

Research.

The Mapping of Investor Perception on High-Quality Financial Reporting

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ABSTRACT. This research mapped investor perception on high-quality accounting information, particularly the accurate prediction model for future returns. The high-quality financial reporting indicates the company's prospective improvement in the future under the right management. This positively affects market price fluctuation, where the investor has minimum distortion on accounting information and low risk. The obedience to accounting standards and tax regulation illustrates actual earnings in reducing agency cost's volatile movement. This study used questionnaires to gather information. The respondents were related parties with dominant influence in investment, specifically 384 samples. Through the structural equation model, the mapping of earnings quality, future market value, and dividend policy played a critical role in minimizing misleading information and improving accounting information quality. The high financial reporting quality indicates the managements' obedience in maximum implementation of regulations with continuous improvements. In this regard, the dividend policy has significantly contributed to the improvement of the earnings quality. The Decision Tree Model was used in mapping investor perception on earnings quality to estimate the high probability of a long or short position for their maximum utility. When the dividend policy is used as a mandatory indirect obligation, the management should provide high-quality accounting information.

Keywords: earnings quality, future market value, high yielded dividend policy

INTRODUCTION

Principally, investment in a safe area is a strategic investor's major demand. The accounting information on decision usefulness enables the investor to monitor the risk, indicating a better management performance in the future. When the management consistently implements the available regulations, the high financial reporting quality enables the investor to estimate future returns (Darjezi, 2016; Lebert, 2019). High accounting standards minimize opportunistic motives, which is an obstacle in capturing real earnings. Previously, the investor demanded the management to publish high-quality financial reporting (Elayan, Li, Liu, Meyer, & Felton, 2016), this impact is low capital cost because high accruals negatively affect the market value due to a high probability of abnormal returns. The unpredictable fluctuation of the market price is attributed to disparities between actual and expected returns (Ping, 2016).

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For consistently implementing the regulations, it brings the investor's perception on a positive trend because the volatile movement of agency cost in subsequent years is a negative indicator in monitoring the management decision. The investor, strategically dominant in ownership, is concerned with high earning quality, where honesty in accounting and compliance on tax regulation critically influences judgment of accounting treatment policy with low accruals (Abadi, Hijazi, & Al-Rahahleh, 2016; Al-Rassas & Kamardin, 2016). By looking at the definition of high earnings quality from the other side, the high compliance on tax accruals has a positive relationship with the high obedience to accounting standards. same way. Practically, management has a different view of tax accruals, where tax saving is assumed to be an achievement by overlooking the high probability of tax investigation in subsequent periods (Ifada & Wulandari, 2015). This one leads to a negative investor's perception of tax accruals (Lee, 2016) since investors are aware of the high possibility of the tax investigation, related to future agency costs. The investor has zero-tolerance for violation of tax regulation, which indicates unprecedented agency costs in the following period.

The accruals lead to an investor's negative perception, especially when this opportunistic behavior is implemented universally (Martínez-Ferrero, Banerjee, & García-Sánchez, 2016; Dichev, Graham, Harvey, & Rajgopal, 2016). The high accounting information quality positively contributes to the market reaction, it paved the investor out to estimate the cost of capital in future periods accurately, absolutely the optimistic for obtaining better performance in the future (Dempster & Oliver, 2019), For this reason, it is important to calculate future returns accurately. The accruals always exist on the accounting standard treatment. The phenomenon is how to level up their quality without violating the accounting standard. Based on the impact of fiscal policy prudence, the investor often realizes that the gap between commercial and tax profit has no impact on the movement of market price, while the gap between accounting standard and tax regulation is a considerably crucial issue (Pompili & Tutino, 2019). The effort is made to ensure the accruals positively impact the investor's perception by implementing legal regulations consistently with little differences between the required and expected returns. The empirical hypothesis shows that the earnings quality has a positive impact on investor perception, where it can be looked over by the predicted market price, estimated PBV, and PE in the following period.

Classically, the phenomenon of dividend policy is a debatable issue as a practical of agency theory, management has a proclivity to disseminate the better prospects as "good news" in the future period (Taleb, 2012). The attractive dividend payout has stimulated positive movement of market price meaningfully, where the growth of this number has been higher than sales and earnings, it stated the high yielded dividend policy as a critical measurement of low earnings manipulation. According to (Baker & Powell, 2015) and (Wardhana, Tandelilin, Lantara, & Junarsin, 2014), the high yielded dividend had reduced internal conflicts, where the dividend payout ratio during 2000-2019 was 26.12 %, the growth sales averaged at 18.11 %, and a 19.54% net margin profit. (Nekhili, Fakhfakh, Amar, Chtioui, & Lakhali, 2016) stated that dividend policy is the main factor in minimizing information distortion because it ensures shareholder's involvement. The dividend policy can predict the future performance of a firm (Chaudhary, Hashmi, & Younis, 2016). By attenuating the positive impact of dividend policy on investor perception and high earnings quality, the dividend policy is a practical tool to push management on improving the earning quality, it can used to calculate the expected return precisely in future period.

