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(EMPIRICAL STUDY ON MANUFACTURING FIRMS LISTED ON THE INDONESIA STOCK EXCHANGE 2016-2020)

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Abstract

This study aims to examine the effect of dividends on earnings quality in manufacturing sector firms listed on the Indonesia Stock Exchange 2016-2020, because there are several cases of manipulation of financial statements by firms that have been listed on Indonesia Stock Exchange, such as PT Garuda Indonesia.. In this study, the research model used is to use several dividend proxied as independent variables such as dividend payments, dividend size, dividend changes, dividend persistence and earnings quality as the dependent variables proxied by three models, namely absolute value of discretionary accruals (ADA), absolute value of accrual quality (AAQ) and accrual quality (AQ).

The population used in this study are manufacturing firms listed on the Indonesia Stock Exchange in the 2016-2020 period. The selected sample is 450 financial statements consisting of 81 manufacturing firms that are in accordance with the research criteria. In testing the hypothesis using regression analysis.

The results show that dividend payments, increasing the amount of dividends distributed and dividend persistence have a significant and negative effect on earnings quality as proxied by ADA and AAQ and AQ. However, dividend size does not have a significant effect on earnings quality.

Keywords: *dividend payment, dividend size, dividend increase, dividend persistence, earnings quality, manufactur*

1. INTRODUCTION

For external parties, one of the sources used to assess the performance of the company is through its financial statements (Akhtar & Liu, 2018). Because access to information about the company is very limited for outsiders compared to management, financial statements have a very important role for the information needed by shareholders (Gibson, 1992). Because of their significant influence, some firms justify various ways even though they are against existing regulations, one of which is by conducting financial manipulation (Caskey and Hanlon, 2005). The manipulation of the financial statements is done intentionally to show that the company seems to have good operating performance which has an impact on the profits generated by the company (Isa, 2011). This is done by violating morals and violating the existing PSAK provisions.

Cases related to allegations or manipulation of financial statements on the Indonesia Stock Exchange, often have an impact on profit accounts, such as the cases of PT Garuda Indonesia, PT Kimia Farma Tbk, and PT KAI (Tiffani and Martuah, 2015). The number of

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cases of such manipulation raises questions for users of financial statements regarding the reliability and integrity of the presentation of earnings. The presentation of earnings with low quality is often misleading for stakeholders because it cannot reflect the company's performance (Raze, 2002). Therefore, the issue of earnings quality is still interesting to
study.

Basically, earnings quality is a reflection of actual income without any intentional or excessive misstatement (Qaraqish, 2009). Good earnings quality has at least two characteristics: (1) the performance of the company's operating activities can be reflected in profits, and (2) earnings can be a summary to assess the company's performance in the future (Tong & Miao, 2011). Du et al (2019) refer to this as "earnings fidelity", namely the extent to which income indicates the company's actual financial condition. Conversely, low earnings quality will provide an overview of the allocation of company resources that are not in accordance with the original so that it provides inaccurate information to users in making decisions (Schiper and Vincent, 2003). In the context of investment, quality earnings are used by investors as an indicator to see the possibility of a company paying dividends. This is in line with the findings of Farinha and Moreira (2007) who found that the dividend paid by the company increased along with the increase in earnings quality.

Earnings quality briefly refers to the company's income reporting which is the reporting, following accounting standards (Pathak and Ranajee, 2018). Quality earnings reporting can provide information at the same level to management and investors related to the company's future prospects so as to create confidence in the company's reported earnings (Jensen, 1986; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2007). 2000). In other words, earnings quality reflects how transparent a company is in reporting the company's actual economic condition (Tong & Miao, 2011).

As a developing country, Indonesia's dividend policy is different from that of developed countries due to differences in existing regulations and the institutional environment (Sirait and Siregar, 2014). Therefore, dividend policy in developing capital markets is strongly influenced by institutional factors (Boulton, Braga-Alves & Shastri, 2012; Jeong, 2013). If institutional factors, such as tax laws and interest rates are the determinants of dividend policy, dividends may not provide a significant signal about earnings quality. There are several theories that explain the information conveyed by dividends that can assess the quality of company earnings. The two main ones are signal theory and agency theory. According to signal theory, the information contained in dividends consists of the availability of cash earnings and its ability to maintain earnings (Miller & Rock, 1985; Watts, 1973). Meanwhile, in agency theory, dividends can convey information about the lower possibility of discretionary spending made by management because of the distribution of free cash flows to shareholders (Easterbrook, 1984; Jensen & Meckling, 1976). Although the two theories differ about the information content of dividends for earnings quality, they agree on the indications that dividends apply to earnings quality, namely: dividends show better earnings quality.

