THE RELATIONSHIP BETWEEN DIVIDEND PAYMENT AND EARNINGS QUALITY

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Abstract

This research aims to examine the relationship between dividend payment and earnings quality. In this research, dividend paying status and dividend payout ratio which are features of dividend payment is used as the independent variables and the dependent variable is earnings quality. Earnings quality is measured by absolute value of discretionary accruals. The data in this research is collected from 97 companies from the manufacturing industry listed in the Indonesia Stock Exchange. The period of data collected was from 2013-2015. The research method used in this research is multiple regression where several classical assumption tests are conducted prior to find the result of the model using SPSS 21. The results in this research show that dividend paying status and dividend payout ratio have no significant association with earnings quality, hence there is no evidence of relationship between dividend payment and earnings quality.

Keywords: Dividend Paying Status (DPS), Dividend Payout Ratio (DPR), Earnings Quality (EQ) and Absolute value of Discretionary Accruals (ADA).
INTRODUCTION

Background

Earnings under the accrual basis of accounting are considered to be the summary measure of a firm's performance by a broad array of users (Dechow, 1994). Moreover, besides being used by shareholders and potential investors to measure a firm's performance, earnings are much used as a basis for both evaluating as well as rewarding managers of a company (Kowerski, 2013). Earnings quality can be understood and measured differently since there is no proper definition and can be judged through various measurement techniques (Abdelghany, 2005). According to P. Dechow, W. Ge and C. Schrand (2010), earnings quality can be defined as “Higher quality earnings provide more information about the features of a firm’s financial performance that are relevant to a specific decision made by a specific decision-maker”. Dechow and Schrand (2004) described that a high quality earnings number precisely reflects the current operating performance, serves as a good measure of future operating performance and is a helpful measurement summary for estimating a firm value.

Generally, an investor would expect to gain a positive return on the investment after purchasing shares in a company. The sources of returns can be obtained either through capital gains (increase of a company’s stock price) or direct cash transfer made by the company to the shareholders (Copeland, et al, 2005). Brealy & Myers (2003) suggests that a company would tend to generate profit from its operations when the business is doing well. The company can either use the capital to fund investment opportunities or it can be paid out to the shareholders. If the company decides to use the capital to be paid out to the shareholders, it can be done by repurchasing shares or by paying a cash dividend which are usually direct cash payments to shareholders.

There are numerous studies that have examined whether dividend signal firms earnings (Bhattacharya, 1979; Miller and Modigliani, 1961). A number of literature dating back to at least the articles by Miller and Modigliani (1961) have analyzed whether dividend is chosen by firms as a tool to provide information about a firm’s future cash flow. Aharony and Swary (1980) traditional dividend signaling models also predicts that dividend provides information regarding future earnings. They analyzed the market response to the announcement of earnings and dividend by finding that stock price has significant reaction to dividends than to earnings which they further explained this result by pointing out that management can time dividends announcements but are not able to time earnings announcements.

Other studies show that the increase or decrease in dividend provides a good or bad signal about a firm’s future earnings (Lukose and Rao, 2004). Lukose and Rao (2004) used categorical analysis and regression analysis to analyze the relationship between dividend changes and future earnings. The result showed that “Dividend initiating (omitting) firms have large increase (decrease) in profitability in the year of change compared to dividend increasing (decreasing) firms” which is consistent with the dividend signalling theory that dividend can be used to provide information about the future company earnings.

While the previous studies examines the relationship between dividends and firm future earnings, recent studies has begun to examine the association between dividend and earnings quality which are mostly conducted in developed markets.
Caskey and Hanlon (2005) find that firms which are accused of accounting fraud usually pay less dividends than non-accused firms by using accusations of fraud in the SEC as a measurement of earnings quality. Tong and Miao (2011) suggest that based on their result, an information provided by dividends is associated with earnings quality. They find that dividend paying status is positively associated with earnings quality and that such association is stronger (weaker) when the size of dividend payouts is larger (smaller). Skinner and Soltes (2011) find that dividend paying firms have more persistent earnings than non-dividend paying firms and the relation between dividends and earnings persistence in US firms have been stable for thirty years.