This research has an empirical objective to map the investor perception on high obedience to accounting standards and tax regulations and estimate the probability of investor decisions. As a novelty in measuring investor perception, this research has developed future market value, where this variable indicates the predicted market price in the future by calculating the previous dividend payout. By modifying the decision tree model as a mapping model, this research provides a break thru analysis in calculating the

high probability of investor decision to take or short or long position. Finally, this empirical research proves that dividend policy has absolute advantages to push on management to obtaining high earnings quality, it can be interpreted that a company has been on the right track and low risk, which the low cost of capital can be attained for the better prospect. covered up the expected return in the future period.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The accounting information on decision usefulness enables the investor to monitor the real performance for current and future periods. As the development of agency theory and signaling effect, the grand theory of this research is Positive Accounting Theory, were concern with contracting and monitoring costs associated with the agreed company contract agreement (Watts & Zimmerman, 2003). There are weaknesses of the normative approach and emphasize the existence of a positive attitude oriented to prospect, it related to the management's involvement in designing the accounting treatment policy, because of the minimize contract costs. These practical implications are different capabilities in assessing the information between management and investor, there is an asymmetric information issue (Bilinski, 2014).

By pointing out the signaling process in predicting the future return, management has opportunistic by using misleading information in publishing annual financial statements (Zarowin, 2015). In the last decade, the earnings quality has been phenomenal in market price fluctuation, when the high-quality financial reporting contributes to positive movement, reflecting no meaning gap between required and expected return. The better prospect has been a key factor for the stable fluctuation of the market price. Therefore the investor has firmly emphasized high-quality accounting information (Zarowin, 2015). By carefully analyzing a signal from high-quality earning, the accruals indicated efficient contracting (Scott, 2016). It showed a good prospect, suggesting that the management was on the right track, particularly meeting the expected returns in the subsequent period. Low-quality accounting information signifies dysfunctional behavior. Because of opportunistic motives, the management has a proclivity to share a misleading signal where the target has not been met in the current period (Dichev et al., 2016). Finally, it is under obligation to publish financial reports periodically to spread high-quality accounting information, this positively affects market price movement as a response to investor's perception of the financial reporting quality (Darjezi, 2016).

(Stigler 2012) stated that as a government's intervention, the fiscal policy has contributed to its earnings with the authority to fix the tax tariff and regulation. There was a different method of calculating taxable income and net assets, implying the gap between accounting standards and tax regulation (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2014). Therefore, the company should implement the available regulation concerning the fluctuation of agency costs. By mulling an overall investment in a secured area, an investor is concerned with high compliance, particularly the tax regulation. Additionally, there was a high penalty fee for any violation, and therefore, the investor demanded the management to precisely carry out this regulation (Eskandari & Foumani, 2016). Due to the fiscal policy related to taxable income, tax management was part of estimating high accounting information quality. Generally, high tax avoidance negatively contributes to the investor's perception (Ryu & Chae, 2014)

The Relationship Between Earnings Quality And Future Market Value

According to (Zarowin 2015), there are accruals with violence on the accounting standard, commonly known as discretionary accruals, and those with no violence also called non-discretionary accruals. Because of the negative impact of accruals on the investor's perception, the management tends to cover up the pattern of earnings management by releasing out much meaningless disclosure, which aimed to send the

message that this company has a better prospect in the future. (Martínez-Ferrero et al., 2016). (Lennox, Wu, & Zhang, 2016) realized a change of accruals, meaning the management was more prudent in using them. In the current period, (Ozili, 2016), (Shin & Kim, 2019) and (Pompili & Tutino, 2019) established that the high earnings quality positively contributes to real asset valuation, where the fair value can be employed justifiably. Subsequently, there is a positive impact on the future market value. (Lebert, 2019) and (Beyer, Marinovic, & Guttman, 2019) proved that the earnings quality impacts the future return, indicating that the expected return could be estimated precisely, where the gap between actual and expected return is in a restricted area. Based on tax regulation compliance, (Hu, Cao, & Zheng, 2015) stated that the investor had not highlighted agency cost's volatile movement in the subsequent period. According to (Lee 2016), high tax conformity causes a positive perception of high compliance with tax regulation, this is related to agency cost and positive movement of the market price in the future because the investor has no tolerance for the infringement on the available tax rule. To test the impact of high earnings quality to predict the performance in the future, where indicated by future market value, so the first hypothesis can be arranged statistically, as follow :

H1: Earnings Quality has a positive effect on Future Market Value.

