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IS THERE A ROLE FOR EARNINGS MANAGEMENT IN DIVIDEND POLICY?

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Abstrak

Penelitian ini bertujuan untuk menguji apakah kebijakan dividen dipengaruhi oleh kepemilikan manajerial, arus kas bebas, atau manajemen laba dan peran manajemen laba sebagai variabel mediasi. Lima hipotesis diuji dengan analisis jalur. Pengujian menggunakan SmartPLS versi 3.2.9. Populasi adalah perusahaan manufaktur tahun 2014-2018. Periode penelitian dibatasi hingga 2018 untuk menghindari dampak Covid-19. Ada 125 tahun pengamatan perusahaan yang digunakan untuk mengkonfirmasi hipotesis. Hasil penelitian menunjukkan kepemilikan manajerial dan arus kas bebas mempengaruhi kebijakan dividen dan manajemen laba. Earnings manajemen bukan merupakan variabel mediasi. Hasil ini menolak hasil penelitian sebelumnya yang menyimpulkan bahwa manajemen laba berpengaruh terhadap kebijakan dividen. Implikasi penelitian adalah bahwa manajemen laba bukanlah penjelasan yang baik untuk melihat perubahan kebijakan dividen. Manajemen laba sulit untuk dikaitkan dengan perencanaan kebijakan dividen. Peneliti selanjutnya perlu memperhatikan pengukuran berbagai jenis manajemen laba yang lebih tepat dalam hal kebijakan manajemen.

Keywords: dividen, hubungan prinsipal-agen, arus kas bebas, kepemilikan manajerial

Abstract

The study examines whether the dividend policy is affected by managerial ownership, free cash flow, or earnings management and the role of earnings management, such as mediating variables. Five hypotheses were tested with path analysis. Testing uses SmartPLS version 3.2.9. The population was the manufacturing companies in 2014-2018. The research period is limited to 2018 to avoid Covid 19 impact. There are 125 year-firms observations used to confirm the hypotheses. The result shows managerial ownership and free cashflows affect dividend policy and earnings management. Earnings management is not a mediating variable. This result rejects the previous research results, which concluded that earnings management influences dividend policy. The implication is earnings management is not a good explanation to see changes in dividend policy. Earnings management is challenging to plan dividend policy. Further researchers need to pay attention to the measurement of various types of earnings management that are more precise in management policies.

Keywords: dividend, principals-agent relationship, free cash flows, managerial ownership.

I. INTRODUCTION

The dividend is the net profit distributed to the owners of capital or shareholders due to their capital participation in the company concerned. Dividends are one way to increase shareholder wealth. The distribution of profits to the company's shareholders is proportional to the number of shares owned by each shareholder. Dividend policy is considered an essential matter in a company because it involves the welfare of shareholders or investors and concerns the company's interests (Shubita, 2020).

The company's goal is to maximize shareholder wealth which is often interpreted as maximizing the firm value. In managing the company, many shareholders hand it over to professionals, namely as managers or agents. Agents act on behalf of shareholders who are expected to achieve their primary goal, namely the prosperity of shareholders. However, agents often have different goals, namely improving their welfare or opportunistic actions of managers such as increasing status and salaries and imposing these costs on the company. Acts of opportunism by managers charge the company, affecting the dividends distributed (Kustono, 2020).

One of the assumptions of a perfect capital market is that there is no conflict of interest between managers and shareholders. In practice, however, this assumption is questioned where company owners differ from management. In this case, the manager is an imperfect agent of the principals. It is because the interests of managers do not always match the interests of shareholders, and they can perform actions that are very valuable to shareholders, such as consuming excessive additional income or investing excessive amounts in profitable but unprofitable managerial activities. Therefore, agency costs are associated with managers' monitoring behavior, and these agency costs are implicit costs resulting from potential conflicts of interest between shareholders and company managers. Due to the separation of ownership and management functions, conditions between management as an agent and shareholders or shareholders give rise to different interests. Management wants the profits earned by the company to be used for company expansion (Ramadan, 2015).