This study will examine whether dividend paying firms is an indicator of higher earnings quality in Indonesia which is considered to be one of the emerging markets. Sirait and Siregar (2014) suggests that Indonesia, one of the emerging markets, has an emerging economy that possess a different institutional environment from other countries and whose capital market has experienced compelling regulatory reforms. These differences have implications for dividend policy and earnings quality. Dividend paying status is one of the feature of dividend and it is often used in previous studies (Caskey and Hanlon, 2005; Hanlon et al., 2007; Skinner and Soltes, 2011; Tong and Miao, 2011; Sirait and Siregar, 2014). These studies simply to investigate whether dividend paying firms provides some information about earnings (Caskey and Hanlon, 2005; Hanlon et al., 2007; Skinner and Soltes, 2011; Tong and Miao, 2011; Sirait and Siregar, 2014). For this study, besides using dividend paying status as a feature of dividend, in addition, this study will also use dividend payout ratio as a feature of dividend to examine whether dividend paying firms is an indicator of higher earnings quality in Indonesia. Previous studies have used accounting-based and market-based measures of earnings quality (Tong and Miao, 2011), but this study will focus only on accounting based-measures due to the emerging capital market of Indonesia, which market-based measures will not be a suitable measure of earnings as suggested by Sirait and Siregar (2014).

Finally, Sirait and Siregar (2014) mentioned that there are several limitations in their study. The first limitation is regarding the lack of samples in the study in which they have examined only manufacturing firms listed on the Indonesian Stock Exchange. This study will use samples of manufacturing companies listed on the Indonesian Stock Exchange for 3 years in order to extend prior study and obtain a more accurate result. The second limitation is regarding the lack of measures of earnings quality used in the study. Abdelghany (2005) mentioned that it would be better to use other various approach or ways to measure earnings quality in order to gain a more accurate result, thus, this study will use a different measurement to measure earnings quality. Lastly, since there are still only a few researchers analyzing the relationship between dividend paying firms and earnings quality in Indonesia, this study aims to fulfil those purposes.

LITERATURE REVIEW
Capital markets

Debt and equity are the two main sources of capital in companies. Equity is obtained from shareholders while debt is gained from capital markets (Kalyebara and Ahmed, 2012). Besides providing debt capital for companies, capital markets are financial
institutions which also raise trade securities and manage investment and risk (Viney 2011). According to Viney (2011), “capital markets tend to lend the customers savings (savers) that comprise corporations, households and governments to the borrowers (corporations, households and governments) for long-term investments at a higher interest rates than those paid to the savers”. The long-term investment usually includes investing in equity, corporate debt and government debt. Capital markets are supported by both the foreign exchange and derivatives markets and are considerably integrated with banks, insurance companies, credit unions and other financial institutions (Viney, 2011). They comprise of stock exchanges, stock brokers, fund managers, intermediary investors, service providers, interest rates speculators and hedgers and other security dealers.

Since capital is an important component for prompting an economic output, capital markets are crucial to the functioning of an economy. Viney (2011) suggests that a capital markets main contribution to the economy is to (1) guide a capital to an efficient long-term investment that would develop a yield with the most highest economic return, (2) give access to depth and liquidity of the market which provides investors to efficiently share and manage risk, (3) obtain and communicate important financial information that allows investors to develop informed decisions in long-term investments.

Agency Theory

Jensen and Meckling (1976) describes that an agency relationship arises where there is a contract under which one party (The principal) engages with another party (the agent) to perform some service that involves the agent making decisions on the principal’s behalf which eventually might affects the principal’s wealth. Agents may undertake certain divergent behaviours, the principal can reduce divergences from his interest by developing a suitable incentives for the agent and by incurring monitoring costs created to reduce the deviant actions or behaviour of the agent. There are some general problem of agency when there is a separation of management and control in an agency relationship.