Previous research that examines the relationship between dividends and earnings quality has been carried out frequently, such as the research conducted by Tong & Miao (2011) which examined the effect of dividend payment status, dividend size, persistence

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and share purchase on earnings quality. In addition, Caskey and Hanlon (2005) examined other proxies of dividends, namely, the effect of dividend changes on earnings quality. Therefore, in this study, the company's dividend payment status, dividend size, dividend persistence, and dividend change are used as four proxies of dividends in examining their relationship with earnings quality. To measure earnings quality, three measures are used, namely, absolute value of discretionary accruals (ADA), absolute value of accrual quality (AAQ) and quality of accruals (AQ). All of these proxies are accrual-based accounting measures of earnings quality (Perotti & Wagenhofer, 2014).

The object of research focuses on manufacturing firms on the IDX for the period 2016-2020. The selection of the sample location, namely Indonesia, which is a developing country, is also a consideration because most of the research is conducted in developed markets. In fact, according to Adaouglu (2000), there are big differences regarding firms in determining their dividend policies in the two markets, which are caused by differences in institutional arrangements and differences in efficiency levels.

2. LITERATURE STUDY

The Influence of Dividend Payments on Earnings Quality

Easterbrook (1984) argues about the role of dividends, which can minimize agency conflicts, because in supervising the policies carried out by management and their performance will be monitored by the market, making it difficult for management to manipulate earnings. In order to keep the agency conflict from arising, management is expected to distribute dividends regularly to its investors. For management, their efforts to inform external parties of their performance and communicate with agents are one of them by distributing dividends.

Skinner and Solters (2011) in their research found that earnings reporting will be persistent and quality, when the company is able to pay dividends to investors. Because when the profits generated by the company are distributed in the form of cash dividends, it will be difficult for firms to manipulate, because firms need real cash inflows when they make cash dividend payments. This research is in line with Glassman (2005), in his research proves that firms that manipulate earnings will not be able to pay dividends because the profits presented in the financial statements do not have cash flow (incoming) that can be used to pay dividends. When management manipulate earnings, they tend not to distribute these profits or increase the amount of dividends distributed because the increase in profits presented is only temporary (Lintner, 1956). Based on the description and arguments above, the following hypothesis is formulated:

H1: Firms that pay dividends have an influence on earnings quality.

The Influence of Dividend Size on Earnings Quality

The size or amount of dividends distributed can be used as a proxy for dividends to determine the effect of dividends on earnings quality. There are several studies that prove the relationship between earnings quality and dividend size. One of them is the study of

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Skinner and Soltes (2011) which shows that firms with high dividend payouts will positively affect earnings quality. They conclude, if the company pays dividends in large amounts, it will strengthen the influence between earnings quality and dividends.

Tong and Miao (2011) in their research also prove the same thing, where the quality of a company's earnings will be of higher quality when they distribute large dividends or seen from the dividend payout ratio above 25% than the other way around. To implement the dividend policy, the company must be able to generate large amounts of cash every year. This indicates a small possibility for firms that manipulate earnings because there is no actual cash flow that comes from the profits generated. Therefore, the greater the amount of profit distribution in the form of dividends can provide a signal to the market about the company's good performance in generating profits followed by a large actual cash flow. Based on the description and arguments above, the following hypothesis is formulated:

H2: Firms that pay dividends in large quantities have an influence on the quality of earnings.

The Influence of Dividend Change on Earning Quality

When management believes that the increase in dividends can be maintained by the company in the future, the pay-out ratio will also be changed by the company. While firms that change their dividend policy to pay less dividends, they have low earnings persistence and the existence of earnings manipulation practices that have nothing to do with cash flow.