In contrast, shareholders want a return on investment made in dividends and results in a conflict. In financial theory, the conflict caused by agency relationships is also called agency conflict. Dividend payments can align interests and reduce agency

problems between managers and shareholders by reducing discretionary funds available to managers.

Given such great attention to earnings, it is not surprising that management is very concerned about how earnings are reported. In general, earnings are often used to assess the business performance and or its manager against the company. An increase in profit will describe an increase in the firm value as a whole and vice versa (Zifeng and Zhonghua, 2018). Mainly to hide the company's losses, profits are set to show a favorable situation. It presents the idea of earnings management (EM) using accounting options to improve earnings reports for the benefit of managers. EM is carried out by managers, one of which is to achieve the profits expected by investors.

EM is the selection of specific accounting policies or activities by management that can affect earnings so that reported earnings are following the wishes of management. The stability of the company's earnings is the most important factor considered by managers in determining dividend policy. One way for companies to achieve earnings stability is to conduct EM.

Free cash flow (FCF) can describe the financial condition of a company. Free cash flow is the cash remaining after undertaking the entire project that yields a positive net present value when discounted at the relevant cost of capital (Elkalla, 2017). Payout policies' conflicts of interest between shareholders and managers become severe, primarily when the organization generates substantial free cash flow.

In research on the effect of EM on dividend policy, EM has a significant influence on dividend policy. Another study on dividend policy is that dividend policy is influenced by managerial ownership (MOWN).

The selection of manufacturing companies listed on the Indonesia Stock Exchange (IDX) as the research sample is based on the consideration that manufacturing companies are the companies that pay the most dividends. Selection of sample financial statements for 2014-2018 to obtain the latest information. Based on this background, the problems are (1) is the dividend policy affected by managerial ownership, free cash flow, or earnings management, and (2) is the earnings management affected by managerial ownership and free cash flows?

II. LITERATURE REVIEW

The dividend is the company's net profit, which is distributed to the owners of capital or shareholders due to their capital participation in the company concerned. Dividends are one way to increase shareholder wealth. The distribution of profits to the company's shareholders is proportional to the number of shares owned by each shareholder. That's why generally, shareholders are happy if the dividends increase from time to time. Dividend distribution is not easy to predict. In addition to the results of the GMS, other factors related to the results of the company's performance also contribute to the decision to pay dividends to shareholders (Fudenberg and Tirole, 1995).

The dividend payout ratio is a decision to determine how much part dividend will be distributed to shareholders. There is no general rule that can be applied universally to the findings of shareholders and management regarding dividends. The best that can be said is that the value of dividends depends on the decision maker's environment. Because the background changes from time to time, a manager is faced with the irrelevance of dividends at certain times and becomes something big or important.

Several factors that influence dividend policy are EM, MOWN, and FCF. There are two types of EM, namely efficient EM and opportunistic EM (Li, Abeysekera and Ma, 2011). Efficient EM aims to increase the informative level of earnings in communicating information originating from within the company. Opportunistic EM aims to maximize management utilities, such as bonuses received by managers.

EM is carried out by managers, one of which is to achieve the profits expected by investors. Companies that report earnings that exceed investors' expectations can have a significant impact on stock prices. If companies report earnings not as expected by investors, share prices will substantially decline.

The principal mandates agents to conduct business in the principal's interests, managers as agents, and shareholders as principals. Business decisions taken by managers are decisions to maximize the company's resources. It can be a threat to shareholders if managers act in their interests, not in the interests of shareholders.

Shareholders and managers each have an interest in maximizing their goals. Each party has risks related to its function; managers risk not being appointed again if they fail to carry out their tasks, while shareholders risk losing capital if they choose the wrong manager (Alves, 2014). Decisions and activities in companies with a MOWN

structure will undoubtedly be different from companies that do not have MOWN. In companies with MOWN, managers who are also shareholders will align their interests as managers with their interests as shareholders. Meanwhile, in companies without MOWN, managers who are not shareholders tend to benefit themselves in making decisions.