Due to self-interest in an agency relationship, the agent might act according to their own interest rather than that of the principal. The authority held by management (agent) to manage company’s asset can develop into disputes between both parties. The agent may have a different personal interest or goals which contradicts with the principals goals in order to increase their wealth. This agency problem gives rise to agency costs (Jensen and Meckling, 1976).

Agency costs occurs due to information asymmetries that is when the principal is not aware of what the agent is doing (Godfrey, 2010). Godfrey (2010) suggests that agency costs can be divided into three categories:1.) Monitoring costs: Costs borne by the principal to monitor the agent’s behaviour. It is the costs associated with measuring, observing and controlling agent’s behaviour. Costs of auditing the accounts, cost of setting budgets and cost of establishing management compensation schemes, etc. often occurs to monitor an agent’s behaviour.2.) Bonding costs: The costs of establishing and bonding (aligning) agent’s interests to the principals, or to make sure that the principal will receive compensation if the agent acts in a manner contrary to the interests of the principal. Instead of the principal preparing financial reports, the agent will contract to
provide financial reports which the principal might have a comparative advantage in preparing. 3.) Residual costs: Costs associated with not being able to completely align the interests of the principal with the agent. Not every actions of agents can be controlled by contractual settlements despite the potential use of different bonding as well as monitoring mechanisms. It is also referred as a cost that is attributable to any existing divergence of interest between the principal and agent exceed the benefit of removing the existing divergent behaviour.

**Information Asymmetry**

Information asymmetry occurs when one party obtains an information advantage over another party. There are two types of information asymmetry which are adverse selection and moral hazard. Adverse selection emerges due to managers or other insiders have acquired information which an outside investor do not possess. For example, Adverse selection usually occurs when shareholders might be unaware of the quality of a manager that they are hiring; managers might be unaware of the quality of the employee; an investor might be unaware of an entrepreneur who is going public (Porwal, 2001).

Porwal (2001) suggest that in the case of moral hazard, problems of motivating manager effort are usually created by the separation between ownership and control usually in large business enterprises. For example, moral hazard usually occurs when managers might undergo an action that will benefit the shareholders at the cost of bondholders; house owners who are fully insured might not be more cautious to protect their property.

According to Porwal (2001), for adverse selection, “The role of accounting should be able to issue fairness to others by the disclosure of relevant, reliable, timely and cost effective information to both investors and other financial statement users and moral hazard problem occurs due to the lack of awareness by the managers in running the firm. The accounting role is to present a performance measure to report on the results of manager’s effort.”

**Dividend Signaling Theory**

Connelly, Certo, Ireland and Reutzel (2011) briefly explained that signaling theory can be used to describe a behaviour when two parties (Individuals or organizations) have access to various information. Usually, one party (the sender) must decide whether and how to communicate (or signal) that information, and the other party (the receiver) must choose how to portray the signal.

Dividend signaling theory is a theory which states that announcements of increased dividend payments by a company indicates strong signals about the bright future prospect of the company. An announcement of an increase in dividend payments will be taken very positively in the market and helps to develop a good image of the company concerning the future stability and growth prospects of the company. Dividend decisions are often seen by investors as revealing information about a firms prospects. An information asymmetry occurs if firm managers know more about the firm and its future prospects than the investors. When investors or stockholders have less information about the firm possibly (due to opaque accounting practices) they will search for other information in actions like dividend policy of a firm. Companies use
dividends to share profits with stockholders and when doing so, they are able to issue a dividend when they decide that investing the profits back to the company for development and growth is not necessary at that particular time. When the officials make a decision to offer a dividend, usually an announcement providing information about the amount and date is informed to the shareholders. These announcements are closely monitored by the investors because they believe it would provide them some information about the company’s financial health. Normally, dividend signaling is done by the company when it changes the amount of dividend to be given to the shareholders.