Caskey and Hanlon (2005) argue that the quality of earnings will be high when the company increases the amount of dividends distributed from the previous year. Because of this action, it is a signal to investors that the increase in the amount of dividends distributed will be maintained and supported by a strong cash base. Meanwhile, according to Sirait and Siregar (2013) reducing the amount of dividends distributed compared to the previous year, will provide bad information to the market or it will be seen as bad information for investors because management cannot maintain earnings at the same level for the future. It can be concluded that the profit potential of a company in the future can be maintained or not by looking at whether the dividends distributed by the company from the previous year have increased or not. Based on the description and arguments above, a hypothesis is formulated:

H3: Firms that increase the amount of dividends distributed affect the quality of earnings.

The Influence of Dividend Persistence on Earnings Quality

Dividends that are distributed consistently for five consecutive years are called persistence dividends. To be able to distribute dividends consistently, a company must have a stable and good company performance so that it can generate quality profits and strong cash with adequate actual cash flow every year (Tong & Miao, 2011). In addition, firms that commit fraud in the presentation of their financial statements or known as earnings manipulation, will not have the ability to distribute dividends, because the profits generated must have no actual cash flow (Caskey and Hanlon, 2005). Therefore, quality

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earnings are only owned by those who distribute their profits in the form of dividends regularly (persistently). Based on the description and arguments above, the following hypothesis is formulated:

H4: Firms that pay dividends consistently have an influence on earnings quality.

3. RESEARCH METHOD

Research Variable

Dependent Variable		
Variable	**Definition**	**Measurement**
ADA	*Absolute Value of Performance-adjusted Discretionary Accruals*	$TACC_{i,t} = \beta_0 + \beta_1 \frac{1}{ASSET_{i,t}} + \beta_2 (\Delta SALE_{i,t} - \Delta AR_{i,t}) + \beta_3 PPE_{i,t} + \beta_4 ROA_{i,t-1} + \varepsilon_{i,t}$
Annual Firm-Specific Absolute Value of The Residuals (AAQ)	The use of AAQ to describe how the company's actual cash flow.	$CACC_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta SALES_{i,t} + \beta_5 PPE_{i,t} + \varepsilon_{i,t}$
Accruals Quality (AQ)	AQ is the standard deviation or residual value of AAQ.	AQi,t = stdev (εi,t), t = t-4,…..,t
Dependent Variable		
Variable	**Definition**	**Measurement**
DIV	The status of dividend payments, whether the company pays dividends in the current year or not.	The dummy variable, the company paying dividends will be given a number 1, whereas if the company does not pay dividends it will be given a number 0.
DIVLS	One of the variables to measure whether the dividends paid by large firms or not.	The dummy variable is number 1 if the company distributes its profits in the form of large dividends, namely the payout ratio is more than 25%, while the number 0 is vice versa.
DIV_CHANGE	Variable that is used to determine whether the dividends distributed by the company each year change, increase or decrease, stable.	The dummy variable, if the company increases the amount of dividends distributed in year t compared to the previous year t-1, will be given the number 1 and vice versa.
PDIV	Variable used to determine the consistency of the company in distributing dividends in the previous five years.	The dummy variable, a company that pays dividends consecutively within a period of five years will be assigned a number 1 and a number 0 if there is one year gap in dividend payments.
Control Variable		
Variable	**Definition**	**Measurement**
SIZE	Firm size	Natural logarithm of total assets

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SGROWTH	Firm Internal Growth	(Sales year – Sales year t-1) / Sales year t-1
BTM	Firm External Growth	Book value of equity / market value of equity
LOSS	Firm Performance	Dummy variable, the value of 1 if the company generates a profit and a value of 0 if the company suffers a loss.
AGE	Firm Age	Natural logarithm of firm age
LEV	Firm Debt Structure	Total debt / Total equity
CFO_STD	Cash Flow Volatility	CFO standard deviation / total assets year t

Sampling

The population used is every business entity in the manufacturing sector that is listed on the BEI during 2016 to 2020. The purposive sampling method is used as a reference in determining the sample by referring to these conditions:

1. Manufacturing firms registered in 2016-2020.
2. Manufacturing firms with positive total equity..
3. Manufacturing firms that have complete data for the measurement of all variables.
4. Financial statement of manufacturing firms reported in rupiah.

