



The moderating effect of the type of firms' ultimate ownership on the relationship between dividends and earnings quality

Mahdi Baharmoghaddam¹, Hossein Jokar^{2*}, Noorollah Salehi³

1- Associate Prof. of Accounting, Shahid Bahonar University of Kerman, Iran.

2- Ph.D. Student of Accounting, Shiraz University, Iran.

3- Assistant Prof. of Accounting, Shahid Bahonar University of Kerman, Iran.

ARTICLE INF	ABSTRACT
<p><i>Article history:</i> Received: 2-05-2017 Accepted: 28-05-2018</p>	<p>Several studies in Tehran Stock Exchange have examined the effect of dividends on earnings quality; but few studies have been conducted to examine the effect of dividends on earnings quality when the type of firms' ownership is different. Consequently, the purpose of this paper is to investigate the moderating effect of the type of firms' ultimate ownership on the relationship between dividends and earnings quality. Earning quality variables are measured using the variables of earnings sustainability, accruals quality, and investors' response to earnings. To achieve this goal, the data of 720 companies during the financial periods from 2009 to 2016 is used. The research results showed that in those firms' in which dividends are paid, dividends are associated with more persistent earnings, higher accrual quality, and greater earnings' informativeness, and the hypothesis of dividend information content can be confirmed for Iranian firms; But the type of ownership of the firms' can affect the severity of this relationship. Hence, that the informativeness role of dividends, when it comes to the earning quality, is lower in state-owned structure companies in comparison with non-governmental firms.</p>
<p>* Corresponding author: Hossein Jokar Ph.D. Student of Accounting, Shiraz University, Iran. Email: abas.jokar1388@gmail.com</p>	

1- Introduction

Building on the prior literature, this research argues that since dividends are supported by more stable cash flow and reduce free cash flow, as well as provide corroborative evidence to investors, dividend-paying firms have higher earnings quality than non-dividend paying firms, indicated by more persistent earnings, lower discretionary accruals, and greater earnings' informativeness (Deng, Li, and Liao, 2017). Besides the basic association

between dividends and earnings quality, Iran's firms also have another special feature in that firms have different ultimate owners. Government or private ownership will also affect the association between dividend payouts and earnings quality. For instance, Anderson, Chi, Ingram, and Liang (2011) show that state shareholders prefer cash dividends to stock dividends. Firms owned by the government tend to pay more dividends, which is an instrument employed by controlling shareholders for tunneling (Chen, Jian, & Xu, 2009; Chou, Chen, & Huang, 2010). More specifically, the objective of this study is to investigate the modifying effect of the type of companies' final ownership on the relationship between dividends and earnings quality.

2- Hypotheses

To achieve the objective of this research, the present study has two hypotheses.

H1: *Dividend has a significant impact on earnings quality.*

H2: *Type of ultimate ownership has a moderating effect on the relationship between dividends and earnings quality.*

3- Method

The present research is conducted following a quasi-experimental research design. The statistical population of this research includes the firms accepted in Tehran Stock Exchange. The study period is between the years 2009 to 2016 and 90 companies were investigated. To analyze the hypothesis, linear regression and t-test have been used. The collected data was calculated using the Excel software and was analyzed by EViews 9 and Stat14.

4- Results

The research results showed that in companies where dividends are paid, dividends are associated with more persistent earnings, higher accrual quality, and greater earnings' informativeness, and the hypothesis of dividend information content can be confirmed for Iranian companies. But the type of ownership of companies can affect the severity of this relationship. Further analyses show that the relationship between dividends and earnings quality could change with the type of ownership. We find evidence that state ownership can reduce the information-conveying role of dividends.

5- Discussion and Conclusion

Several studies in Tehran Stock Exchange have examined the effect of dividends on earnings quality, but few studies have been conducted to examine the effect of dividends on earnings quality when the type of

companies' ownership is different. So, the purpose of this paper is to investigate the moderating effect of the type of firms' ultimate ownership on the relationship between dividends and earnings quality. We further investigate whether the relation between dividend payouts and earnings quality could change with different ultimate ownership. The empirical result shows that the owner has the power to affect such an association. Firms with state ownership might use dividends to transfer resources out of the firms, so dividends of these firms have less information content to predict current earnings.

Keywords: Type of Ultimate Ownership, Dividends, Earnings Quality