The Relationship Between Dividend Policy And Future Market Value

Dividend policies are currently debatable issues positively related to fluctuations in stock market prices (Mahdiye Ebrahimpour, Saleh, & Rasoul Baradarane Hasan Zadeh, 2013). When the management decides to implement the dividend policy as a practical application of agency theory (Taleb, 2012), it aims to disseminate the good signal momentarily. This has been effective with a high probability of a better future performance. Regarding the relationship between the dividend policy and the current return, (Chaudhary et al., 2016) stated that the dividend policy indicates how far the management has fulfilled the investor's expected return by reducing internal conflicts. The high yielded dividend policy aims to satisfy the investor, bringing the conflicts to a minimum level while easing the management's responsibility of maintaining high liquidity of cash flow. Having sacrificed for lacking the operational funding, the management has the confidence to obtain low capital cost (Oladipupo & Ibadin, 2013). Because of the negative consequences on the working capital, this policy can be used to estimate the market price in future periods (Zuo, 2015), where future market value is a new indicator of predicting the expected return in the future. This research proves that this policy as a measurement of capital gain has a significant impact on future market value, thus the second hypothesis for the study is formulated as follows:

H2: Dividend policy has a positive effect on Future Market Value.

The Relationship Between Dividend Policy And Earnings Quality

With new research on dividend policy, (He, Ng, Zaiats, & Zhang, 2017) and (Deng, Li, & Liao, 2017) stated that the company with dividend policy has fewer earnings manipulation. This means that dividend policy is a key factor for the. For this reason, dividend policy is advantageous to the management in obtaining the lower cost of capital. This has been the main reason for management to settle for high yielded dividends for the strategic future benefit (Nekhili et al., 2016). The political high earnings quality and the need to bring the company into a low-risk area (Jeong & Sohn, 2013) require prevention of other parties from taking control of the company due to trustworthy performance (Ge & Kim, 2011; Lilian, Wen, Nataliya, & Zhang, 2012; Chansarn & Chansarn, 2016). As the implication of dividend policy in leveling up the high earnings quality, it means the policy forces management to carry out the accounting standards and tax regulation at maximum level. To test this empirical relationship between dividend and earnings quality, the third hypothesis can be arranged statistically, as follows :

H3: Dividend policy has a positive effect on earnings quality.

The Research Framework

The research framework can be designed methodically, as follow

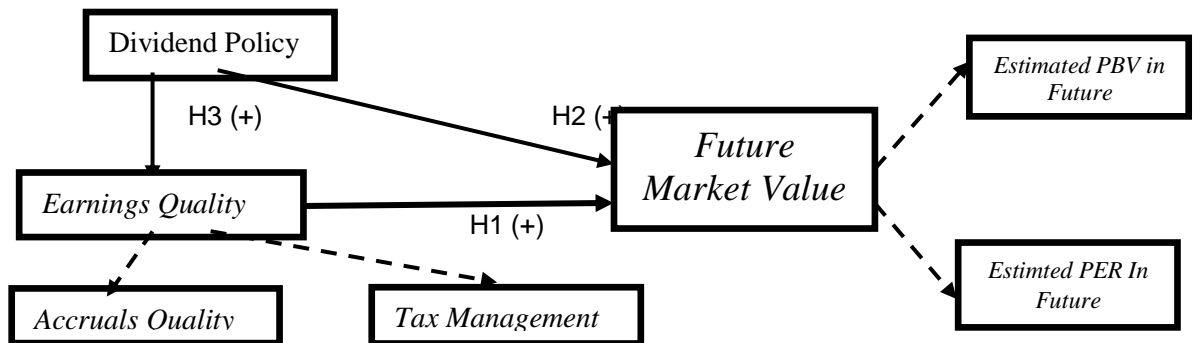


Figure 1. The Conceptual Research Framework

3. RESEARCH METHOD

This quantitative research uses a causal method by running the structured equation modeling (SEM) to illustrate a brief mapping of earnings quality and future market value (Hair, Black, Babin, & Anderson, 2010). Generally, this approach is perceived to be one solution for the volatile movement of the market price. Primary data was collected within 8 months in 2019 by administering questionnaires to respondents with potential influences on investment decisions. This included focus group discussions in big cities like Jakarta, Bandung, Semarang, Solo, and Surabaya. Focus Group Discussion (FGD) is an informal discussion meeting between some respondents, who have fulfilled the questionnaire, then the process of verification had been done to ensure valid feedback. This one was aimed to re-confirm the questionnaire results in reducing bias or error in answering related questions. Based on data interval from all operational variables, earnings quality and investor perception have been treated as unobserved variables. In contrast, dividend policy, as the observed variable, is used to link both variables.

This research used purposive sampling, which has some criteria requirements for selecting respondents (Sekaran & Bougie, 2016). This research has distributed the questionnaire, which amounted to 500, where 116 have no reply and the valid observation had 384 respondents, with the center of distribution Jakarta.

Table 1. The Summary of Distribution Respondent

No	Region	Respondent	Percentage (%)
1	Jakarta	290	75.52%
2	Bandung	25	6.51%
3	Semarang	22	5.73%
4	Solo	28	7.29%
5	Surabaya	19	4.95%
Total		384	100.00%

Source: Primary Data

The rejected level is about 23 %, which can be stated as a high level because it has been more than 10 % of all data, it is related to their private investment data. The rest of the distribution was spread to other cities. The observation has been supported by holding FGD for re-confirming all answerable questionnaires. It is useful in statistical analysis for attaining high validity. These include:

1. The respondents have invested in the capital market during the observation period, with a nominal investment of more than 2 billion (IDR).
2. The respondents are fund and investment managers, with a significant influence on investment decisions. Therefore, have the superior capability in analyzing the earning quality and future performance.
3. The respondents represent institutional shareholders as CEO, CFO, or commissioner.
4. The respondents are creditors, focusing on high earnings accounting information, in some cases changing into the majority shareholder.

