Journal of Economic & Financial Research
ISSN : 2352– 9822/ E-ISSN : 2588-1574
Volume: 11 Issue: 01 / June –2024
P 658 - 682
OEB Univ. Publish. Co.

The effect of the dividends policy on the earnings quality Empirical study on a set of companies listed in the Saudi Stock Exchange during 2017-2021

Zeghoud Teber [1] [*]

[1] Laboratory of Requirements of the Promotion and Development of Emerging Economies in the Context of Integration into the Global Economy (LEPEM), University of Kasdi Merbah Ouargla - (Algeria),
teberzeghoud@gmail.com

Received: *16/10/2023* ***Accepted****: 28/12/2023* ***Published:*** *30/06/2024*

Abstract:

This study aims to examine the effect of the dividends policy on the earnings quality of a sample of 18 companies listed on the Saudi Stock Exchange during 2017-2021. To do so, the study relied on building two Panel Data Models, which included the earnings quality as a dependent variable and the dividends policy (the decision of paying the dividends and the dividends ratio) as an independent variable; in addition to some other variables that affect that relation

The study concluded that there is no relation between the decision to pay or not to pay the dividends and the earnings quality in the companies listed on the Saudi Stock Exchange. Besides, there is a direct relation between the dividends ratio and the earnings quality in the companies listed on the Saudi Stock Exchange

Keywords: dividends; dividend policy; accruals quality; earnings management; earnings quality.

Jel Classification Codes: G35, M49.

---

[*]**Corresponding author:** Zeghoud Teber

1. Introduction

The dividends policy is one of the important issues in the financial management due to their direct relation with the shareholders, and because it can maximize shareholders fortune. The shareholders see the dividends policy as an index of the manager's competency in managing the activity of the company because they do not have time and opportunities to monitor the activity of the company. Besides, they look at the dividends ratio as a good index of the company's operational performance, the efficiency of the management, and the investment of the funds.

The managers desire to adopt a specific dividends policy and to maintain or increase the size of the dividends, depends on the size of the accounting earnings achieved during the year. This desire is a motive for the managers to manipulate the accounting earnings through manipulating the applicable accounting policies that go with the generally accepted accounting bases GAAB or using other methods that do not go with GAAB. In both cases, the quality of the accounting earnings is affected. On the other hand, the low-quality earnings that do not have a tangible material existence may limit the company's ability to continue paying the dividends in a monetary form. Therefore, it shall rely on other forms of dividends (stock dividends and dividends in species).

Hence, many studies attempted to study the relationship between the dividends policy, the earnings quality, and the possibility of relying on the dividends policy as an index of the absence of manager's Opportunistic behaviors in accounting earnings (earnings management); thus, the increase of the quality of the earnings disclosed in the financial lists. Thus, the accounting earnings quality is one of the most important topics in accounting thought, mainly after the financial scandals that happened lately. In addition, it is the main feature of the financial reports because this base provides that the financial reports must be beneficial for the investors and the other fund providers in their decisions about allocating the resources.

1.2 The problem of the study:

Based on what was said, we raise the following problem, "what is the impact of dividends policy on the quality of earnings for the companies listed in the Saudi Stock Exchange during 2017-2021?"

To treat this problem, we raise the following sub-questions:

- Is there a relation between the decision to pay or not to pay the dividends and the earnings quality in the companies listed on the Saudi Stock Exchange during 2017-2021?
- Is there a relation between the dividends ratio and the earnings quality of the companies listed on the Saudi Stock Exchange during 2017-2021?

1.3 Hypotheses of the study:

The study examines the following hypotheses:

- There is a direct statistical relation between the decision to pay or not to pay the dividends and earnings quality in the companies listed in the Saudi Stock Exchange during 2017-2021.
- There is a direct statistical relation between the dividends ratio and earnings quality in the companies listed on the Saudi Stock Exchange during 2017-2021.

1.4 Aim of the study:

This study aims to know the effect of the dividends policy by discussing the effect of the decision to pay or not to pay the dividends and the ratio of the dividend on earnings quality in the companies listed on the Saudi Stock Exchange. Besides, this study aims to present the theoretical concepts of the dividends policy and the earnings quality. In addition, it discusses if there is a relation between the dividends policy and the earnings quality, and shows the strength and direction of this relation.

1.5 Importance of the study:

This study draws its importance from the topic because earnings quality is one of the topics that got wide interest lately, mainly after the financial scandals in some companies in the world. Therefore, this research shows the important role of the dividends policy as an index of the earnings quality and, thus, the improvement

of the financial and investment decisions of many parts that depends on that earnings in making decisions.

1.6 Method and tools used:

To achieve the research objectives and hypotheses, We shall use the descriptive analytical method to discuss the theoretical sides of the dividends policy and earnings quality relying on previous Literature and references that tackled the dividends policy and the earnings quality, the work papers, studies and publications in economics and accountancy magazines And others that dealt with the relationship between dividend policy and earnings quality.