**Dividend**

According to Maheshwari, et. al. (2011), dividend refers to the portion of the profit of a company which is distributed amongst its shareholders. Therefore, it can be defined as the return that a shareholder obtains for the investment made by them in the shares of the firm. The dividend decision of the company is very important for the finance manager because it decides the amount of profit to be given among the shareholders and the amount of profit retained to be re-invested in the firm for its long term growth (also known as retained earnings). There is a mutual relationship between the cash dividends and retained earnings. Larger dividends will result in less retained earnings and a lesser dividends means that there will be a larger retained earnings. The management will definitely consider the effect of the decision on the maximization of the shareholders wealth. For instance, it would be advisable to distribute dividend if the payment of dividend helps the management in attaining this objective. On the other hand if payment of dividend fails the management to attain this objective, the management would be well advised to retain the profits and use it for financing investments for the company. Thus, the dividend decision largely depends on its impact on the firm’s value.

**Dividend policy**

Dividend policy is the practice that management follows in making dividend payment decisions which include the size and pattern of cash distributions over the time to shareholders (Lease et al., 2000). A firm’s dividend policy determines the distribution of the firm’s earnings between retention (i.e. Reinvestment) and cash dividend payments of shareholders (Moyer, McGuigan and Kretlow, 2005). In other words, dividend policy consist of a policy or guideline followed by management in declaring of dividends or when dividend decision are made. A dividend policy determines the proportion of dividends as well as retained earnings. It is the decision about determining how much of earnings to be used for paying dividends and also how much of earnings is needed to be retained and reinvested earnings in the firm. Retained earnings are a vital source of firms in order to finance for the long term growth, while dividends decreases the available cash funds of a firm.

According to Walter (1963), the value of the enterprise will almost be effected by the choice of a dividend policy. Therefore, Dividend policy must be carefully evaluated to be in line with the objective of the firm namely, to select a policy that will maximize the value of the firm to its shareholders. A firm’s dividend policy indicates how prudent its financial management is. Most of the firms follow some form of dividend policy. The most common policy of a firm is to retain a position of net
earnings and distribute the remaining amount to the shareholders. Overall, there are many factors which needs to be properly examined or evaluated before developing a long term dividend policy.

**Earnings Quality**

Even though the phrase “earnings quality” is often used, there is no approved meaning assigned to the phrase as well as a generally accepted approach to measuring earnings quality (Abdelghany, 2005). According to Dechow and Schrand (2004), they focused on earnings quality from the perspective of the analyst and describes a high earnings quality number is one that precisely indicates current operating performance, is a good indicator of future operating performance, and is a useful summary measure for analyzing firm value. They also suggested that earnings quality can differ among companies as a function of accruals even when no intentional earnings manipulation exist. A much present study done by Dechow, Ge, Schrand (2010) suggest that there is no single conclusion on what earnings quality is due to the term “quality” is considered to be unpredictable on the decision context. They define earnings quality as “Higher quality earnings provide more information about the features of a firm’s financial performance that are relevant to a specific decision made by a specific decision-maker”. They also mention that from their definition of earnings quality, there are three features which arises.

The first feature is that earnings quality is conditional on the decision-relevance of the information, which therefore the term “earnings quality” is incoherent; earnings quality is described only in the context of a particular decision model. The second feature is that the quality of reported earnings number relies on whether it is informative about the financial performance of a firm, in which many feature are unobservable. The third feature mentioned is that, earnings quality is mutually determined by the relevance of the concealed financial performance to the decision and by the capability of the accounting system to compute performance. This definition of earnings quality implies that quality could be examined with respect to any decision that relies on an informative depiction of financial performance. It does not restrict quality to suggest decision usefulness in the context of equity valuation decisions.