High MOWN causes low dividends paid to shareholders. The determination of low dividends is caused by managers' expectations of future investments financed from internal sources. If some shareholders like high dividends, this will cause differences in interests, so that an increase in dividends is needed. On the other hand, dividends do not need to be increased if shareholders and managers have an equal preference.

In addition to MOWN, free cash flow (FCF) affects dividend policy. Many analysts consider FCF the most significant amount developed from accounting reports, even more important than net income. FCF can describe a company's financial condition because companies with high FCF are considered capable of dealing with bad situations. FCF is the residual cash flow from financing all projects that produces a positive net present value and is discounted at the relevant cost of capital. Agency problems will get worse when the company generates large amounts of FCF.

FCF available in large enough quantities in a company usually creates a conflict due to differences in interests between managers and shareholders. Companies with high levels of FCF give managers more flexibility to use funds in a way that benefits themselves and is less in favor of shareholders' interests. So, if a company has an enormous cash surplus, the overinvestment problem will be more pronounced, and managers can carry out projects with a negative net present value.

Management can suppress the overinvestment problem by reducing excess funds from FCF controlled by management. Increasing dividend payments can help reduce the FCF under the control of managers, thereby preventing them from investing with present negative values or destructive projects. As a result, paying higher dividends will reduce agency costs between managers and shareholders. The effect of FCF on the dividend payout ratio is positive, which means that the higher the FCF, the higher the dividend payout ratio or the lower the FCF.

2.1. Hypothesis Development

One of the critical factors that managers consider in determining dividends distributed to shareholders is earnings stability. One of the ways to achieve the company's profit stability is by doing EM. With the stability of the company's earnings, dividends distributed to shareholders will tend to be stable, and the possibility of companies reducing their dividends is relatively tiny, which can be considered a wrong signal for investors. Following the signaling hypothesis, that information from dividend announcements, both in terms of stability and dividend changes, will be responded to by investors as a signal about the company's future earnings.

Major institutional shareholders demand high returns on their shareholdings and thus expect smooth dividend flows. It motivates companies for EM to show high enough earnings for dividend payments (Wahidahwati, 2012). For this reason, reported earnings depend on dividend-based earnings targets.

The level of EM has a negative effect on dividend payments. Dividend payments will discourage companies from reporting artificial profits that do not result in actual cash flow realization to support cash dividends (Arif *et al.*, 2015; Srikanth and Durga Prasad, 2015; Ahmed, Advani and Kanwal, 2018; Ullah and Bagh, 2019). Dividend payments are very dependent on the profits earned by the company. Dividends are paid to shareholders based on profits generated by the company. Dividends can only be paid to shareholders if the company makes a profit in the year concerned. Management can make efforts to increase or decrease earnings so that it affects the dividend policy taken. It means that if the company manages too large profits, the company will pay low dividends.

H1: Earnings management affects dividend policy

In the agency cost hypothesis, dividend payments to shareholders can align interests and reduce agency problems between managers and shareholders. Managers, as agents appointed by shareholders, have the duty to run the company's business. Business decisions taken by managers are decisions to maximize company resources (utilities), which will threaten shareholders if managers act in their interests, not in the interests of shareholders. The situation will be different in companies with managerial ownership. In companies with managerial ownership, managers will align their interests

as managers and shareholders to make more optimal decisions, one of which is the dividends paid to shareholders.

The high MOWN causes a low dividend payout ratio. The determination of ordinary dividends is caused by managers' expectations of future investments financed from internal sources. If some shareholders like high dividends, this will cause differences in interests, so that an increase in dividends is needed. On the other hand, dividends do not need to be increased if shareholders and managers have a common preference.