As for the practical side, we used the econometric method through estimating Panel Data Model using Eviews to analyze the potential effect of the dividends policy on the earnings quality of a set of companies listed in the Saudi Stock Exchange during 2017-2021.

2. Literate review

The following studies tackled the relationship between the dividends policy and the earnings quality in the companies:

2.1 The study of (Muljanto & al, 2022)**:**

It tackled the relation between the dividends measured with the dividends ratio to the earnings per share, and the earnings quality in the company measured with the discretionary accruals using the model of Kothari and al. (2015). The study covered a sample of 154 industrial companies listed in the Stock Exchange of Indonesia during 2015-2020. It used the multi-regression of the Panel Data Model for the statistical analysis. Findings show a reverse relation between the dividends ratio, the earnings per share, and the variable of discretionary accruals. This shows a direct relation between the dividends policy and the earnings quality. Thus, the study pointed out that the dividends have a positive effect on the accounting practices and the financial reports.

2.2 The study of (Kalyani & al, 2020)**:**

It aimed at examining the effect of the dividends on the accounting earnings quality of the company through a sample of 107 companies listed in the Stock Exchange of India during 2004-2015. In measuring the variable of the dividends, the study relied on the variables of the decision to pay the dividends, the size of the dividends, the changes in the dividends, and the persistence of the dividends. On the other hand, the variable of the earnings quality was expressed with the discretionary accruals. In addition, the statistical analysis relied on the multi-regression model using Panel Data Models. Findings showed a direct relation between paying the dividends by the company, the changes in the dividends, the persistence of the dividends, and the earnings quality. Besides, there was no effect of the size of the dividends on the earnings quality.

2.3 The study of (Trang Thi & Phuong, 2019)**:**

It attempted to examine the relationship between dividends and earnings quality through a sample of 101 companies listed on the Vietnam Stock Exchange during 2010-2016. To measure the dividends variable, the study used the decision of the company to pay or not to pay the dividends (dummy variable that takes the value 01 if the company pays the dividends and 0 if no), the ratio of the dividends to the share market price, and the ratio of the dividends to the earnings per share. On the other hand, the earnings quality variable (the dependent variable) had been measured with the quality of accruals that were measured using the Residuals Absolute Value (discretionary accruals) estimated with Dechow & Dichev's model (2002) and the model of Dechow & Dichev modified by McNichols (2002). As for the statistical analysis, the study used the multi-regression model of the Panel Data Model. Findings showed a reverse relation between the decision to pay the dividends, the dividends ratio to the share market price, the dividends ratio to the earnings per share, and the discretionary accruals. This shows a direct relation between the dividends policy and the earnings quality. Thus, the study confirmed

that the dividends policy contributes to improving the accounting dividends for the financial lists.

2.4 The study of (Siti & Seto Sulaksono, 2019)**:**

It aimed to examine the relationship between dividends and earnings quality through a sample of 54 companies listed on the Indonesia Stock Exchange during 2010-2014. In measuring the variable of dividends, the study relied on two variables: the decision of the company to pay the dividends or not، and the amount of dividends. In addition, the variable of the earnings quality was measured using the discretionary accruals. As for the statistical tools, the study used the multi-regression model of Panel Data Models. Findings show that the companies that pay the dividends have earnings with a higher quality than the companies that do not pay the dividends. Besides, paying the dividends with high amounts does not mean that the earnings of the company have a higher quality.

2.5 The study of (Lu & al, 2017)**:**

It aimed to examine the effect of the dividends on the earnings quality in the company through a sample of all the non-financial Chinese companies listed in the database of CSMAR during 1999-2014. The variable of dividends was measured with the ratio of the dividend to the share market price and the decision to pay the dividends or not (dummy variable). On the other hand, the earnings quality was measured with the persistence of the earnings and the discretionary accruals. As for the statistical analysis, the study used the multi-regression for Panel Data Models. Findings show a direct relation between the ratio of the dividends, the decision to pay the dividends, and the persistence of the earnings variable. Besides, there is a reverse relation between the dividends ratio, the decision to pay the dividends, and the discretionary accruals. Thus, the study confirms that the dividends contribute to improving the accounting dividends of the financial lists.

3. The theoretical frame of the dividends policy:

The decision to pay dividends is one of the most important financial decisions in the companies, in addition to the decisions of investment and funding, because of the important role in developing and expanding the companies, the direct relation with the shareholders, and its impact on the price of the share in the Stock Exchange.