Analysis Method

The research was carried out using multiple linear regression to be used in hypothesis testing. To test the four hypotheses in this study, four research models were used to test each hypothesis, with the following model:

1. $EQ_{i,t} = \alpha_0 + \alpha_1 DIV_{i,t} + \alpha_2 SIZE_{i,t} + \alpha_3 BTM_{i,t} + \alpha_4 SGROWTH_{i,t} + \alpha_5 LOSS_{i,t} + \alpha_6 AGE_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 CFO\_STD_{i,t} + \varepsilon_{i,t}$ **(Model 1)**
2. $EQ_{i,t} = \beta_0 + \beta_1 DIVLS_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 BTM_{i,t} + \beta_4 SGROWTH_{i,t} + \beta_5 LOSS + \beta_6 AGE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 CFO\_STD_{i,t} + \varepsilon_{i,t}$ **(Model 2)**
3. $EQ_{i,t} = \delta_0 + \delta_1 DIV\_CHANGE_{i,t} + \delta_2 SIZE_{i,t} + \delta_3 BTM_{i,t} + \delta_4 SGROWTH_{i,t} + \delta_5 LOSS_{i,t} + \delta_6 AGE_{i,t} + \delta_7 LEV_{i,t} + \delta_8 CFO\_STD_{i,t} + \varepsilon_{i,t}$ **(Model 3)**
4. $EQ_{i,t} = \gamma_0 + \gamma_1 PDIV_{i,t} + \gamma_2 SIZE_{i,t} + \gamma_3 BTM_{i,t} + \gamma_4 SGROWTH_{i,t} + \gamma_5 LOSS_{i,t} + \gamma_6 AGE_{i,t} + \gamma_7 LEV_{i,t} + \gamma_8 CFO\_STD_{i,t} + \varepsilon_{i,t}$ **(Model 4)**

Information:

$EQ_{i,t}$: Earnings quality proxied by ADA, AAQ, and AQ.
$DIV_{i,t}$: Dividends paid are valued at 1 if the company pays cash dividends in year t, and 0 otherwise.
$DIVLS_{i,t}$: The size of the dividends distributed by the company. 1 if the company has a dividend payout ratio above 25%.
$DIV\_CHANGE_{i,t}$: Changes in dividends, 1 if the dividends distributed are greater than the previous year and 0 otherwise.
$PDIV_{i,t}$: Dividend persistence is 1 if the company pays dividends regularly for 5 years and 0 otherwise.
$SIZE_{i,t}$: Company size as a proxy for total assets.
$BTM_{i,t}$: The company's growth to the market.
$SGROWTH_{i,t}$: Sales growth.

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$LOSS_{i,t}$: The company's financial performance is 1 if net income is negative and 0 otherwise.
$LEV_{i,t}$: The company's debt structure, using the leverage ratio.
$CFO\_STD_{i,t}$: Cash flow volatility from operations calculated using the standard deviation of cash flows divided by total assets in year t.

4. RESULT AND DISCUSSION

Based on the purposive sampling method, a sample of 92 firms in the manufacturing sector was obtained from 198 firms, described in the table below:

Table 1
Population and Sample

Information	Sample
Manufacturing firms registered in 2016-2020	198
Manufacturing firms whose data are incomplete	(77)
Manufacturing firms with negative total equity	(7)
Financial statements that reported other than rupiah	(22)
Manufacturing firm that meet the criteria	92
Number of firms based on criteria	460
Outlier	(5)
Number of samples for 5 years	410

Source: Secondary data from IDX and annual report, 2022

Descriptive Statistics

Descriptive statistics can be in the form of the highest value, average value, lowest value, standard deviation, number, and range to be able to explain the data is a test method that is able to provide an overview of the data (Ghozali, 2013). If the data has a grouping pattern in the calculated mean area, the smaller the standard deviation value, thus the smaller the distribution of the data being tested. The nature of the dispersion metric of variables can be explained by calculating the maximum value, standard deviation, and minimum value.