Dechow, Ge and Schrand (2010) suggest that there are three broad categories of earnings quality proxies which are properties of earnings, investors responsiveness to earnings, and external indicators of earnings misstatement. Earnings quality can be measured by abnormal accruals and earnings persistence that relate to the properties of earnings which is used by recent literature (Sirait and Siregar, 2014; Deng, Li and Liao, 2016; Tong and Miao, 2011). The study done by Sirait and Siregar (2014) and Deng, Li and Liao (2016) use one of the most common models to measure earnings quality which are accrual based, that is the Dechow and Dichev (2002) model as modified by McNichols (2002). Another accrual based model used to measure earnings quality is the Kothari et al. (2005) model and the Dechow et al. (1995) model which is also used by Sirait and Siregar (2014) as well as Tong and Miao (2011). Earnings quality can also be measured by timeliness and Earnings Response Coefficient (ERC) is also used to measure earnings quality that relates to the investors response to earnings (Deng, Li and Liao, 2016).
Hypothesis Development

Firms that distribute dividends are presumed to have a higher earnings quality than other firms based on two reasons which supports this notion. The first reason is based on agency theory which a dividend is believed to have the ability in reducing agency problems between managers and shareholders. Dividends are able to contribute in reducing agency costs by supporting the capital market to monitor both performance and managerial activities in order to prevent managers to alter the earnings (Easterbrook, 1984). Even when investors have the authority to a firm’s assets, preventing management to improperly use cash flows can still be a difficult task, hence, dividends should constantly be distributed in amounts that are enough to the investors by the management (Myers, 2000).

The second reason is that it is costly for managers to support cash dividends based on profits that do not reflect the firm’s performance because actual cash flow is required in order for managers to hand out the dividends (Tong and Miao, 2011). Glassman (2005) implies that since manipulated earnings are unable to produce actual cash inflows that is required to pay dividends, dividend paying firms tend to not manipulate earnings. Eastbrook (1984) also suggests some similar findings that is firms who manipulate earnings are less likely to either distribute or increase dividends than firms that are not involved in earnings manipulation.

A dividend has several features which we presume to have an association with earnings quality. This research will use dividend paying status and dividend payout ratio as the independent variables. Both of the features contributes to higher earnings quality. Prior studies have been able to prove that dividend paying status is indicative of firm’s earnings quality (Skinner and Soltes, 2011; Tong and Miao, 2011; Sirait and Siregar, 2014). According to Tong and Miao (2011) dividend paying status is positively associated with earnings quality and is stronger (weaker) when the size of dividend payouts is greater (smaller). Skinner and Soltes (2011) also find a similar result and indicates that earnings quality of a dividend paying firms are more prominent for a larger dividend paying firms. On the other hand Sirait and Siregar (2014) suggests that no matter the size of the dividend, dividend paying firms have better earnings quality. The difference between these prior research is that the study conducted by Sirait and Siregar (2014) analyzed an emerging market using dividend paying status as a feature of dividend. Since this research will also be conducted in an emerging economy, therefore that particular feature will be used in this research. Based on the explanation above, therefore the hypothesis developed is:

H1: Dividend-paying firms have higher earnings quality than other firms.

Dividend payout ratio is used to reflect the size of a dividend that is being paid by a firm. A dividend size of a firm can be divided into two categorical variable that is large dividend-paying firms and small dividend-paying firms (Tong and Miao, 2011; Sirait and Siregar, 2014). A study conducted by Tong and Miao (2011) and Sirait and Siregar (2014) classifies a large dividend payment when the dividend payout ratio exceeds 0.25 but not greater than 2. The results from the study conducted by Sirait and Siregar (2014) and Skinner and Soltes (2011) suggest that dividend size does not have a significant association with earnings quality which contradicts previous literature done by Tong and Miao (2011) which the results show that dividend size does have a
significant association with earnings quality. This study will use dividend payout ratio for the purpose to extend their study and hence, the second hypothesis developed is:

H2: Firms that have larger dividend payout ratio have higher earnings quality than other firms.
There are several methods to measure earnings quality, this study will focus on only one measurement, which is an accrual based model of Dechow et al. (1995).