3.1 Definition of the dividends policy:

Khan (2011) defines the dividend as the earnings paid to the company owners. Thus, these dividends are a reward for funding the company (Khan, 2011, p. 53). Besides, it is defined as a strategy used by the company to pay part of the earnings to the shareholders and maintain the rest to be reinvested. That means dividing earnings, Thus, we shall have dividends and retained earnings (Kyle & Frank , 2013, p. 220). In addition, Bealey & Myers define it as retaining some earnings, distributing some, and issuing new shares (Abor & A.Bokpin, 2010, p. 182). On the other hand, Jatmiko (2011) defines the dividends policy as the decisions related to dividing the earnings of the shareholders or retaining them in the company to fund future investments (Jatmiko, 2015, p. 68).

Based on what was said, we can say that the dividends policy is the method adopted by the company toward the earnings. It determines the part of the earnings that must be distributed to the shareholders and the part that must be retained as a source of internal funding for the expansion, growth, and reinvestment into the company. Therefore, it is one of the most important financial decisions in the company which affect directly the shareholders. In this line, it affects the prices of the shares and the value of the company in the financial market.

3.2 Types of the dividends:

Despite that the most common type of dividends is cash dividends, companies need different types to achieve their goals and the policy.

- Cash dividends: This is the most common method in the joint-stock companies. It allows regularly paying seasonal or annual cash dividends. It affects the cash of the company and the retained earnings (Ross, 2003, p. 606).

- Stock Dividends: It is simply paying extra shares to the shareholders. The share of each investor is determined based on his proportion in the company. Usually, these shares are referred to as the free shares. In this line, they are not considered real dividends because they are not cash (Ross, 2003, p. 626).

- Stock split: The processes of dividing or deriving shares may take place through two new shares for one old share, or three new shares for one old share, or one and a half new shares for an old share, or any other average that is determined by the company (Ross, 2003, p. 626).

- Stock buyback: It refers to restoring part of the ordinary shares in the exchange to divide the cash on the shareholders. This policy leads to a reduction in the number of shares and, thus, positively affects the earnings per share and increases the share price in the financial markets (Ross, 2003, p. 623).

3.3 Patterns of the dividends policy:

The dividends policy can be divided into (Madhuri , 2023, p. 4):

- The stable dividends policy: It focuses on consistent rewards for the shareholders in the form of earnings. Generally, the consistency in the rewards is seen as an index of stability in the shareholder's incomes. Thus, the companies that follow this type have a big interest in the investors. The stable dividends policy may take two forms: namely the stable payment ratio from the achieved earnings, and the stable amount of cash dividends per share.

- The residual dividends policy: It allows funding all the available investment opportunities from the earnings, and then distributing the residuals. This policy leads to unstable dividends characterized by big fluctuations because the dividends fluctuate according to the availability of investment opportunities for the company.

- The regular dividends policy with a bonus: Here, the dividends are low but stable. In addition, it is possible to distribute a bonus at the end of the year if the earnings improve. Thus, there is a minimum limit of dividends and extra dividends. The company uses this policy when the annual earnings fluctuate.

4. The theoretical frame of the earnings quality:

It is one of the most discussed topics in the contemporary accounting literature because of the global financial crises and collapses that proved the decrease in the reliability of the financial reports issued by the companies, their unsuitability in decision-making, and their falsification of many truths about the financial positions of the companies. It contains manipulation, fraud, desecration, and deception that make it far from its true status.

4.1 Definition of the earnings quality:

A differ Points of view on the concept of earnings quality. Its stems mainly from the different views of financial lists users regarding the characteristics that earnings contain that make them have quality**.**

Bellovary et al., (2005) defined the earnings quality as an "ability of reported earnings to reflect the company's true earnings, as well as the usefulness of reported earnings to predict future earnings" (Bellovary, 2005, p. 32). In addition, Barth et al. (2008) defined high-quality earnings as those that show less earnings management (Barth & al, 2008, p. 468). Furthermore, Penman & Zhang (2002) defined high-quality earnings as earnings that are sustainable indicators of future earnings (Penman & Zhang, 2002, p. 237). On the other hand, Cohen (2004) sees that earnings quality is the extent to which a

company's past earnings are related to its future cash flows (Mohammady, 2010, p. 3). Besides**,** Dechow & Schrand (2004) define a high-quality earnings number as one that accurately reflects the company's current operating performance, is a good indicator of the future operating performance, and is a useful summary measure for assessing the company value (Mawaheb, 2020, p. 7).

We see that there is no consensual definition because the earnings quality is related to many fields. However, we can define it according to the main goals saying that it is the earnings according to the accounting criteria that are characterized by suitability and reliability, and that empower the company to survive. Besides, the earnings quality allows for getting beneficial information for the evaluation of the operational performance of the company and the cash flow.

