and Ahmad (2022) highlight that increased dividend distribution serves as a strategy to address information asymmetry and restore investor confidence.

The dividend variables for the current and previous periods, measured by $Payout_{it}$ and $Payout_{it-1}$, do not exhibit significant differences between the groups, with p-values of 0.955 and 0.490, respectively. Additionally, companies that did not issue restatements had an average dividend yield in the current period ($Yields_{it}$) of 2.390 ($\sigma = 3.502$), while those that did ($Reapr_{it}$) obtained 2.407 ($\sigma = 3.547$). The difference of -0.017 is not statistically significant ($p = 0.926$), suggesting that firms that issued restatements may have offered slightly higher dividends. In the subsequent period, non-restating firms had an average yield of 2.391 ($\sigma = 3,474$), while restating firms had 2.706 ($\sigma = 3.923$). The difference of -0.315 is also not significant ($p = 0.143$), yet it aligns with the literature suggesting that firms issuing restatements may increase dividends as a signal of financial stability (Deng et al., 2017; He et al., 2017; Pathak and Ranajee, 2020; Nguyen & Bui, 2019).

Regarding the control variables, companies that issued restatements had significantly higher mean values (21.586) for firm size ($\ln$) than those that did not (21.337). The difference of -0.249 was statistically significant ($p = 0.022$), consistent with the literature indicating that larger companies are more likely to issue restatements (Cunha, Fernandes, & Dal Magro, 2017; DeLuca et al., 2020; Huang & Nardi, 2020; Marques et al., 2016; Marques et al., 2017; Soares et al., 2018). Conversely, board meetings ($\ln$) were more frequent in companies that did not issue restatements (mean = 10.913) than in those that did (mean = 9.271), with a difference of 1.642 and a p-value of 0.017. This finding suggests that companies with more frequent board meetings tend to have stronger governance practices, which may contribute to a lower likelihood of financial restatements (Dewasiri et al., 2019; Kryzanowski & Zhang, 2013; Marques et al., 2017).

4.2 The effect of restatements on current and subsequent dividends

Subsequently, to obtain more robust evidence regarding the research hypotheses (H_1) and (H_2), the results of models (1) and (2) were analyzed (Table 3). The panel data models (fixed effects) were statistically significant, indicating that at least one coefficient was statistically significant, with a R^2 of 26.5% and 31.8%. Although the coefficient of determination is not particularly high, this level of explanatory power is consistent with findings in the reviewed literature.

Table 3
Regression models analyzing hypotheses H_1 and H_2

	E.S.	Payout _{it} (1)		Payout _{it+1} (2)	
<i>Reapr_{it}</i>	(-/+)	9,344***	(2,090)	14,584***	(2,832)
<i>Yields_{it-1}</i>	(+)	7,517***	(0,281)		
<i>Yields_{it}</i>	(+)			6,569***	(0,378)
<i>σROE_{it}</i>	(-)	-0,033	(0,021)	-0,002	(0,027)
<i>Tam_{it}</i>	(+)	1,634	(1,924)	-3,447	(2,138)
<i>LiqCor_{it}</i>	(+)	0,006	(0,532)	0,931	(0,741)
<i>Alav_{it}</i>	(-)	-1,124***	(0,250)	-0,527	(0,334)
<i>P/B_{it}</i>	(-)	-1,068***	(0,163)	-1,147.	(0,605)
<i>Beta_{it}</i>	(-)	3,962	(2,756)	-3,727	(3,655)
<i>Tag100_{it}</i>	(-)	-2,629	(2,683)	0,430	(4,057)
<i>Control_{it}</i>	(+)	27,069***	(2,789)	17,012***	(3,199)
<i>QRCA_{it}</i>	(+)	0,283*	(0,110)	0,065	(0,106)
<i>PrejAcum_{it-1}</i>	(-)	-7,254***	(1,760)	-3,403	(2,558)
<i>DualCEO_{it}</i>	(+)	-3,847	(2,618)	-9,576**	(3,159)
<i>InvInst_{it}</i>	(+)	-5,483**	(1,823)	4,820.	(2,666)
<i>DTT_{it}</i>	(+)	-1,122	(2,342)	-5,007	(3,224)
<i>EY_{it}</i>	(+)	13,758***	(2,106)	-3,508	(2,977)
<i>KPMG_{it}</i>	(+)	-12,802***	(1,745)	-8,731***	(2,478)
<i>PwC_{it}</i>	(+)	7,133***	(1,491)	2,050	(2,319)

E.S.	Payout _{it} (1)	Payout _{it+1} (2)
Observations	1.235	1.177
R ²	0,265	0,318
Total sum squared	4.188.100	3.916.800
Sum of squared residuals	3.077.400	2.670.000
F-statistic	3,709**	2,503**
Panel type	Fixo	Fixo
Pooled x EF (Chow)	1,382**	1,517***
EF x EA (Hausman)	42,151*	49,918**
Heteroscedasticity (BP)	118,660***	109,000***
Autocorrelation (BG/Wooldridge)	40,713***	60,234***
Sector Control	Sim	Sim
Year Control	Sim	Sim

Note: *** Significant at 0.1%, ** Significant at 1%, * Significant at 5%, . Significant at 10%.