RESEARCH METHODOLOGY

Population and Sample
The population on this research consists of 97 manufacturing companies which are listed in Indonesia Stock Exchange during the period of 2013-2015 (three years). The sample selection for cross sectional and time series data is performed by purposive sampling method. Total number of firm-year observation were 286 samples.

Research Empirical Model
Structural equation model that proposed as an empirical model is as follows:

\[
EQ_{i,t} = \alpha_0 + \alpha_1 DPS_{i,t} + \beta_1 DPR_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 ROA_{i,t} + \beta_4 LEV_{i,t} + \beta_5 AGE_{i,t} + \epsilon_{i,t}
\]

Where:
- \( EQ_{i,t} \) = Earnings quality, proxy by Absolute value of Discretionary Accruals (ADA).
- \( DPS_{i,t} \) = Dividend payment features which consists of dividend paying status. The maximum score is 1.
- \( DPR_{i,t} \) = Dividend payment features which consists of dividend payout ratio (Dividend divided by net income). The maximum score is 1.
- \( SIZE_{i,t} \) = Firm size. Natural logarithm of the total assets.
- \( LEV_{i,t} \) = Leverage. Total liability divided by total assets.
- \( ROA_{i,t} \) = Return on assets. Calculated as net income divided by total assets.
- \( AGE_{i,t} \) = Firm age. It is the number of years since the firm gets listed.
- \( \alpha_0 \) = Constant
- \( \alpha_1, \ldots, 6 \) = Coefficient of independent variable.
- \( \epsilon_{i,t} \) = Error variable of company i.

Operational Variable

Dependent Variable - Absolute value of Discretionary Accruals (ADA)
The proxy of earnings quality is Absolute value of Discretionary Accruals (ADA) that is based on the model of Dechow et al. (1995).

\[
TACC_{i,t} = \beta_0 + \frac{\beta_1}{1} + \beta_2 (\Delta SALES_{i,t} - \Delta AR) + \beta_3 PPE_{i,t} + \epsilon_{i,t}
\]

Where:
- \( TACC_{i,t} \) = Total accruals. Calculated by earnings before extraordinary item of the company minus cash flows from operations.
operations divided by average total assets in year-t.

\[ \text{ASSET}_{i,t} = \text{Average total asset in year-}t \]

\[ \Delta \text{SALES}_{i,t}-\Delta \text{AR} = \text{Changes in the company’s sales year-}t \text{ minus the changes in company’s accounts receivable year-}t \text{ divided by the average assets of the company year-}t \]

\[ \text{PPE}_{i,t} = \text{Gross fixed assets of the company in year-}t \text{ divided by average total assets in year-}t \]

\[ \varepsilon_{i,t} = \text{error} \]

**Independent Variable**

In the model, the coefficient of concern in testing the hypothesis is dividend payment (DIVIDEND), which consists of dividend paying status and dividend payout ratio as a feature of dividend. The variables used in this research is the features of dividend payment, which are dividend paying status and dividend payout ratio. These features will be explained below.

1) Dividend Paying Status = assigned a value of 1 if the company distributes dividend, and 0 if other.
2) Dividend payout ratio = assigned a value of 1 if the dividend payout ratio is bigger than 0.25, and 0 if other.

**Data Analysis Method**

This study will incorporate both time series and cross-sectional data that has the characteristic of Pooled OLS to examine the effect of dividend payment to earnings quality during the year 2013 to year 2015. The coefficient estimate for the model uses multiple linear regression model of SPSS version 21.0. The results of data collection are then interpreted and further analyzed in accordance with the form of analysis techniques used in the discussion. Before testing hypotheses, classical assumption tests have been carried out which include multicollinearity test, heteroscedasticity test, and normality test.