Earnings Quality

The accruals can be detected by finding a gap in account receivables and payables, fixed assets, sales, and net earnings during the latest period (Zarowin, 2015). To measure earnings quality, obedience to accounting standards at a high level is used. The earnings quality has two proxy measurements, specifically innate accruals, and discretionary accruals quality. The innate accruals have no violence on the accounting standard. They depict the company's real fundamental condition, including the existence and growing concern over the future. Practically, they can be recognized as non-discretionary accrual, illustrating a better prospect in subsequent periods (Povolotskaya, 2014). Discretionary accruals violate the accounting standard. In case the accrual is at a low level, its quality is at a high level. Because of accounting treatment, there is no space for not doing accruals because some transactions require subjective judgments. This research has developed tax management indicators using discretionary tax accruals quality. According to this interpretation, the tax accruals have infringement on the available regulation. When it is at a low level, the discretionary tax accruals quality is high, with a low probability of tax investigation. The tax management contains high compliances on tax regulation and conformity, suggesting that the management conducts tax regulation concisely (Lee, 2016). This can be seen as an administrative and legal process in tax reporting, such as penalty costs. The discretionary tax accruals are the gap between book and tax accruals. It is related to accounting treatment and correction fiscal in which the indicator is the taxable income. The dimension of earnings quality can be detailed, like :

1. The non-discretionary accruals quality plays a positive impact on earnings quality.
2. The discretionary accruals quality plays a positive impact on earnings quality.
3. The discretionary tax accruals quality plays a positive impact on earnings quality.

Future Market Value

To predict the investor perception of the published financial reporting, this research used the future market value as a new measurement indicator, bases on the current performance and corporate action. The expected return in the future periods will be higher than the current return, it illustrates the company has a better performance in the following period, so the future market value can be in a positive direction. The future market value illustrates the investor perception of the accounting information for making an investment decision, where they concern about accruals in reporting the current earnings. The future market value is calculated by the predicted market price in the following period based on the previous dividend payout when this expected price in the future is compared with the total asset, so it is called the estimated PBV (Price Based Value). Thus the comparison between this expected price in the future with net earnings so is called the estimated PER (Gujarati, 2004). A positive perception during the publication period leads to a positive market price movement in the subsequent period. The dimension of future market value can be detailed, like :

1. The estimated PBV has a positive relationship with Future Market Value
2. The estimated PER (Price Earning Ratio) has a positive relationship with Future Market Value.

Dividend Policy

As the high yield of dividends is one phenomenon of dividend payout in Indonesia because the growth of dividend payout has been much higher than the sales and earnings, where it aimed to reduce the intensity of internal conflicts (Baker & Powell, 2015). This research examined the positive impact of high yielded dividends on the improvement of high earnings quality and high accuracy for predicting PBV and PER. This policy is the main driver for the high investor's involvement in controlling the strategic decision, where indicates low manipulation in earnings (Deng et al., 2017) and (Chansarn & Chansarn, 2016). A comprehensive mapping of this policy pushes the management to implement the high yielded dividend, focusing primarily on high-quality finance reporting

The stage in analyzing the structural equation model is detailed, as follows

1. Validity and Reliability Testing
 - Reliability Testing uses Cronbach Alfa, which indicates > 0.7 as high reliable
 - Validity Testing uses the Pearson Correlation, which indicates < 0.95 as high validity
2. Normality Testing
By using Amos, the data distribution can state normal curved data, when CR skewness or kurtosis value is less than +/- 1.96 with a significant level of 5% (p-value 5%)
3. Multicollinearity or Singularity Testing
By looking over the determinant matrix covariance, it is used to detect multicollinearity. When the determinant value is very small or without absolute value, it means there is multicollinearity.
4. Fitted Testing has some indicator, for example
 - Absolute Fit Measure indicates the overall fitted model with sample data and the most superior fit, which has some criteria, likes the small chi-square, the minimum probability on 0.05, GFI > 0.9 and closer to 1, and RMSEA > 0.8.
 - Incremental Fit Measure compares the chi-square value from the proposed model to the baseline model which has some criteria, likes AGFI > 0.9 and CFI > 0.95.
 - Parsimonious Fit Measure indicates a comparative of adjustment on the proposed model with the different numbers of the coefficient which has some criteria, likes CMIN/DF < 2.

4. RESULT AND DISCUSSION

Through *outlier testing* with *winzorize* model or reduction data in obtaining high significance, this testing has limits of $-2.5 > Z \text{ Score} > 2.5$ at level 5% (Gujarati, 2004) for shunning inconsistent and extreme data, the valid observation was 204 data, where the failed data had been about 46.87 %. The composition of respondents can be arranged, as shown below.