4.2 The importance of the earnings quality:

It draws importance from the earnings per se. In this regard, the company's earnings, regardless of their quality, are one of the necessary inputs to make many financial and investment decisions. Based on this, the accounting thought provided a set of justifications for the importance of the accounting earnings, mainly:

- The quality of the accounting earnings helps the investors in the financial markets evaluate the administration quality and distinguish the good and bad directors (Despoina , 2013, p. 14).
- The accounting earnings are one of the main criteria to evaluate the company's performance and predict the future performance (Shehada, 2018, p. 42).
- The quality of the accounting earnings reflects the various decisions of the investors and the debtors in the security market because it reflects the real performance of the company which contributes to making good investment decisions (Despoina , 2013, p. 14).
- The earnings quality is an important index of the reliability of the financial information used by the stakeholders such as the

investors, the debtors, etc. In this regard, the reliability of the information indicates the necessity of the true representation of the financial state of the company without bias or errors because the reliability of the information is necessary due to the uncertainty in the business world (Saleh & al, 2020, p. 33).

- The quality of the accounting earnings is an index of the accounting dividends because it is one of the important points to be considered when making financial decisions (Despoina , 2013, p. 14).
- The quality of the earnings serves the setters of the accounting criteria because it is an indirect index to evaluate the international accountancy criteria (Despoina , 2013, p. 14).

4.3 The measures of the earnings quality:

Despite the advances in this field, there is still much debate in the accounting thought about the absence of unified measures for the quality of the accounting earnings. Therefore, they resorted to the characteristics of the actual earnings as a tool to get an objective measure to understand the quality of the accounting earnings. In this context, francus and al in 2004, 2008 specify seven measures for earnings quality Which is widely used in accounting research ،These characteristics include : the accruals quality, the earnings persistence, the predictability, the earnings smoothness, the value relevance, the timelines, and the accounting conservatism.

- The accruals quality: The gap between the earnings and the cash is known as the accruals. Thus, the quality of the accruals is a measure of the earnings quality because whatever the earnings are close to cash flows,it will have a higher quality . It's found that the company that has high accruals (a big gap between the net income and the operational cash flows) suffers a low performance in the following year (Shehada, 2018, p. 47).

The Jones model is one of the most important for measuring the accounting accruals through the relation between the income and the

accruals that represent the difference between the revenues and the cash flows.

- Earnings persistence: This measure shows the continuity or frequency of the current earnings in the future. The increasing persistence is a desired feature for investors (Ewert & Wagenhofer, 2011, p. 28).

- Predictability: It refers to the ability of the previous earnings to predict the future earnings or future cash flows. The earnings have a high quality when they have a high prediction ability (Mawaheb, 2020, p. 9).

- Earnings smoothness: The smoothness of the income is one of the forms of earnings manipulation. Methods and accounting estimates are used to limit the level of fluctuation of the declared earnings from time to time (Mawaheb, 2020, p. 9).

- Value relevance: The value relevance as a measure of the earnings quality relies on the notion that the accounting numbers must clarify the information conveyed by the revenues. The value relevance is the ability of the accounting numbers to explain the variance in the share revenues because the earnings that explain the revenue variance are a high quality earnings (Francis & al, 2006, p. 46).

- Timeliness: It refers to the ability of the earnings to reflect the bad and good news included in the revenues (Francis & al, 2006, p. 48).

- Accounting conservatism: It is the asymmetric timing for the reflection of the effect of the good and bad news on the declared accounting earnings in the financial lists. In this line, the bad news has a faster effect than the good news because the accountant predicts all the losses, not the earnings (Shehada, 2018, p. 49).

5. The empirical study:

After tackling the theoretical frame of the dividends policy and the earnings quality, to show the previous results of studies which tackl the relation between variables, and to answer research problem and test its hypothese, we shall conduct an empirical study on a sample of 18 companies listed in the Saudi Stock Exchange.

5.1 Population and sample of the study:

The population of the study includes all the companies (224) listed on the Saudi Stock Exchange during 2017-2021. As for the sample, it covers 25 companies from various sectors. In this line, we excluded 07 companies because their data have extreme values (odd). Then, we collected data from the financial reports published in the Saudi Stock Exchange for the study of a sample of compaies during 2017- 2021.

5.2 Study variables and method of measurement:

5.2.1 The dependent variable:

Earnings quality is the dependent variable of this study. It shall be measured through the accruals quality variable, as it is one of the most important measures of earnings quality . Thus, we shall measure accruals quality variable throught the variable of the absolute value of the discretionary accruals using the Jones model modified by Dechow et al (1995), as follows:

a- Calculating the total accruals:

$$TA_{it} = NI_{it} - CFO_{it}$$

Where:

TA_{it} : is the total accruals of the company (i) during the period (t)

NI_{it} : is the net earnings of the company (i) during the period (t)

CFO_{it} : is the net operational cash flow of the company (i) during the period (t).

b- Estimating the model parameters:

The discretionary accruals are the difference between the total accruals and the non-discretionary accruals. Therefore, to calculate the discretionary accruals, we must calculate the non-discretionary accruals first by estimating the model parameters, as follows:

$$\frac{TA_{it}}{A_{i\,t-1}} = a_t\left(\frac{1}{A_{it-1}}\right) + a_{1i}\left(\frac{\Delta CA_{it} - \Delta CC_{it}}{A_{it-1}}\right) + a_{2i}\left(\frac{\Delta IMMO_{it}}{A_{it-1}}\right) + e_{it}$$

Where:

TA_{it} : is the total accruals of the company (i) during the period (t).