**ANALYSIS AND DISCUSSION**

**Descriptive Statistics**

The descriptive statistics in this study illustrates the minimum values, maximum values, mean values, median values and standard deviation values of all variables:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Median</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQ</td>
<td>286</td>
<td>.0001</td>
<td>.32</td>
<td>.0596</td>
<td>.0426</td>
<td>.05619</td>
</tr>
<tr>
<td>DPS</td>
<td>286</td>
<td>.00</td>
<td>1.00</td>
<td>.5559</td>
<td>1.00</td>
<td>.49773</td>
</tr>
<tr>
<td>DPR</td>
<td>286</td>
<td>.00</td>
<td>1.00</td>
<td>.3671</td>
<td>.00</td>
<td>.48287</td>
</tr>
<tr>
<td>SIZE</td>
<td>286</td>
<td>24,4142</td>
<td>33,1341</td>
<td>28,1118</td>
<td>27,9138</td>
<td>1,63436</td>
</tr>
<tr>
<td>ROA</td>
<td>286</td>
<td>-.2792</td>
<td>.6572</td>
<td>.0562</td>
<td>.0368</td>
<td>.10571</td>
</tr>
<tr>
<td>LEV</td>
<td>286</td>
<td>.0005</td>
<td>3.0291</td>
<td>.5290</td>
<td>.5033</td>
<td>.39890</td>
</tr>
<tr>
<td>AGE</td>
<td>286</td>
<td>.90</td>
<td>34.50</td>
<td>19.5643</td>
<td>21.00</td>
<td>6,96101</td>
</tr>
</tbody>
</table>
Based on Table 1 above, the column N represents the amount of data valid and used in this study that amounted to 286 data. The dependent variable in this study EQ (Y) has a minimum value of 0.0001 which possessed by PT. IndospringTbk (INDS) during year 2015 and the maximum value of 0.32 held by PT. Primarindo Asia Infrastructure Tbk (BIMA) during year 2015. The mean value and median value of ADA are 0.0596 and 0.0426 respectively. Furthermore, the standard deviation of ADA is 0.05619. The independent variable DPS (X1) which is measured by a dummy variable has a minimum value of 0.0 and a maximum value of 1.0. The variable DPS has a mean value of 0.5559 and a median value of 1. Additionally, the standard deviation of this variable is 0.49773. The second independent variable DPR (X2) which is also measured by a dummy variable has a minimum value of 0.0 and a maximum value of 1.0. The mean value of DPR is 0.3671 and its median value is 0.0. Furthermore, the standard deviation of DPR is 0.48287. Variable SIZE (X3), ROA (X4), LEV (X5) and AGE (X6) are control variables.

Hypothesis Testing

After performing the classical assumption test consisting of normality test, heteroscedasticity test and multicollinearity test, the next step is to conduct an analysis of hypothesis testing. Furthermore, the results from the classical assumption tests shows that the regression model in this study is appropriate to be used in the hypothesis testing.

For this research, the hypothesis testing is conducted by using the multiple regression analysis method which is used to determine whether there is an influence of independent variables that consists of Dividend paying status (DPS), Dividend payout ratio (DPR), firm size (SIZE), Return on asset (ROA), leverage (LEV) and firm age (AGE) towards dependent variable which is Earnings Quality (EQ).

F-Statistic Test

Based on the Table 2 below, it can be seen that the significance value of F is 0.002, which is lesser than 0.05. Because the significance level is smaller than 0.05, the regression model can be used to predict the dependent variable (Earnings Quality) or in other words, Dividend paying status (DPS), Dividend payout ratio (DPR), firm size (SIZE), Return on asset (ROA), leverage (LEV) and firm age (AGE) does simultaneously have a significant influence towards Earnings Quality (EQ).