The previous studies show that MOWN variables significantly affect dividend policy (Dasrita, Rusli Tanjung and Mutia Basri, 2015; Asiri, T and Andayani, 2018; Saona and Martín, 2018; Zainuddin, Andaresta Mananohas and Akindutire, 2020; Sita and Gennusi, 2021). It happens because companies with MOWN value or companies in which commissioners and directors play an active role in decision-making get equality with other shareholders who tend to pay high dividends for the welfare of shareholders under the main objective, a company in running its business.

H2: Managerial ownership affects dividend policy

Concerning agency theory, the magnitude of the motivation to take EM actions will be different for managers who are also shareholders and managers who do not own shares in the company. The higher the percentage of share ownership owned by management, the more flexible the manager can carry out EM (Njah and Jarboui, 2013; Kustono and Effendi, 2016; Amin, Djuminah and Suhardjanto, 2017; Shu and Thomas, 2019). Based on the description and results of the previous study, the following hypothesis is proposed.

H3: Managerial ownership affects earnings management

FCF can describe a company's financial condition because companies with high FCF are considered capable of dealing with bad situations. FCF is the residual cash flow from financing all projects that produces a positive net present value and is discounted at the relevant cost of capital. Agency problems will get worse when the company generates large amounts of FCF. According to the agency cost hypothesis, the FCF available in large enough quantities in a company usually creates a conflict due to differences in interests between managers and shareholders. Companies with high

levels of FCF give managers more flexibility to use funds in ways that benefit themselves and are less pro-shareholder. With a large FCF, managers can use funds on investments that may be less profitable. The company needs to be reduced by increasing dividend payments to shareholders to avoid this excess funds problem.

The effect of FCF on the dividend payout ratio is positive, meaning that the higher the FCF, the higher the dividend payout ratio or, the lower the FCF, the lower the dividend payout ratio. Companies with large FCF will get pressure from shareholders to managers to distribute dividends. It is done so that managers do not use FCF as a policy that tends to harm shareholders (Srikanth and Durga Prasad, 2015; Elkalla, 2017). Management uses FCF as a policy to minimize agency costs.

H4: Free cash flow affects dividend policy

FCF is the cash flow available in a company that can be used for payments to investors after the company makes investments intending to maintain continuity of operations. To agency theory, companies that have a high level of FCF with good supervision are suspected of being more able to survive in the face of bad situations (Omrani, 2016; Mostafa, 2020; Kustono, 2021). Meanwhile, if the FCF is negative, the company's internal sources of funds are not sufficient to meet the company's investment needs. The injection of funds in the form of debt is needed that triggers the manipulation of information or provides correct information about the company's financial condition. Based on results of the previous study, the following hypothesis is proposed.

H5: Free cash flow affects earnings management

The intervening variable is a hypothetical that explains the relationship between independent variables and variables to form an indirect relationship. The inconsistent relationship between FCF and MOWN to dividend policy could be due to management behavior that practices earnings management. Following Baron and Kenny (1986), the emergence of intervening variables explains the direct relationship between variables that cannot be defined. The existence of an intervention may be fully mediated or semi mediated (Baron and Kenny, 1986).

Dividend policy is the impact of management policy and is affected by the company's financial situation. Free Cash Flow is the remaining cash from business

operations used for dividend payments, expansion, or debt payments. FCF can be a handy indicator to see actual profitability. The amount of dividends to stockholders is highly dependent on the available cash position. Various company conditions can affect the value of free cash flow. If the company has high free cash flow with a low growth rate, it should be distributed to stockholders. In the condition that the company has a high free cash flow and a high growth rate, this free cash flow can be held temporarily and can be used for investment in future periods. This situation shows that the owned free cash flow does not necessarily indicate a flow of dividend distribution to investors. Other factors influence management decisions. The company's growth is generally based on reported profit figures. Management can influence reported earnings through the choice of accounting policies.