Table 2
Descriptive Statistics

	N	*Mean*	*Std. Deviation*	*Minimum*	*Maximum*
ADA	410	0,20211	0,08585	0,00942	0,38052
AAQ	410	0,17759	0,07628	0,01734	0,33909
AQ	82	0,15197	0,07235	0,01785	0,30722
SIZE	410	7,94689	1,60690	4,91720	12,7712
SGROWTH	410	0,04029	0,18622	-0,96255	0,84872
BTM	410	0,97631	0,24494	0,33181	1,61322
AGE	410	5,32346	0,76045	1,09861	6,25575
LEV	410	0,94218	0,20913	0,24269	1,81186
CFO_STD	410	0,06093	0,05874	0,00020	0,38767

Source: Processed secondary data, 2022

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The statistical descriptive analysis table shows the N value of 410, which means the number of samples used in the study is 410 samples. The dependent variable in this study is the quality of earnings proxied by ADA, AAQ, AQ (AFEE), this dependent variable has a mean value of 0.20211, 0.17759 and 0.15197 and the std value, respectively. deviation of 0.08585, 0.07628, and 0.07235 while the minimum value for ADA is 0.00942 with a maximum value of 0.38052. From this information, it can be seen that the distribution of the ADA and AAQ data is homogeneous because the mean value is greater than the standard deviation value. The independent variables in this study cannot be analyzed using descriptive statistics because they use dummy variables.

The control variables in this study include firm size (SIZE), internal (SGROWTH) and external (BTM) growth, firm age (AGE), firm debt structure (LEV), and cash flow volatility (CFO_STD). The company size (SIZE) has a minimum value of 4.9172 and a maximum value of 12.7712. Meanwhile, the mean is 7.94689, meaning. In addition, the standard deviation resulting from the test on the SIZE variable is 1.6069, this number can be interpreted that the research data is homogeneous because the average value is greater than the standard deviation and the sample data is not much different from the average value generated earlier.

Sales growth control variables (SGROWTH) and book to market ratio (BTM) are variables that function as proxies for external and internal growth, which are externally proxied by BTM and internally by SGROWTH. The variables SGROWTH and BTM respectively have a minimum value of -0.96255 and 0.33181, a negative number on the minimum value of the internal growth variable, which indicates that there are firms that have decreased sales from the previous year to the following year. The maximum values for each of these variables are 0.84872 and 1.61322. Meanwhile, the average of SGROWTH and BTM are 0.04029 and 0.97631. Furthermore, the standard deviation values are 0.18622 for SGROWTH and 0.24494 for BTM, respectively. The results of the mean and standard deviation of the SGROWTH variable can be interpreted that the data used as the sample is very varied and varied but the average value produced earlier is a poor representation of all the observation data used. This results in an average value that is smaller than the standard deviation.

Company age control variable (AGE) is used to assess how long the company has been on the IDX in months. The minimum value of this variable is 1.09861, while the maximum is 6.25575. The AGE variable has a mean value of 5.32346. In addition, the standard deviation is 0.76045, if it is related to the average value, it can be interpreted that the AGE variable has less varied data but the average value can be a good representation for all research data used because the mean value greater than the standard deviation.

The variable financial structure of the company (LEV) in the descriptive statistical test has an average value generated from observational data regarding the company's financial structure, which is 0.94218 and has a standard deviation of 0.20913. Then, it is known that the standard deviation of the LEV is smaller than the mean. So it can be concluded, the data used as a sample is homogeneous or does not vary, but on the other hand the resulting mean value can be a good representation for the whole data.

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In the descriptive statistical test, the CFO variable has a mean value of 0.06093 while the standard deviation value is 0.05874. From this descriptive statistical test, the CFO variable has data that is not widely distributed because the standard deviation value is smaller than the mean value, but the data that is not widely distributed indicates that the data used is more accurate with the resulting mean value.

Discussion

Hypothesis Testing

This study uses a multiple linear regression model that has met the classical assumption test (normality test, autocorrelation test, heteroscedasticity test, multicollinearity test). In testing the hypothesis using a t-test analysis, it can be done by looking at the significance value generated by each independent variable, if the value is above the significant degree (5%) the hypothesis will be rejected. In other words, the dependent variable is not influenced by the independent variable.