Table 2. The Summary Composition of Respondent

Descriptions Model Of Investor	All Observation		Valid Observation		Notes
	N	%	N	%	
1. Retail Investor	101	26.30 %	85	39.72%	Investment > 2 billion IDR
2. Institutional Investor	19	4.95%	10	4.67%	Presented by Top Executive
3. Fund Manager	16	4.17%	8	3.74%	Interpersonal Meeting
4. Investment Manager	22	5.73%	11	5.14%	Interpersonal Meeting
5. Investment Corporation	23	5.99%	7	5.61%	Presented by VP
6. Mutual Fund	90	23.44%	37	19.63%	Presented by Manager
7. Majority Shareholder	10	2.60%	4	1.87%	Presented by VP Of Holding Company

Descriptions Model Of Investor	All Observation		Valid Observation		Notes
	N	%	N	%	
8. Retail Creditor	23	5.99%	9	4.21%	Presented by Top Executive
9. Institutional Creditor		20.83%			
	80		33	15.42%	Presented by Top Executive
Total	384	100 %	204	100.00%	

Source: Primary Data N= Number VP= Vice President

Based on Tabel 2, the dominant investor can be categorized as institutional ownership, were amounted to more than 50 % of all respondents. So many types of this institutional investment, like mutual fund (23.44 %), the institutional creditor (20.83%), investment corporation (5.99%), institutional investor (4.95%), which has a concern on the high earnings quality (Mehrani, Moradi, & Eskandar, 2017). Because of keeping their client's required-return in a safe secured investment, purely this institutional investment needs valid accounting information to reduce the company's risk as their main priority. By examining the retail investor (26.30%) as the highest percentage in this observation, this has proven there is no defect for gathering information from this kind of investor, they are open-minded in sharing their information. The retail investor has many perceptions on earning quality, it depends on the objective of investment. When the objective is to invest, they have critical attention on earnings quality, because this investment is in a long period. The profit-taking action is their opportunistic motive, the earnings quality is a piece of meaningless information, they focus on the corporate action to capture the capital gain. It like the dividend announcement period created the volatile movement of the market price in a short period.

The validity and reliability tests prove whether the empirical testing has fulfilled the BLUE (Blue Linearity Unstandardized Estimation) as the main requirement for the SEM with high significance. For validity testing, this research uses a two-tailed Pearson Correlation. A lack of a strong correlation between all variables suggests the data has been valid enough. Using Cronbach's Alfa as reliability testing, a coefficient of more than 0.7 indicates reliability. The summary of the test is shown in Table 3 below:

Table 3. The Summary of Validity and Reliability Testing

Variable Name_	IAQ	DTAQ	DAQ	Future PBV	Future PE	Dividend	Cronbach's Alfa
IAQ	1.000						0.813
DTAQ	0.783	1.000					0.828
DAQ	0.796	0.786	1.000				0.879
FuturePBV	0.782	0.793	0.774	1.000			0.751
Future PE	0.780	0.774	0.795	0.776	1.000		0.717
Dividend	0.796	0.784	0.818	0.886	0.825	1.000	0.760

Notes: IAQ = Innate Accruals Quality DTAQ =Discretionary Tax Accruals Quality DAQ=Discretionary Accruals Quality

From Table 3, the following interpretations can be made: (Hair et al., 2010)

1. Cronbach's Alfa shows all correlation coefficients of variables are more than 0.7, and therefore, the data is reliable enough.
2. Pearson Correlation shows no strong correlation between operational variables. This is indicated by correlation coefficients of more than 0.95. All correlations have been less than 0.95, and therefore, the data is valid enough.

The validity and reliability testing have proved that all distribution data are fitted to be analyzed with SEM, where there is no bias error in gathering all primary data through a questionnaire. In the gist

By having high validity and reliability, the next step is to test the normality and multicollinearity or singularity, then the data can be stated the valid data for statistical testing with Amos. From Table 2, all this observed data has the high consistency of a respondent during the different periods and accuracy in measuring all variables. After doing outlier testing, where all data observation has been trimmed from 384 into 204, it fulfills the basic assumption of statistical testing. By calculating the normality testing in Amos as the supporting indicator to prove the normally curved distribution, this research uses CR of Skew and Kurtosis at a significant error level in 5%, in which the default CR value of both has ranged about +/- 3 with a multivariate way.