Source: Study's data

Companies that issued restatements tended to distribute higher current dividends ($Payout_{it}$) than those that did not. Moreover, dividend distribution ($Payout_{it+1}$) increased even further in the year following the restatement, as indicated by the comparison between models (1) and (2) ($9.344^{***} < 14.584^{***}$). This result does not support Hypothesis H_1 but does confirm H_2 . The prevailing literature suggests that firms with lower earnings quality tend to pay lower dividends (Forti et al., 2015; Deng et al., 2017; Pathak & Ranajee, 2020). However, Bhuiyan and Ahmad (2022) found that companies that issued restatements increased their dividend distribution to mitigate the informational asymmetry caused by financial restatements and restore investor confidence. This finding aligns with Signaling Theory, which views dividends as mechanisms for reducing asymmetry (Dewasiri et al., 2019).

Although Koo et al. (2017) identified a negative relationship between information asymmetry (e.g., financial restatements) and dividend distribution, they also hypothesized the possibility of a positive relationship between information asymmetry and shareholder remuneration. This aligns with the perspective that companies facing information asymmetry issues may seek to compensate by increasing dividend payouts, as dividend policy helps restore investor confidence and the company's reputation. This rationale reinforces the findings of the model (2) and, consequently, supports Hypothesis H_2 .

A positive and statistically significant relationship was found at 0.1% in models (1) and (2) regarding the association between payout and lagged yields. This finding indicates that companies that distribute dividends in previous periods tend to continue distributing them in subsequent years, in line with Boțoc and Pirtea (2014), Dewasiri et al. (2019), Koo et al. (2017), and Neves, Cunha and Vilas (2020).

Regarding the financial leverage variable ($Alav$), a significant inverse relationship at the 0.1% level was found between current payout in the model (1) and the company's level of indebtedness. This suggests that firms with higher financial leverage tend to distribute fewer dividends, aligning with the findings of Dewasiri et al. (2019), Forti et al. (2015), Koo et al. (2017), and Manneh and Naser (2015). Similarly, a negative and significant relationship at the 0.1% and 10% levels was found between both current and subsequent payout, according to models (1) and (2), respectively, and the price-to-book (P/B) ratio, which is considered a proxy for growth opportunities. This indicates that companies with more significant growth potential tend to distribute lower payouts, consistent with the findings of Boțoc and Pirtea (2014), Deangelo, Deangelo and Stulz (2006), Dewasiri et al. (2019), Harakeh et al. (2020), Koo et al. (2017), Lin et al. (2017), Manneh and Naser (2015), Patra et al. (2012) and Reyna (2017).

The majority control variable (Control) was positive and statistically significant at the 0.1% level in both models, indicating that the power of majority shareholders influences dividend policy, consistent with the findings of Forti et al. (2015) and Manneh and Naser (2015). Regarding CEO duality, the expected positive relationship was not observed, as reported by Forti et al. (2015). Instead, its association with the subsequent year's payout was significant and inversely proportional in model (2). Forti et al. (2015) suggested that CEO duality (DualCEO) reflects weaknesses in corporate governance (CG) structures, leading to increased dividend distribution as a compensatory mechanism. However, corporate governance also has a direct relationship with dividend distribution, aligning with the findings of Dewasiri et al. (2019).

A direct and significant relationship ($p < 0.05$) was also observed between the number of Board of Directors meetings (QRCA) and the current year's payout (model 1). According to Dewasiri et al. (2019), QRCA is a proxy for corporate governance since the number of meetings might indicate better dialogue and transparency between managers and shareholders, resulting in higher dividend distribution.

Similarly, companies audited by BIG4 firms tend to have stronger corporate governance (CG) structures (Ge & McVay, 2005). Accordingly, a positive and significant relationship ($p < 0.001$) was found between current payout and audits conducted by EY and PwC, consistent with Klann and Brizolla (2016), who found that companies audited by BIG4 firms are more likely to distribute higher dividends. In contrast, a negative and significant relationship ($p < 0.001$) was identified for companies audited by KPMG concerning current and subsequent payout.