Table 3
Statistical Test Results t

Variabel	Model 1				Model 2			
	ADA		AAQ		ADA		AAQ	
	t	Sig.	t	Sig.	t	Sig.	t	Sig.
DIV	-2,117	0,035	-2,052	0,041	-	-	-	-
DIVLS	-	-	-	-	-1,362	0,174	-1,591	0,112
SIZE	-0,314	0,754	-2,744	0,006	-1,089	0,277	-3,369	0,001
SGROWTH	0,452	0,651	-0,331	0,741	0,473	0,637	-0,291	0,771
BTM	2,639	0,009	-0,832	0,406	2,823	0,005	-0,545	0,586
LOSS	1,967	0,050	-0,362	0,718	3,156	0,002	0,577	0,564
AGE	-1,277	0,203	0,906	0,365	-1,352	0,177	0,784	0,455
LEV	2,298	0,022	0,797	0,426	2,983	0,003	1,433	0,153
CFO_STD	6,358	0,000	0,578	0,564	6,312	0,000	0,519	0,604

Source: Processed secondary data, 2022

The results of testing models 1 and 2 also directly test hypotheses 1 and 2, the results of which are in table 3. Based on the table above, the independent variable DIV for the two proxies of profit, the significance value is both below the degree of significance (5%),

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where the values are 0.035 and 0.041 respectively. Based on this, it can be said that the first hypothesis is accepted.

For testing the second hypothesis or model 2, it has an insignificant value, meaning that the value generated by the DIVLS independent variable is far above 0.05 for both earnings quality proxies, where the resulting values are respectively 0.174 for the ADA proxy and 0.112 for the proxies. AAQ. Based on this, the second hypothesis is rejected. So that the quality of the company's earnings is not influenced by the amount or amount of dividends paid by the company.

Table 4
Statistical Test Results t

Variabel	Model 3				Model 4	
	ADA		AAQ		AQ	
	t	Sig.	t	Sig.	t	Sig.
DIV_CHANGE	-3,404	0,001	-2,143	0,033	-	-
PDIV	-	-	-	-	-2,642	0,010
SIZE	-1,110	0,268	-3,116	0,002	-0,370	0,712
SGROWTH	0,507	0,613	-0,304	0,762	-2,316	0,023
BTM	2,688	0,007	-0,567	0,571	-1,338	0,185
LOSS	3,062	0,002	0,359	0,720	0,812	0,420
AGE	-1,060	0,290	0,870	0,385	2,361	0,021
LEV	2,989	0,003	1,062	0,289	-1,841	0,070
CFO_STD	6,260	0,000	0,733	0,464	0,222	0,825

Source: Processed secondary data, 2022

Table 4 is a summary of the regression results from the third and fourth models. Based on the results of the regression, the information that can be obtained from the third model is that it is known that the significance value of the independent variable DIV_CHANGE for the two proxies of earnings quality is 0.001 (ADA) and 0.033 (AAQ). These values, when compared with the 0.05 degree of confidence, are below the level of confidence or significant to 0.05. Based on the basis of the analysis, the third hypothesis is accepted. So the statement that the earnings quality of the company is affected by changes in the amount of dividends paid must increase from the previous year, is proven.

As for the fourth regression model, the significance value of the independent variable, namely PDIV, has a value of 0.010 on the dependent variable AQ. If this value is compared with a confidence level of 0.05, then the significance value of the PDIV variable is significant to 0.05. Based on the basis of the analysis, the fourth hypothesis is accepted.

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This means that the quality of a company's earnings will be better when they pay dividends persistently.

Interpretation

Hypothesis 1: Firms that pay dividends have an influence on earnings quality

Regression analysis is used to test the hypothesis, it is known that the first hypothesis with dividends (DIV) as a variable has a significant value of 0.035 and 0.041 or significant to both ADA and AAQ earnings quality proxies with a negative sign. Based on this analysis, H1 is proven, that dividends affect earnings quality with a negative effect on ADA and AAQ proxies.

The quality of earnings in firms that pay dividends will be of higher quality than those that do not. The dividend payment status is measured by a dummy variable. This study, has the same results as several previous studies by Mulchandani et al (2019), Sirait & Siregar (2013) and Tong & Miao (2011). The results of the research show that dividends also have an influence on the quality of earnings proxied by ADA and AAQ. This is supported by Malkiel (2003) in his research that firms that pay dividends can be considered as a measure of the fairness of reported earnings and find that dividends can be used to show the financial strength of a company and the credibility of reported earnings. In addition, firms that distribute dividends are empirically proven to have lower discretionary accruals, lower standard deviations and absolute error values in projecting accruals to cash flows, and have earnings that are more relevant in predicting future firm value. , compared to firms that do not distribute dividends (Sirait & Siregar, 2013).