To understand the pattern of normally curved data, the research provides the summary of testing in Table 4, as below :

Table 4. The Normality Testing (n=204)

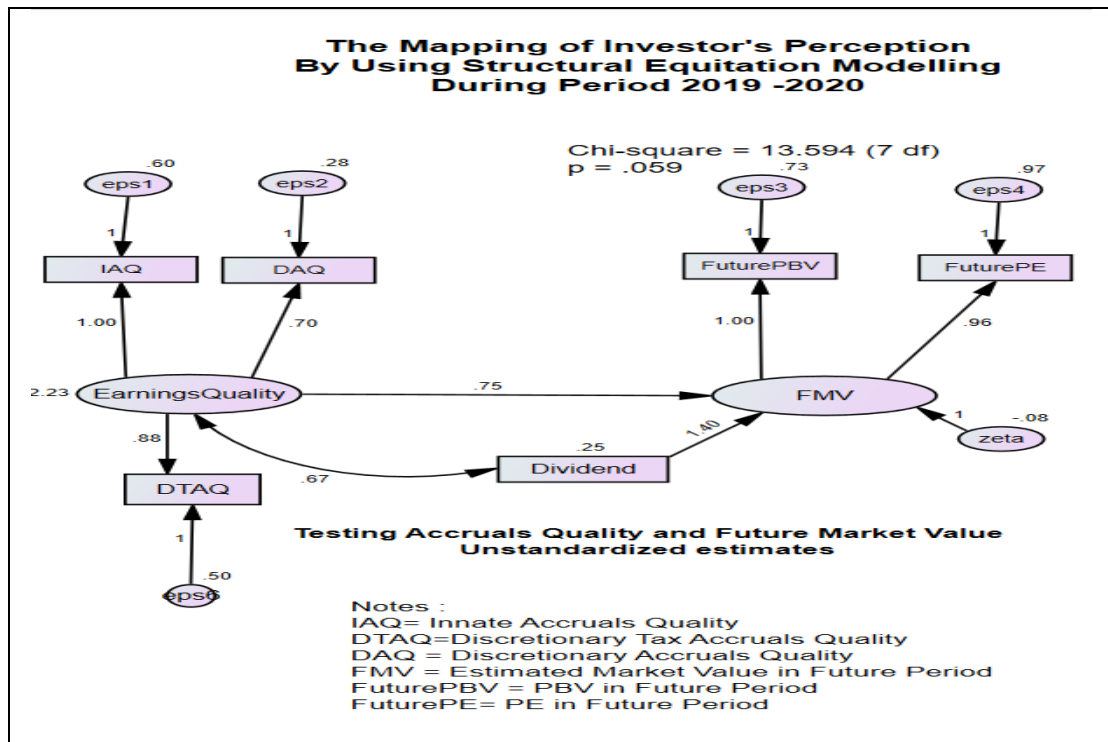
Variable	Min	Max	Skew	C.R.	Kurtosis	C.R.
Earning Quality	1.000	5.000	-0.737	-0.512	-0.643	-0.330
Innate Accruals Quality	1.000	5.000	-0.749	0.214	-0.568	-0.173
Discretionary Accruals Quality	1.000	5.000	0.315	0.258	1.029	0.131
Discretionary Tax Accruals Quality	1.000	5.000	0.780	0.432	0.171	0.354
Future Market Value	1.000	5.000	2.957	1.253	2.618	1.121
Future PBV	1.000	5.000	0.333	0.377	0.536	0.110
Future PE	1.000	5.000	-0.944	-0.806	-0.222	-0.459
Dividend	1.000	5.000	-0.754	-0.189	-0.254	-0.526
Multivariate					1.204	0.426

Source: Primary Data

Based on a significant level at 5%, so that the CR value is +/- 3, all variables have the CR value range between +2.9 and -0.131, primarily the data can be assumed normal data. In Table 3, the number CR of Curtosis has been less than CR of Skew, which pointed to $0.426 < 1.204$, so that all data has the normal curved distribution in the multivariate model. All feedback of respondents had been recorded by interval data, which range 1-5.

For detecting multicollinearity, the determinants matrix covariance must be in a very small number. Based on the calculation from Amos, this value is $1.034E+25$, this implies the existence of the number is much far from 0 (zero), there is no multicollinearity.

After doing primary testing, statistical testing for Structural Equation Modelling with Amos can be run analytically, as shown in Figure 2. Figure 2 shows that the earnings quality has a positive impact on the future market value, where the dividend plays a double function to influence future performance and high earnings quality. There is interactive feedback between earnings quality and dividends. Therefore, a phenomenon of market price fluctuation is a different perspective between management and investor when they have a positive impact. The goodness of fit testing is detailed as in Table 5.



Source: Amos Graph File

Figure 2. The Diagram SEM for Earnings Quality, Dividend and Future Market Value

Table 5. The Summary Of A Fitted Model Indicator

Criteria	Model Testing	Critical Value	Notes
Chi-Square	13.594	Small	Fulfilled
Probability	0.059	≥0,05	Fulfilled
RMSEA	0.68	≤0,08	Fulfilled
GFI	0.979	≥0,90	Fulfilled
AGFI	0.938	≥0,90	Fulfilled
CMIN/DF	1.942	≤2,00	Fulfilled
TLI	0.989	≥0,95	Fulfilled
CFI	0.995	≥0,95	Fulfilled

Source: Amos Text file

From Table 5, the results can be analyzed statistically as follows,

1. Based on Chi-Square, in which the less small indicates the highly fitted model, this model has fitted to illustrate a mapping between earnings quality, dividend, and future market value. This has been strengthened by the probability indicating a value of more than 0.05.
2. Based on all the indicators, the measurement and structural models have fulfilled the minimum requirement. It has recognized one error and predictive approach for investor and management behavior.
3. An analysis of the relationship between unobserved and observed variables with a standardized model shows that the relationship between all variables has no Heywood Case or negative variance, which indicates that the SEM model should have no negative variances.