H6: Earnings management mediates the relationship free cash flow and dividend policy

Dividend policy is one of the powers granted by stockholders to managers. Dividend policy is a decision whether the profits earned by the company will be distributed to stockholders as dividends or will be retained in the form of retained earnings. Good financial performance will affect the dividends that stockholders will receive. Dividends are always based on the current year's net income, and net income measures the company's performance. Managers who own company shares will also enjoy this dividend distribution. On the other hand, the management, also the principal, considers other factors before distributing the residual income. Management can use earnings management techniques to regulate the number of dividends that must be distributed to investors.

H7: Earnings management mediates the relationship managerial ownership and dividend policy

This study was conducted to determine whether earnings management, managerial ownership, and free cash flow are determinants of dividend policy variables. Based on several theoretical studies and previous research, the following is the framework of this research.

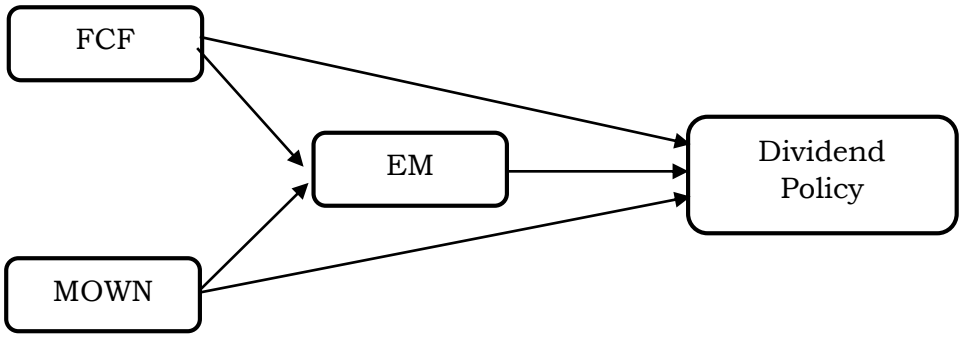

Figure 1. Conceptual Framework

III. RESEARCH METHODS

This research is an empirical study on manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014-2018. This research uses quantitative methods, traditional, positivist, experimental, or empirical research, emphasizing theory testing by measuring research variables with numbers and data analysis using statistical procedures. The deductive approach is research to test hypotheses through theory validation or applying theory in certain circumstances.

The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX). Sampling was done by the purposive sampling method, namely the sampling method based on specific criteria. The research sampling criteria were determined as follows:

1. Manufacturing companies listed on the IDX that publish their financial statements in a row from 2014-2018.
2. Distribute dividends sequentially from 2014-2018.
3. Provide complete financial reports presented in rupiah for the period 2014-2018.
4. Have complete financial data needed in this research.

3.1 Conceptual and Operational Definitions of Variables

Endogenous Variables. Endogenous variables are variables that are explained by exogenous variables. The endogenous variable in this study is dividend policy as measured by the dividend payout ratio as the proportion of profits paid out as dividends. The formula for calculating the dividend payout ratio is:

Exogenous variables are variables that explain or affect endogenous variables. This study uses five exogenous variables, namely EM, MOWN, and FCF. Measurement of EM can be done using the Revenue Discretionary Model developed (Hermiyetti and Manik, 2013). Stubben develops two models in the discretionary revenue model, namely the revenue model and the conditional revenue model. for the earnings management measurement using the revenue model. The revenue model is as follows in equation (1).

$$\Delta ARit = \alpha + \beta 1 \Delta Rit\ \beta 2 \Delta Rit \times SIZEit + \beta 3 \Delta Rit \times AGEit + \beta 4 \Delta Rit \times AGE\_SQit + \beta 5 \Delta Rit \times GRR\_Pit + \beta 6 \Delta Rit \times GRR\_Nit + \beta 6 \Delta Rit \times GRMit + \beta 6 \Delta Rit \times GRM\_SQit + eit \quad (1)$$

Free cash flow is the actual cash flow that is distributed to investors after the company has made all the working capital and investments needed to maintain its operational continuity. The formula used to measure free cash flow is as follows in equation (2).