Theories that support or explain the results of this research are signaling theory and agency theory. The signaling theory shows that dividends can be used as one of the corporate actions to signal the quality of earnings to the market that management can do to minimize information asymmetry between management and owners. This is because the distribution of dividends to investors can be an indication that the profits generated by the company actually generate strong cash flows to carry out this corporate action, the distribution of dividends. But when firms report high earnings but low distributed profits, it can be an indication that the quality of reported earnings is not actually generating strong cash flows. On the other hand, in addition to dividends are used by management to provide a strong and honest signal about the company's performance during the period. When a company announces to distribute dividends to investors, the dividends can provide information about future earnings prospects or future company performance so that it can be used as an indicator to assess the quality of a company's earnings. The management also uses dividends to reduce agency costs carried out by principals against agents, one of which is by facilitating monitoring from the capital market on the actions and managerial performance of agents.

Hypothesis 2: Firms that pay dividends in large quantities have an influence on the quality of earnings

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The amount of dividends distributed by the company (DIVLS) is an independent variable in H2. From the regression test, the significance value was 0.174 for ADA and 0.112 for AAQ. Both values are not significant to the earnings quality proxy and have a negative sign. From the test results H2 shows that H2 is rejected. This means that the amount of dividends paid does not affect the quality of a company's earnings.

The results of the H2 test described above show that the amount of dividends paid has no effect on earnings quality. In other words, the dividend payout ratio of a company cannot be used as an indicator to measure earnings quality. This is in line with the research by Skinner and Soltes (2011), where the quality of a company's earnings is not influenced by the amount of dividends or the dividend payout ratio. The results of this study strengthen the findings of previous studies, namely the quality of a company's earnings will be better and more reliable when the company distributes dividends but is not affected by the small size of the dividend. The reason for this argument, because the majority of firms that distribute dividends distribute dividends in almost the same amount or size (homogeneity) so that the level of earnings quality that occurs between the firms is almost the same, this makes earnings quality not affected by the size of the amount of dividends distributed (Febriela and Veronica, 2014).

On the other hand, Miller and Rock (1985) in finding results that contradict the results in this study, where the results of their research reveal that dividends paid by firms in large quantities have an effect on better quality of company earnings. The basis of this argument is that firms that pay large dividends should have positive and large cash to pay dividends in the future with the same amount. From these findings, that good financial performance and credibility in reporting earnings can be seen from whether the company pays dividends in large amounts or not.

Theories that support or can explain the effect of dividends on earnings quality are signaling theory and agency theory. Because firms that pay dividends in large numbers, they must have large enough cash to pay dividends, so that large dividend payments can increase the credibility of reported earnings and indirectly the information held by the principal is the same as the agent regarding reported earnings. (Miller and Rock, 1985).

Hypothesis 3: Firms that increase the amount of dividends distributed affect the quality of earnings

Based on calculations using SPSS version 26, the significance value of the dividend change variable (DIV_CHANGE) is 0.001 for ADA's earnings quality proxy and 0.033 for AAQ with a negative sign. The basis of the analysis in determining whether the tested hypothesis is rejected or accepted is when the significance value generated by the independent variable is significant or below the level of confidence value of 0.05, the hypothesis is declared accepted. On the basis of the analysis, the statement of H4 is accepted. These results are supported by the results of research by Mulchandani et al (2019), Sirait & Siregar (2013), Skinner & Soltes (2011), and Tong & Miao (2011).

Variable of change in dividend amount (DIV_CHANGE) is one of many dividend proxies that is able to assess earnings quality. When a company tries to increase the amount of dividends to be distributed, the signal for investors is seen as an indication that

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changes in the amount of dividends distributed can provide information about future earnings. This argument, supported by research conducted by Caskey and Hanlon (2005) they argue that in their research they found that firms that increase the level of dividends distributed will have a positive effect on earnings quality because from these corporate actions, firms believe they can maintain or even increase the level or level of earnings. the amount of dividends to be distributed backed by a strong cash base.