Regarding the relationship between dividends and the accumulated loss dummy from the previous period (PrejAcum), an inverse relationship was observed ($p < 0.001$). This finding suggests that loss-making companies tend to distribute fewer dividends in the current and subsequent years, aligning with the findings of Harakeh et al. (2020).

Finally, institutional investors (InvInst) have greater monitoring power over managers, which generally leads to higher dividend distribution (Reyna, 2017). The results partially support this perspective, as a positive relationship was observed between the institutional investors dummy and the following year's payout (model 2), while a negative relationship was found with the current payout (model 1).

Regarding the other variables, the analysis showed that current liquidity (LiqCor), while not statistically significant in any of the models, displayed a positive sign in both current and subsequent payouts, suggesting that cash availability may directly influence dividend distribution. Conversely, ROE volatility exhibited a negative relationship with payout in both models (1 and 2), indicating that financial performance risk may heighten uncertainties about profit distribution (Kryzanowski & Zhang, 2013; Qasem et al., 2020; Wu et al., 2016). The variables company size, Beta risk, and Tag Along rights of 100% for common shares did not show statistical significance in any of the models analyzed. Additionally, they exhibited inconsistent signs between models (1) and (2), preventing the identification of a conclusive relationship.

4.3 Additional Analyses

4.3.1 The moderating effect of financial restatements

A regression analysis incorporating a moderating effect was conducted as a complementary analysis of the study's hypotheses. This approach allows for examining the indirect effect of restatements on the determinants of Payout. Table 4 presents the moderating effect of restatements when interacting with other explanatory variables. First, panel data models were estimated, followed by the Hausman test, which indicated a fixed-effects model for all cases—except for the current payout (model 3), where the random-effects model was deemed more appropriate. The Breusch-Pagan and Breusch-Godfrey/Wooldridge tests, which assess heteroscedasticity and serial autocorrelation, were significant. Consequently, the moderation model was estimated using a fixed-effects approach with robust standard errors to address these issues (Baltagi, 2021; Gujarati & Porter, 2009).

Table 4

Regression with moderating effect of restatements

	Payout _{it}		Payout _{it+1}	
<i>Reapr_{it}</i>	-1,677	(0,859)	1,106	(1,277)
<i>Yields_{it-1}</i>	0,261***	(0,008)	0,128***	(0,011)
<i>Reaprit * Yields_{it-1}</i>	0,105***	(0,019)	-0,127***	(0,032)
<i>σROE_{it}</i>	0,001	(0,001)	-0,007***	(0,001)
<i>Tam_{it}</i>	0,304***	(0,06)	0,034	(0,078)
<i>LiqCor_{it}</i>	0,1***	(0,017)	-0,012	(0,026)
<i>Alav_{it}</i>	-0,013*	(0,005)	-0,027***	(0,008)
<i>P/B_{it}</i>	-0,02***	(0,003)	0,003	(0,016)
<i>Beta_{it}</i>	-0,334***	(0,081)	-0,019	(0,117)
<i>QRCA_{it}</i>	0,000	(0,003)	0,008*	(0,004)
<i>Tag100_{it}</i>	-0,178	(0,111)	-0,377**	(0,119)
<i>Control_{it}</i>	0,365***	(0,082)	0,596***	(0,094)
<i>PrejAcum_{it-1}</i>	-0,552***	(0,055)	-0,82***	(0,072)
<i>InvInst_{it}</i>	0,046	(0,072)	-0,356***	(0,097)
<i>DTT_{it}</i>	0,359***	(0,067)	0,211**	(0,079)
<i>EY_{it}</i>	0,272***	(0,065)	0,076	(0,078)
<i>KPMG_{it}</i>	-0,052	(0,052)	-0,415***	(0,06)
<i>PwC_{it}</i>	0,068	(0,053)	0,186**	(0,062)
<i>Reapr_{it} * PrejAcum_{it-1}</i>	0,236*	(0,107)	-0,461**	(0,178)
<i>Reapr_{it} * DualCEO_{it}</i>	-0,508***	(0,135)	-0,282	(0,209)
<i>Reapr_{it} * EY_{it}</i>	-0,357**	(0,123)	-0,215	(0,19)
<i>Reapr_{it} * KPMG_{it}</i>	-0,488***	(0,119)	0,142	(0,179)
<i>Reapr_{it} * PwC_{it}</i>	-0,467***	(0,112)	-0,472*	(0,185)
<i>Reapr_{it} * N2_{it}</i>	0,528**	(0,175)	-0,603*	(0,269)
<i>Reapr_{it} * NM_{it}</i>	0,410*	(0,171)	0,505	(0,281)

Remaining controls	Sim	Sim
Observations	1317	1011
Firms	183	173
Type	EF	EF
F-Statistic	183.590,38***	88.206,08***
R ² Adjusted	0,752	0,675
VIF mean	7,63	7,64
Year control	Sim	Sim
Sector control	Não	Não

Note: *** Significant at 0.01%, ** Significant at 1%, * Significant at 5%. Chow, Breusch-Pagan, Hausman tests suggested the fixed effect as the most appropriate. In turn, Breusch-Pagan and Wooldridge tests indicated heteroscedasticity. According to Baltagi (2005), a strategy to ensure the reliability of the significance of the coefficients. All other control variables were retained in the model but are not displayed to optimize space.