$$FCF = \frac{Net\ operating\ cash\ flow - Net\ investment\ cash\ flow}{\sum assets} \quad (2)$$

Managerial ownership is share ownership by the management of all share capital owned by the company. The indicator used to measure managerial ownership compares the number of shares owned by management with the total outstanding share capital owned by the company. Here is the equation formula for calculating managerial ownership in equation (3).

$$MOWN = \frac{\sum management}{\sum shares\ outstanding} \quad (3)$$

IV. RESULTS AND DISCUSSION

The data used in this research is secondary data: the company's financial statements published on the IDX website. The data used in this study are dividend policy, EM, MOWN, and FCF. The endogenous variable in this study is dividend policy, while the exogenous variables in this study are EM, MOWN, and FCF. The sample used is all manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018. Sample selection is made by the purposive sampling method, which is selecting samples with specific criteria. The table presents the sampling mechanism.

Table 1
Sampling Step

Category	Number
Manufacturing companies listed on the IDX 2014-2018	156
Companies that do not distribute dividends in a row 2014-2018	131
Companies that distribute dividends in a row 2014-2018	25

Based on the specified criteria, 25 manufacturing companies meet the requirements from 156 manufacturing companies listed on the Indonesia Stock Exchange. Overall, the data processed in this study were 125 companies in the year of observation.

4.1. Data analysis

Descriptive statistics is a data processing to describe or provide an overview of the object under study through sample or population data. The statistical descriptive can be seen in the following Table 2.

Table 2
Statistical Descriptive

Variables	Minimum	Maximum	Mean	Standard Dev.
DP	0.075	2.000	0.500	0.338
EM	-16.710	16.240	-0.152	0.683
MOWN	0.000	0.810	0.038	0.139
FCF	-1.411	3.602	0.946	0.907

Source: data processed, 2021

Earnings management proxied by discretionary accruals shows the minimum value is -16.71, the maximum value is 16.24, the mean value is -0.152, and the standard deviation value is 0.683. The dividend policy shows that the minimum value is 0.075, the maximum value is 2.00, the mean value is 0.500, and the standard deviation value is 0.338. Managerial ownership shows that the minimum value is 0, the maximum value is 0.81, the mean value is 0.038, and the standard deviation value is 0.139. Free cash flow shows the smallest number of free cash flows is -1.411, the largest is 3.602, the average free cash flow is 0.946, and the standard deviation, which shows the variation in the free cash flow, is 0.907.

Multicollinearity test aims to confirm a correlation between exogenous. If the correlation coefficient shows the correlation value is 0 (zero), then there is no

relationship between the two variables studied. If the relationship between two linear variables is perfect, then the data distribution will form a straight line and show the correlation is 1 (one).

Table 3
Correlation Between Variables

	DP	EM	MOWN
EM	-0.064		
MOWN	0.143	0.021	
FCF	0.236	0.041	-0.008

Source: data processed, 2021

A good path analysis model should not correlate with exogenous variables. The test results in table 3 show that between variables have a low correlation value (0.08; 0.021; 0.064). It can be said that each variable exogenous is not correlated.

Path analysis is a development of the regression technique. A good regression model is a regression that is free from autocorrelation. Perform the autocorrelation test can be done in several ways: the Durbin-Watson test (DW test). Based on the results of the Durbin-Watson test, it is 1.28. Furthermore, the value of DW is compared with the values of du and 4-du contained in the Durbin Watson table. The value of du is 1.789. Decision making is carried out with the provisions of du < d < 4-du or 1.74 < 1.79 < 2.73. It can be concluded from the DW value above that there is no autocorrelation between exogenous variables, so that this regression model is feasible to use.

4.2. Path Analysis Test

Path analysis aims to estimate and predict the mean value of endogenous variables based on the importance of exogenous variables. In addition to measuring the strength of the relationship between two or more variables, regression analysis also shows the direction of the relationship between endogenous and exogenous variables.