$A_{i\,t-1}$: is the total assets of the company (i) during the period (t-1).

ΔCA_{it} : is the change in the turnover of the company (i) during the period (t) and (t-1).

ΔCC_{it} : is the change in the customers' balance of the company (i) during the period (t) and (t-1).

$Immo_{it}$: is the total estates, properties, and machines of the company (i) during the period (t).

e_{it} : is the random error that expresses the value of the discretionary accruals of the company (i) during the period (t).

a_t، a_{1i}: are the model parameters of the company (i).

c- Calculating the non-discretionary accruals:

At this phase, the value of the non-discretionary accruals of each sample company during the study is estimated using the parameters of the annual model estimated in the last phase through this equation:

$$NDA_{it} = \hat{a}_t\left(\frac{1}{A_{i,t-1}}\right) + \hat{a}_{1i}\left(\frac{\Delta CA_{it} - \Delta CC_{it}}{A_{i,t-1}}\right) + \hat{a}_{2i}\left(\frac{IMMO_{it}}{A_{i,t-1}}\right)$$

Where:

NDA_{it} : is the non-discretionary accruals of the company (i) during the period (t).

d- Calculating the discretionary accruals:

The total accruals include the discretionary and non-discretionary accruals. Thus, the discretionary accurals represents the difference between the total accruals and the non-discretionary ones of a company during a certain period, as follows:

$$DA_{it} = \frac{TA_{it}}{A_{i,t-1}} - NDA_{it}$$

Where:

DA_{it} : is the discretionary accruals of the company (i) during the period (t).

5.2.2 The independent variables:

The dividends policy is the independent variable of the actual study, in addition to some other control variables (Adjust) that are

supposed to affect the quality of the earnings of the sample companies.

a- The dividends policy:

The dividends policy variable (the independent variable) shall be measured with two measures as follows:

- **The decision to pay or not to pay the dividends DIVP:** It is a dummy variable that takes the value 01 if the company pays the dividends to the shareholders during the year, and the value 0 if not (not to pay dividends).
- **Dividends ratio DIV:** It is measured through divide the dividends to the total assets.

b - The Return on Assets ROA: It is measured by dividing the net income to the total assets.

c - Size: We will rely on the natural logarithm of total assets as a measure of company size.

5.3 The statistical methods and tools used:

The statistical method used in the current study to measure the effect of dividend policy (the independant variable) on the earnings quality (Dependent variable) is to apply the Panel Data Model during 2017- 2021 and Eviews.9. Thus, the two econometric models to be estimated take the following formula:

The model of DIVP effect on the earnings quality:

$$DA_{it} = \beta_0 + \beta_1 DIVP_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \varepsilon_{it}$$

The model of DIV effect on the earnings quality:

$$DA_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \varepsilon_{it}$$

Where :

DA_{it} *:* is the earnings quality expressed with the accruals quality and measured with the absolute value of the discretionary accruals of the company (i) during the period (t).

$DIVP_{it}$: is the decision to pay or not pay the dividends of the company (i) during the period (t).

DIV_{it} : is the ratio of the dividends of the company (i) during the period (t).

ROA_{it} : is the average return on assets of the company (i) during the period (t).

$SIZE_{it}$: is the size of the company (i) during the period (t).

ε_{it} : is the limit of the random error.

5.4 Results of the study:

5.4.1 Estimating the model of DIVP effect on the earnings quality:

We shall estimate the effect of DIV measured with DIVP on the earnings quality expressed with the accruals quality and measured with the discretionary accruals using the aggregation model, the fixed model, and the random model. Besides, we estimate the model parameters and make the necessary tests on the three models. Results are shown in table 01 in the appendix.

a- The Redundant Fixed Effects test:

To compare, we should use the test on Eviews 9 model, which is Redundant fixed effects tests which relies on the Fisher test. Table 02 in the appendix shows that the test probability is less than 0.05 and that the value of calculated F is 2.444879. It is higher than the table value $F_{tab}(0.05,17,69) = 1.77293084$. Thus, we refuse the null hypothesis H_0 and accept the existence of redundant fixed effects. This means that the Redundant Fixed Effects model is better than the aggregation one.

b- The Redundant Random Effects test:

To compare, we should use the test on Eviews 9 model, which is Breusch- pagan. The results of the test shown in table 03 in the appendix where we notice that the probability is less than 0.05. Thus, we refuse the null hypothesis H_0 and accept the alternative one that states that there are redundant random effects. This means that the Redundant Random Effects model is better than the aggregation one.