However, the research conducted by Grullon et al (2005) yielded different results than this study. In his research, he found that changes in the amount of dividends distributed do not provide information about future earnings, therefore changes in dividends cannot be used as a tool to predict future financial performance. Although different estimation methods have been used and various methods to measure profitability, the results found are still the same, namely increasing dividends does indicate something but something that is not related to profit or profitability.

Theories that support or explain the results of this research are signaling theory and agency theory. Because every company that distributes dividends, it is one way of management to reduce the information asymmetry that occurs between the principal and the agent. On the other hand, theoretically when the amount of dividends distributed by the company increases or there is an increase in dividends, it indicates higher earnings quality because managers increase dividends only when they feel that future dividends can be maintained at this higher level (Lintner, 1956).

Hypothesis 4: Firms that pay dividends consistently have an influence on earnings quality.

The fourth hypothesis (H4) with the independent variable is dividend persistence. After the regression analysis, dividend persistence resulted in a significance value of 0.010 with a negative sign. From this information, it can be concluded that H4 which examines the effect of dividend persistence on earnings quality is accepted.

This study shows that earnings quality is influenced by dividend persistence with a negative effect on earnings quality proxy, namely AQ so that, if the company pays dividends consistently for five years, the company will have higher quality earnings. firms that distribute persistently mean that the profits reported by the company in the financial statements already describe the company's actual performance in an accounting period because profits must generate sufficient cash to be used to distribute dividends.

The results in this study are supported or in line with research by Mulchandani et al (2019), Sirait & Siregar (2013), Tong & Miao (2011), which explains that firms that regularly pay dividends for several years will have a fairly strong cash flow every year. year because it has to distribute cash through dividends every year so it is impossible for management to take earnings management actions. That argument, reinforced by research findings from Glassman (2005), in his research found that firms that pay dividends do not manipulate their earnings. Because firms that manipulate earnings that do not generate cash, will find it difficult to pay dividends every year because of the unavailability of cash.

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If the company tries to manipulate to increase the profits presented in its financial statements but does not distribute or increase dividends. This is because the existing profits are only temporary, unsustainable and unreal.

Signaling theory and agency theory are able to explain the effect of dividend persistence on earnings quality because when a company is able to consistently distribute dividends in five consecutive years, it means that the real cash flow from the company is proven not to be manipulated, on the other hand free cash flow. Firms are reduced or lost so that dividend payments can increase the likelihood that managers will have to increase external financing which will ultimately result in stricter management oversight by banks, stock exchanges, and capital providers.

5. CONCLUSION

The conclusion that can be drawn from the discussion of the research or the results of data analysis in this study is that it shows that dividend payments have an effect on quality with a negative effect on earnings quality proxies ADA and AAQ. This proves that quality earnings can be reflected when the company distributes dividends. In addition, this study also shows that the amount of dividends distributed by the company has no effect on earnings quality with ADA and AAQ proxies. This proves that regardless of the amount of dividends distributed by the company, it does not affect the quality of the company's earnings.

On the other hand, firms that increase dividends distributed from the previous year will have a negative effect on earnings quality with a negative effect on ADA and AAQ proxies and dividend persistence of a company will have a significant and negative effect on earnings quality proxies, namely accruals quality (AQ). This proves that firms that pay dividends for five consecutive years consistently have higher earnings quality than those that do not consistently distribute profits in the form of dividends.

Limitations

The limitations that exist when conducting this research are that the model used in this study can only be applied to firms that have been listed on the Indonesia Stock Exchange, then the adjusted R2 value in the research model is still low, which means that the model used is not perfect so that there are other factors that influence it. earnings quality other than those used in this study. In addition, there are 50 data outliers and there are still many proxies from earnings quality, such as time series, smoothness, and relevance values that are not used in this study.

Suggestion

In order to improve the results of this study, there are several suggestions, namely in future research using populations other than manufacturing firms such as financial firms or others in order to determine the effect of dividends on earnings quality in other sectors, then using other proxies of earnings quality and dividends in order to can find out the effect of dividends more broadly not only limited to the nominal scale in its measurement.

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In addition, it can use other research models that are better and produce a higher adjusted R2 value.

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