The t-test is a statistical test to determine whether individual exogenous variables influence endogenous variables. Suppose the probability level is less than 0.05. it can be said that the exogenous variable affects the endogenous variable.

Table 4
Path Analysis Results

	Original Sample	Sample Mean	Standard Deviation	T-Statistics	P-Values
EM → DP	-0.077	-0.075	0.075	1.030	0.303
FCF → DP	0.241	0.243	0.103	2.339	0.020**
FCF →EM	0.041	0.043	0.075	0.549	0.583
MOWN → DP	0.147	0.145	0.071	2.056	0.040**
MOWN → EM	0.021	0.021	0.054	0.393	0.694

Source: data processed, 2021

Table 4 shows EM does not affect dividend policy because it has a significant level of 0.303 with a regression coefficient of -0.077. These results indicate that the EM is not intended to influence decisions regarding dividend payments. The first hypothesis (1) that states earnings management affects dividend policy is rejected.

Earnings management does not affect dividend policy. The company's cash and the owner's involvement in managing the company determines the quantity and quality of dividend distribution. Earnings management is not related to dividend policy but rather to the need for political costs, debt covenants, and bonus schemes. Likewise, this result also confirms earnings management motivations in previous studies that the motivations are opportunistic and efficient to increase firm value. Dividend policy is not included in this motivation.

FCF proved to affect changes in dividend policy with a significance level of 0.241 with a p-value of 0.02 <0.05. The relationship shown by the regression coefficient is positive, meaning that the higher the FCF, the higher the dividends distributed. Hypothesis 2 (two), which states that free cash flow affects dividend policy, is accepted.

FCF does not show a significant effect on EM, as evidenced by the FCF coefficient value of 0.041 and a significant value of 0.583 > 0.05. it can be concluded that hypothesis 3 (three), which states that free cash flow affects earnings management, is rejected.

Earnings management is measured using accrual-based action options. Free cash flows do not directly affect the number of accruals owned by the company. It causes management's ability to use accruals to manage earnings does not depend on how much FCF it has.

This result also rejects hypothesis 6 (six) which assumes that the relationship between FCF and dividend policy is mediated by earnings management. The absence of the FCF effect concludes that earnings management has no role in changing the direct relationship between the two variables.

MOWN has a significant effect on dividend policy, evidenced by the MOWN coefficient of 0.041 and a significant value of 0.583 > 0.05. It shows that the level of share ownership by managers affects the dividend policy. The fourth hypothesis (H4) that states managerial ownership affects dividend policy is accepted.

MOWN has no significant effect on EM, as evidenced by the MOWN coefficient of 0.041 and a significant value of 0.583 > 0.05. It can be concluded that MOWN does not affect EM. It shows that the level of share ownership by managers will not affect EM. The fifth hypothesis, which states managerial ownership affects earnings management (H5), is rejected.

This result also rejects hypothesis 7 (seven) which assumes that the relationship between MOWN and dividend policy is mediated by earnings management. Earnings management has no role in changing the direct relationship between the two variables. Management's choice to practice earnings engineering is not based on the consideration of influencing the direct effect of the predictor on the response variable

The purpose of earnings management is in the interests of management and the interests of the principal. Earnings management is intended to maximize the welfare of managers. Management earnings are used by management to convey private information so that the firm value is maintained. When management is at the same time as the principal, the conflict is no different.

The coefficient of determination adjusted R2 is used to determine how far the model can explain variations in endogenous variables. Based on table 4.10. the value of Adjusted R is 0.06. These results indicate that exogenous variables can only describe the variation of endogenous variables by 6%. EM variable is not able to explain changes in dividend policy.

4.3. Discussion

One of the crucial factors that managers consider in determining dividends distributed to shareholders is earnings stability. One way to achieve the company's

profit stability is to do EM. With stable company earnings, dividends distributed to shareholders will tend to be stable. The possibility of companies reducing their dividends is relatively slight, which can be considered a wrong signal for investors. Under the signaling hypothesis, investors will respond to information from dividend announcements, both in terms of stability and dividend changes, as a signal about the company's earnings in the future.