After conducting these tests, we found out that the model that has better fixed or random redundant effects is better than the

aggregation one. In this line, we shall trade off the random and fixed redundant effects models.

c- Hausmann test to trade-off the random and fixed redundant effects models:

Hausman test compare the trade-off random and the fixed redundant models. The results of the test are given in Table 04. It shows that the calculated χ_2= 8.271038 is higher than the table value χ_2= 7.81472776. Besides, the significance is less than 0.05. Therefore, we refuse the null hypothesis and say that the suitable model for the study is the Fixed Effects Model.

5.4.2 Estimating the model of DIV effect on the earnings quality:

We shall estimate the effect of the dividends policy, measured with DIV, on the quality of the earnings expressed with the accruals quality and measured with the discretionary accruals using the three models: the aggregation model, the fixed model, and the random model. Besides, we estimate the model parameters and make the necessary tests on the three models. Results are shown in table 05 in the appendix.

a-The Redundant Fixed Effects test:

To compare, we should use the test on Eviews 9 model, which is Redundant fixed effects tests, The test relies on the Fisher test. Table 06 in the appendix shows that the test probability is less than 0.05 and that the value of the calculated F is 2.913089. It is higher than the table value$F_{tab}(0.05,17,69) = 1.77293084$. Thus, we refuse the null hypothesis H_0 and accept the existence of redundant fixed effects. This means that the Redundant Fixed Effects model is better than the aggregation one.

b- The Redundant Random Effects test:

To compare, we should use the test on Eviews 9 model, which is Breusch- pagan. The results of the test are shown in Table 07 in the appendix. In this vein, we notice that the probability of Breusch-pagan test is less than 0.05. Thus, we refuse the null hypothesis H_0 and accept the alternative one that states that there are redundant random

effects. This means that the Redundant Random Effects model is better than the aggregation one.

After conducting these two tests, (The Redundant Fixed Effects test,/Breusch-Pagan test) we found out that the model that has better fixed or random redundant effects is better than the aggregation one. In this line, we shall trade off the random and fixed redundant effects models.

c-Hausmann test to trade-off the random and fixed redundant effects models:

Hausman test compare the trade-off random and the fixed redundant models. The results of the test are given in Table 08. It shows that the calculated χ_2= 13.730038 is higher than the table value χ_2= 7.81472776. Besides, the significance is less than 0.05. Therefore, we refuse the null hypothesis and say that the suitable model for the study is the Fixed Effects Model.

5.5 Results discussion:

5.5.1 Discussion of the results of DIVP effect on the earnings quality:

The analysis of the Fixed Effects Model reveals the choice of two independent variables with statistically significant effects on the earnings quality that is measured with the accruals quality that is measured with the absolute value of the discretionary accruals, which is the variable of the average ROA and the size of the company.

In this context, the average ROA and the size of the company contribute to explaining the changes in the dependent variable (earnings quality) with a rate of 50.99%. Besides, the analysis reveals the existence of a non-statistically significant relation between DIVP and the dependent variable (earnings quality) . This shows that this variable does not explain the dependent variable.

In addition, the results show that there is a reverse relation between DIVP and discretionary accruals; nevertheless, it is not

statistically significant. This shows that there is no relationship between DIVP and earnings quality.

Therefore, the decisions of the companies to pay the dividends do not have a higher earnings quality than those that do not pay. Consequently, the decision to pay dividends in the companies listed on the Saudi Stock Exchange does not indicate the quality of their earnings. Hence, we refuse the 1st hypothesis that states that "there is a direct statistical relation between the decision of paying or not paying the dividends and the earnings quality in the companies listed in the Saudi Stock Exchange during 2017-2021". In this context, this result disagrees with the studies of Kalyani & al (2020), Trang Thi & Phuong (2019), Siti & Seto Sulaksono (2019), and Lu & al (2017) which found a direct relation between DIVP and the earnings quality.

Furthermore, findings show a direct statistical relationship between RoA and discretionary accruals. This shows that the increase of RoA in the companies listed in the Saudi market leads to an increase in the discretionary accruals and a decrease in the earnings quality in the financial reports (reverse relation between the discretionary accruals and the earnings quality). This is because the joint-stock companies listed in the Saudi Stock Exchange that achieve high rates of ROA have high manipulation of earnings and are dominated by personal interests. It leads to a law earnings quality.