This research has provided the statistical results as in Table 6:

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Table 6. The Summary of Regression Weights

The Relationship Between Variables	Estimate	SE.	CR.	P	Hypothesis	Notes
Earnings Quality <- -> FMV	0.748	0.099	7.577	***	H1 Accepted	Significant
Dividend <--> FMV	1.399	0.273	5.115	***	H2 Accepted	Significant
Dividend <--> Earnings Quality	0.669	0.075	8.932	***	H3 Accepted	Significant

Source: Amos Text File

The Relationship Between Earnings Quality And Future Market Value

The first hypothesis shows that high earnings quality indicates high obedience to accounting standards and tax regulatory compliance, where earnings quality positively affects future market value, indicated by a coefficient regression of 0.748 and a critical ratio of 7.577 (more than 2 as valid criteria). Table 6 points out that the first hypothesis is accepted and the relationship between observed and unobserved variables has a significantly high level since 0.000 is less than 0.05. This illustrates the actual and real company's fundamental ability to maintain the current level. The finding has supported (Zuo, 2015) and (Beyer et al., 2019), which stated that the accruals are a misleading sign in calculating the actual company profits. The low accruals can ascertain the high earnings quality in presenting a comprehensive view of the actual performance. It has a positive influence on the investor's ability to precisely predict the future, where the recording of book values of all company assets has consistently followed accounting standards. This shows that management is on the right track with better prospects. The high level of accruals quality has critically influenced the expected returns from the statistical results, including the positive market price movement. This research is in line with (Ozili, 2016) and (Pompili & Tutino, 2019). Its practical implication includes a strong pressure on management to level up the financial reporting's quality, as supported by (Elayan et al., 2016) and (Bassiouny & Ragab, Mohamed Moustafa, Soliman, 2016), where high accuracy accounting information is protection for investment in the secured area. The high earnings quality has covered up the high tax regulation compliances concerning agency costs in the subsequent period. This test is in line with (Lee 2016), in which the investor is concerned with the high probability of tax investigation, it has been related to a volatile fluctuation of agency cost in future periods.

The Relationship Between Dividend Policy And Future Market Value

The second hypothesis shows that the dividend policy has a positive effect on future market value, which is indicated by a coefficient regression of 1.399 and a critical ratio of 5.115 (more than 2 as a valid criterion). Table 6 points out that the second hypothesis is accepted and the relationship between unobserved and observed variables has a significantly high level because 0.009 is less than 0.05. The policy has been a critical factor in reducing the accruals to increase investor perceptions of its prospects. By implementing a dividend policy, investors accurately calculate future market prices. This result strengthens (Myers, 2001) and (Deshmukh 2005) assertions that dividend policy as an agency conflict's effect is a strategic corporate action to obtain low capital costs. This is in line with (Chaudhary et al., 2016), which referred to dividend policy as a valid indicator for investors to trace the business risk level by reducing the opportunity accruals.

The Relationship Between Dividend Policy And Earnings Quality

Therefore, the third hypothesis shows that the dividend policy plays a critical role in improving earnings quality, including reducing opportunistic behavior in earnings reports, where the dividend has a positive effect on earnings quality, indicated by a coefficient regression of 0.669 and a critical ratio of 8.932 (more than 2 as a valid criterion). Table 5 points out that the third hypothesis is accepted and the relationship between unobserved and observed variables has a significantly high level because 0.000 is less than 0.05. This is in line with (Shin & Kim, 2019) regarding negative investor responses on the earnings distortions. The test also supports (Nekhili et al., 2016), which established that a push to increase the earning quality involving investors encourages management to provide valid information on the fundamental condition, including the company's performance in the coming period. Because of the proclivity to send misleading information, the dividend policy can be used as a signal for monitoring prospects (Dichev et al., 2016). In this regard, (Chansarn & Chansarn, 2016) (He et al., 2017) and (Deng et al., 2017) proved the interactive feedback between earning quality and dividend, which indicated a strong and positive correlation.

The Decision Tree Model

By considering the statistical testing on Figure 2, where the dividend has a significant impact on earning quality, so it is pointed out by the high correlation, this impact on capability to predict the performance in the future precisely by calculating the future market value for taking a short or long position in obtaining the maximum utility of investment. In the gist, the dividend policy has a positive impact on earnings quality, including minimizing the opportunity or dysfunctional behavior for management to insert misleading information in accounting information. Empirically, this research provides a mapping of investor perception on dividend and earnings quality using a decision tree model, arranged scientifically, as shown in Figure 3.