Major institutional shareholders demand high returns and expect smooth dividend flows. It motivates the company to carry out EM to show a reasonably high profit for dividend payments. For this reason, reported earnings depend on revenue targets and are not related to EM practices. Companies that do EM are not intended to distribute dividends or not to shareholders. This result rejects the results of previous research that show that earnings management affects dividend policy.

In the agency cost hypothesis, dividend payments to shareholders can align interests and reduce agency problems between managers and shareholders. Dividend payments will increase High MOWN encourages high dividends paid to shareholders to increase firm value. Most shareholders like high dividends, so this will lead to an alignment of interests. Managers and shareholders have the same preferences.

MOWN does not affect EM. The amount of motivation to carry out EM differs between managers who are also shareholders and managers who do not own shares in the company. The high percentage of share ownership owned by management will not be enough to allow managers to carry out EM.

MOWN is shares held by management or subsidiaries and its affiliates. With the greater ownership of management in the company, the management will try to improve its performance for shareholders and its interests. Management acting as an owner will prefer to generate natural management income compared to artificial ones. They see that the EM motive is not based on dividend policy motivation.

FCF can describe a company's financial condition because companies with high FCF are considered capable of dealing with bad situations. FCF is the residual cash flow from financing all projects that produces a positive net present value (NPV) and is discounted at the relevant cost of capital. Agency problems will get worse when the company generates large amounts of FCF.

From the point of view of the agency cost hypothesis, the FCF available in large enough quantities usually creates a conflict due to differences in interests between managers and shareholders. The effect of FCF on the dividend payout ratio is positive. It means that the higher the FCF, the higher the dividend payout ratio or, the lower the FCF, the lower the dividend payout ratio. Companies with large FCF will get pressure from shareholders to managers to distribute dividends. It is done so that managers do not use FCF as a policy that tends to harm shareholders. So that management uses FCF as a policy to minimize agency costs.

It is by the hypothesis, which states that companies that have a high level of FCF are better able to survive in the face of bad situations. Negative FCF means that the company's internal sources of funds are not sufficient to meet the company's investment needs. An injection of funds in the form of debt is needed, which triggers the manipulation of information or does not provide correct information about the company's financial condition.

FCF describes the level of financial flexibility of a company. The greater the FCF of a company, it can be said that the company is healthier because of the availability of cash for debt payments, dividends, and reasonably significant growth. FCF is not an incentive for management to perform EM. The amount of FCF does not necessarily trigger management to carry out EM because of the mechanism that limits adverse selection.

Based on the pattern of relationships between variables (Baron and Kenny, 1986), it is possible to have the role of EM as a moderating variable between MOWN and FCF on dividend policy. Following Baron and Kenny (1986), the intervening variable changes the direct relationship between two variables into indirect. The results show that EM is not a variable that changes dividend policy, so further testing is needed to confirm this. The results of research rejected sixth and seventh hypotheses that state EM affects dividend policy. Earnings management is not a good explanation to see changes in dividend policy. Earnings management requires a more extended period, so it is challenging to plan a dividend policy.

V. CONCLUSION

This study examines the effect of earnings management, managerial ownership, and free cash flows on dividend policy. The sample is a manufacturing company listed on the Indonesia Stock Exchange using the purposive sampling method. The following conclusions can be drawn (1) earnings management has no significant effect on dividend policy, (2) managerial ownership and free cashflows have an effect on dividend policy but have no significant on earnings management, and (3) earnings management EM is not a mediating variable between managerial ownership and cash flows on dividend policy.

The model used in this study is still unable to detect the factors that influence dividend policy correctly. The value of adjusted R^2 is very small. Variables outside the model are more likely to act as determinants. Future research is expected to add other factors that influence dividend policy in the model used in the study.

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