Moreover, there is a reverse statistical relation between the size of the company and the discretionary accruals. Thus, the increase in the size of the companies listed in the Saudi stock market decreases the discretionary accruals and increases the earnings quality in the financial reports. This is because the big-sized companies have less Opportunistic behaviors of managers and their manipulation of the earnings and less personal interests. It leads to a higher earnings quality.

5.5.2 Discussion of the effect of DIV on the earnings quality:

The results of the analysis of the Fixed Effects Model reveal the choice of three independent variables with a statistically significant

effect on the earnings quality that is measured with the accruals quality that is measured with the absolute value of the discretionary accruals, namely: the DIV, ROA, and the size of the company.

These independent variables contribute to explaining the changes in the dependant variable (earnings quality) with a rate of 54.31%.

Besides, findings show a reverse statistically significant relation between DIV and discretionary accruals. This means that the increase of DIV in the companies listed on the Saudi Stock Exchange decreases the discretionary accruals and increases the earnings quality in the financial reports. In this line, the companies that have a high DIV have high-quality earnings because the increase of DIV according to the agency theory leads to the decrease of the free cash flows that the directors may use for personal interests. As a result, the motivation of the directors for personal interests in the companies that have high DIV is low because the earnings will be used as dividends. As a consequence, the increase of DIV is an index of the low manipulation and Opportunistic behaviors of managers in the financial reports and the high quality of the earnings. Based on this, we accept the second hypothesis that states “there is direct statistical between the dividends rate and the quality of the earnings in the companies listed in the Saudi Stock Exchange during 2017-2021". These findings agree with those of Muljanto & al (2022), Trang Thi & Phuong (2019), and Lu & al (2017) who found a direct relation between DIV and earnings quality.

In addition, the results of the analysis revealed a statistically significant relation between ROA and discretionary accruals. This means that whatever the increase of ROA in the companies listed on the Saudi Stock Exchange, the discretionary accruals increases, and the earnings quality decreases in the financial reports. Besides, the joint-stock companies listed on the Saudi Stock Exchange that have high rates of ROA have Opportunistic behaviors and high manipulation of earnings and personal interests. It leads to a law earnings quality.

Furthermore, findings show a direct statistically significant relation between the size of the company and the discretionary accruals because the increase in the size of the companies listed in the Saudi Stock Exchange increases the discretionary accruals and decreases the quality of the earnings in the financial reports. This is because the big sized companies have a higher Opportunistic behaviors and high manipulation of earnings and personal interests. It leads to a law earnings quality.

6. Conclusion:

The study aimed to examine the effect of the dividends policy measured with DIVP and DIV on the earning quality in 18 joint stock companies listed in the Saudi Stock Exchange during 2017-2021 through an econometric study and two Panel Data models using Eviews 9. Findings show no statistically significant relation between DIVP and the earnings quality measured with the discretionary accruals estimated with the Jones modified model (1995). This indicates that the quality of the earnings in the companies that pay the dividends to the shareholders is not higher than those of the companies that do not. Therefore, the decision of DIVP is not an index of the quality of the earnings in the study companies.

In addition, there is a direct relation between the DIV and the earnings quality in these companies listed in the Saudi Stock Exchange . This indicates that the increase of the DIV increases the earnings quality and reduces the agency costs through the decrease of the free cash flows that can be used by the directors for personal interests. Hence, the companies listed in the Saudi Stock Exchange under study that have high DIV have less Opportunistic behaviors of managers to manipulate the earnings. It leads to a higher earnings quality.

Based on these findings, we recommend making similar studies that include other measures of the earnings quality, such as the earnings persistence and the predictability of the earnings.

Bibliography List:

Abor, J., & A.Bokpin, G. (2010). Investment opportunities, corporate finance, and dividend payout policy,Evidence from emerging markets. Studies in Economics and Finance, 27(3).

Barth, M., & al. (2008). International accounting standards and accounting quality. Journal of Accounting Research, 46(3).

Bellovary, J. (2005). Earnings Quality: It's Time to Measure and Report. The CPA Journal, 75.

Despoina , M. (2013). Fair Value Accounting and Earnings Quality: Listed Real Estate Companies in Sweden. Business Administration Master's Thesis 15 ECTS. Karlstad Business School.

Ewert , R., & Wagenhofer, A. (2011). Earnings Quality Metrics and What they Measure. university of Graz, Austria, Electronic copy avalable at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1697042.

Francis , J., & al. (2006). Earnings quality. Foundations and Trends in Accounting, 1(4).

Jatmiko, D. (2015). The Influence of Agency Cost, Market Risk, and Investment Opportunities on Dividend Policy. International Journal of Management and Commerce Innovation, 3(2).

Kalyani , M., & al. (2020). Dividends and earnings quality: Evidence from India. IIMB Management Review, 32(2), 166-176.