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.063</td>
<td>6</td>
<td>.011</td>
<td>3.509</td>
<td>.002b</td>
</tr>
<tr>
<td>1 Residual</td>
<td>.837</td>
<td>279</td>
<td>.003</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Total  .900  285

a. Dependent Variable: EQ
b. Predictors: (Constant), AGE, LEV, SIZE, ROA, DPR, DPS
Source: SPSS 21.0 Output, 2017

From the above Table 2, the results also suggest that the regression model is suitable and can proceed to be tested by the T-test.

Adjusted R-Square test (Coefficient of determination test)

The Adjusted R-Square test or Coefficient of determination is used to measure how well the model can describe the variations of dependent variable. Similar to coefficient of correlation, its value also ranges from 0 to 1. If the value of Adjusted R-Square comes near to 1 then the independent variables can give nearly all the information required to predict the variations of dependent variable, while a value closer to 0 means that the independent variables ability to explain the dependent variable is very restricted.

Table 3. Adjusted R-Square Test Results

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), AGE, LEV, SIZE, ROA, DPR, DPS
b. Dependent variable: EQ
Source: SPSS 21.0 Output, 2017

Based on Table 3 above, the adjusted R-Square value is 0.050. This result indicates that 5% variations of Earnings Quality can be explained by the variations of independent variables Dividend paying status (DPS), Dividend payout ratio (DPR), firm size (SIZE), Return on asset (ROA), leverage (LEV) and firm age (AGE) while the remaining 95% are explained by other factors outside the model.

T-Statistics Test

Table 4. T-Statistics Test Results

<table>
<thead>
<tr>
<th>Coefficientsa</th>
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<tbody>
<tr>
<td>Model</td>
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<tr>
<td>-------</td>
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<tr>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>DPS</td>
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<tr>
<td>DPR</td>
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</tbody>
</table>
The first hypothesis (H1) developed in this study is dividend paying firms have higher earnings quality that other firms. Based on Table 4.10 on the previous page, the significance value for dividend paying status is 0.642. Since the value is greater than the level of significance of 0.05, dividend paying status does not have a significant influence towards earnings quality which means that the first hypothesis is rejected and therefore dividend-paying firms does not guarantee of having higher earnings quality than other firms. From the analysis of hypothesis above, the results is in contrast with previous study done by Skinner and Soltes (2011), Tong and Miao (2011) and Sirait and Siregar (2014), where dividend paying firms have higher earnings quality than other firms. The reason for the contradicting results may be caused by other variables that is not included for this study which may have an effect towards earnings quality.

The second hypothesis developed in this study is firms that have larger dividend payout ratio have higher earnings quality than other firms. Based on the Table 4.10, the significance value for dividend payout ratio is 0.322 which is greater than 0.05. This means that dividend payout ratio does not have a significant influence towards earnings quality, hence the second hypothesis is rejected. In other words, firms that have larger dividend payout ratio does not have higher earnings quality than other firms.

From the analysis above, the results do not support the findings by Tong and Miao (2011) whereas firms that have larger dividend payout ratio have higher earnings quality. However, the results is in line with Skinner and Soltes (2011) and Sirait and Siregar (2014) where larger dividend payout ratio does not have higher earnings quality. The result in this study may be caused by the number of manufacturing companies in Indonesia that is distributing large dividends used as the sample is only37.1%, hence, this indicates that 62.9% of the manufacturing companies are not distributing large dividend payments which means that the sample used for this study is dominated more by companies that are not distributing large dividend payments.

**CONCLUSION**

Based on the analysis and discussions presented above, the results indicates that there is no significant evidence of the relationship between dividend payment and earnings quality. Dividend paying status and dividend payout ratio does not have significant association with earnings quality. The results from this study contradicts with previous studies such as Skinner and Soltes (2011), Tong and Miao (2011) and Sirait and Siregar (2014), who found that dividend paying status indicates higher earnings quality. But there are similar results from previous studies of Skinner and Soltes (2011) and Sirait and Siregar (2014) who also found that larger dividend payout ratio do not have a significant association with earnings quality.
REFERENCES