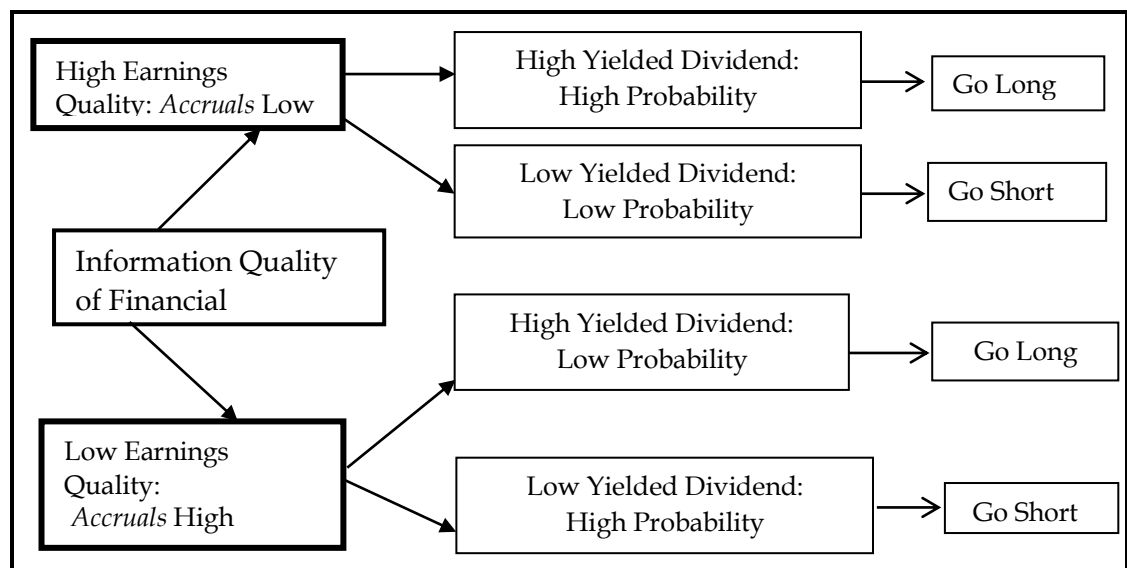


Figure 3. The Mapping of Earning Quality and Dividend Policy.

This research has proven the following.

1. The positive investor's perception can be formed when the probability "to go long" is much higher than "to go short," signed by the bold line. It positively affects market price movement and low fluctuation because of the small disparity between actual and expected returns.
2. The positive investor's perception can be formed when the probability "to go short" has much higher "to go long," signed by the thin line. It negatively affects

market price movement and volatile fluctuation because of the enormous disparity between actual and expected returns.

By mulling over the future market value as a new indicator for the investor in calculating the future expected return bases on the high-quality accounting information, it stimulates a positive movement of market price, where the positive perception can be formed by the better-expected performance in the future. The positive perception puts a strong pressure on "to go short" much more than a pressure for "to go long." The management has a proclivity to use the earning quality to change the pressure for "to sell" much less than pressure for "to buy," including a communication process from "bad news" into "good news."

5. CONCLUSION AND RECOMMENDATIONS

Based on the results of research that has been obtained can be concluded that earnings quality and dividend policy has a significant positive effect on future market value, where the dividend policy significantly influences earnings quality. High obedience to accounting standards and tax regulation compliance gives a better prospect, where it helps investors predict prospects with high accuracy. The dividend policy encourages the management to show the company's expected and actual fundamental abilities due to a high level of compliance with accounting standards and to level up the accruals quality. The investor has a tolerance limit to discreetly recognize the book and market value gap based on the high obedience to accounting standards and tax regulatory compliance. There is zero tolerance for any violence on all available regulations related to additional agency costs in the subsequent period.

Briefly, an indicator of the high financial reporting quality is the dividend policy as a practice of agency theory, The implication of this research is to attract the management in implementing the dividend policy, which has the strategic advantages include low risk and capital cost. The consequences of the dividend have been a complicated problem with cash flow operational in the following periods, particularly when the company in an expansion period.

The suggestion of this research is to give the recommendation for a regulator for offering an attractive incentive for management to publishing the high financial reporting quality backed by the strict law approach model. It is a sign of high accruals quality in accounting information with no misleading information. By designing a discount for corporate tax for the management, which implements the dividend policy, indirectly it is an alluring drive for keeping the high earnings quality. High earnings quality creates a positive wave for positive movement of market price by smoothing up the volatile fluctuation. Based on all statistical testing, the dividend policy should be fixed as a mandatory obligation, pushing the management to implement this policy periodically.

These limitations in this research are the collecting data through respondents and the short observation period so that it can not represent all types of investors, who have the actual power to influence the related party in the capital market. In holding the FGD, the representative of all participants could not illustrate the actual and potential investor categorically, it has not captured the mechanism of decision taking in institutional investment. This research focuses on the earnings quality, dividend, and future market value, there is some possibility of the other external variable, which have an impact on the investment decision. Future research can develop a more complex model that can explain the new measurement indicator related to earnings quality and future market value, it may take a longer observation period in anticipating the limitation of this research.

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