Khan, N. (2011). Dividend policy and the stock market reaction to dividend announcements in Pakistan. Thesis submitted to gain the degree of Doctor of Philosophy. University of Dundee.

Kyle, A., & Frank , W. (2013). Dividend policy and stock price volatility in the U.S equity capital Market. Proceedings of ASBBS, 20(1).

Lu , D., & al. (2017). Dividends and earnings quality: Evidence from China. International Review of Economics & Finance, 48, 255-268.

Madhuri , T. (2023). Dividend Policy Types. Updated, July 17, https://www.educba.com/dividend-policy-types/.

Mawaheb, A.-A. (2020). Effect of Audit Quality on Earnings Quality Given Firm`s Operational Characteristics: An Empirical Study on Companies Listed on the Egyptian Stock Exchange. Alexandria Journal of Accounting Research, 4(1).

Mohammady, A. (2010). Earnings Quality Constructs and Measures. Available at SSRN : https://ssrn.com/abstract=1678461 or http://dx.doi.org/10.2139/ssrn.1678461.

Muljanto , S., & al. (2022). The Relationship between Dividend Policy and Earnings Quality: The Role of Accounting Information in Indonesia's Capital Marketm. Journals Economies, 10(6), 1-23.

Penman, S., & Zhang, X. (2002). Accounting conservatism, the quality of earnings, and stock returns. The accounting review, 77(2).

Ross, S. (2003). Fundamentals Of Corporate Finance. 6th.Edition. McGraw-Hill, Singapore Alternate Edition.

Saleh, I., & al. (2020). Does Earnings Quality Affect Companies' Performance? New Evidence from the Jordanian Market. Journal of Asian Finance Economics and Business, 7(11).

Shehada, M. M. (2018). The Relationship Between Intellectual Capital Efficiency and Earnings Quality: An Applied Study. A Thesis Submitted to the Department of Economic and Admin Sciences in Partial. Fulfillment of the Requirements for the Master Degree in Accounting.

Siti , y., & Seto Sulaksono, A. (2019). Effect of Dividend Payment on the Earnings Quality. Proceedings of the 1st International Conference on Applied Economics and Social Science (ICAESS).

Trang Thi, N. N., & Phuong, K. B. (2019). Dividend policy and earnings quality in Vietnam. Journal of Asian Business and Economic Studies, 26(2), 301-312.

7. Appendices

Table 01: The results of estimating the Panel Model of DIVP effect on the earnings quality

Variables	Aggregation model	Fixed model	Random model
C	0.058248	(*) 1.677851	0.077072
DIVP	-0.012019	-0.027499	-0.015177
ROA	(*) 0.392082	(*) 0.609426	(*) 0.465174
SIZE	-0.002709	(*) -0.084197	-0.003527
R^2	0.214734	0.509932	0.245292

(*) Significant parameter at 0.05.

Source: made by the author based on the outputs of Eviews 9.

Table 02: the results of the Redundant Fixed Effects test on the model of DIVP effect on the earnings quality

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.444879	(17,69)	0.0048
Cross-section Chi-square	42.433060	17	0.0006

Source: made by the author based on the outputs of Eviews 9.

Table 03: the results of the Breusch-Pagan test on the model of DIVP effect on the earnings quality

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-sectio...	Time	Both
Breusch-Pagan	3.298511 (0.0693)	0.726053 (0.3942)	4.024564 (0.0448)

Source: made by the author based on the outputs of Eviews 9.

Table 04: the results of the Hausmann test on the model of DIVP effect on the earnings quality

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.271038	3	0.0407

Source: made by the author based on the outputs of Eviews 9.

Table 05: the results of estimating the Panel Model of the DIV effect on the earnings quality

Variables	Aggregation model	Fixed model	Random model
C	0.075667	(*) 2.045660	0.104662
DIV	-0.231985	(*) -0.842437	-0.412439
ROA	(*) 0.417721	(*) 0.689458	(*) 0.513164
SIZE	-0.003692	(*) -0.102760	-0.004931
R^2	0.215316	0.543182	0.256418

(*) significant parameter at 0.05.

Source: made by the author based on the outputs of Eviews 9.

Table 06 the results of the Redundant Fixed Effects test on the model of the DIV effect on the earnings quality

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.913089	(17,69)	0.0009
Cross-section Chi-square	48.689674	17	0.0001

Source: made by the author based on the outputs of Eviews 9.

Table 07: the results of the Breusch-Pagan test on the model of DIV effect on the earnings quality

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-sectio...	Time	Both
Breusch-Pagan	4.378698	0.775255	5.153953
	(0.0364)	(0.3786)	(0.0232)

Source: made by the author based on the outputs of Eviews 9.

Table 08: the results of the Hausmann test on the model of DIV effect on the earnings quality

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.730038	3	0.0033

Source: made by the author based on the outputs of Eviews 9.