Source: Study's data.

Restatements maintained a positive and significant association with the current payout, indicating that companies that issued restatements tend to increase dividend distribution to restore their reputation and address information asymmetry. This finding aligns with Bhuiyan and Ahmad (2022) and Koo et al. (2017). However, while the subsequent payout also exhibited a positive sign, it was not statistically significant. As a result, H_1 and H_2 were not supported in the model incorporating the moderating effect of restatements for current and subsequent payouts.

Regarding the trend of continuity in dividend distribution—where previous dividends positively impact subsequent dividends (Boțoc & Pirtea, 2014; Dewasiri et al., 2019; Koo et al., 2017; Neves et al., 2020)—the results indicate that the moderating effect of restatements on payout (model 3) was positive and significant. This suggests that dividend distribution was sustained despite the announcement of the restatement. However, in the model (4), when financial restatements moderated previous dividends, a significant negative impact on subsequent payout was observed. In this case, companies that issued restatements experienced a decline in the continuity of dividend distribution.

Furthermore, when moderated by restatements, ROE volatility exhibited a positive and significant relationship with current payout dividends in the model (3). This suggests that higher ROE volatility among companies that issued restatements was associated with increased dividend distribution. Firms that underwent restatements tend to have higher ROE volatility, and this variation may have reflected improved performance, justifying the increase in dividend payments (Dewasiri et al., 2019; Patra et al., 2012).

5 Final Considerations

This study aimed to examine whether companies that restated their financial statements compensate shareholders with higher dividends in the years following the restatement. Data from a sample of 275 non-financial companies listed on B3 from 2010 to 2020 were analyzed using an econometric approach. Descriptive statistical analyses, mean difference tests, and panel data regressions were conducted to test the hypotheses that financial restatements are associated with lower dividend distribution (H_1) and higher subsequent dividend distribution (H_2).

The results did not support hypothesis but supported . A positive and significant association between restatements and current and subsequent dividends was observed. These results corroborate the findings of Bhuiyan and Ahmad (2022), indicating that companies that issue restatements tend to increase dividend distributions to mitigate information asymmetry caused by prior restatements and restore investor confidence, as explained by the Dividend Signaling Theory. Dewasiri et al. (2019) argue that dividends function to reduce asymmetry, indicating that firms may use dividend distributions to compensate for previously retained earnings following a financial restatement.

Although Koo et al. (2017) found a negative relationship between information asymmetry and dividends, they also hypothesized a potential positive relationship, supporting the research perspective that firms facing information asymmetry issues may compensate shareholders by increasing dividend distributions to restore their reputation with investors.

Further analysis of the moderating effect of restatements indicated that restatements influence the relationship between dividends and their determinants. However, no lagged effect was found in explaining subsequent dividends. Additionally, although restatements retained a positive coefficient in the multivariate model, the effect was insignificant.

The results can contribute to managers, auditors, investors, regulators, and corporate governance members by providing empirical evidence that financial restatements may signal information asymmetry and shareholder expropriation. According to Myers and Maluf (1984), managers may retain profits to invest in projects with negative cash flow and later use dividend policy to compensate shareholders. Additionally, this study enhances the understanding of variables influencing dividend policy. It supports risk assessment and valuation, particularly in models that use dividends to estimate a company's value.

As a limitation of this study, we highlight the potential issue of simultaneity between dividends and restatements, as well as differences in shareholder remuneration in Brazil compared to other countries. In Brazil, dividend distribution is mandatory and subject to distinct accounting and tax treatments (Brugni et al., 2013). Additionally, alongside dividends, companies may distribute Interest on Equity (IoE), which is incorporated into dividend yield and payout indices—unlike in other countries, where only dividends are considered (Rosa et al., 2021).

Future studies are suggested to use Difference-in-Differences (DiD) regression analysis as a methodological alternative to test this study's hypotheses and to measure the effect of restatements on shareholder remuneration by comparing companies that issue restatements (treatment group) with those that do not (control group). The Propensity Score Matching (PSM) technique could also select the control group based on predefined characteristics, ensuring a more robust comparison (Herly et al., 2020).

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