THE INFLUENCE OF ESG ON DIVIDEND POLICY IN INDONESIA COMPANIES

Fikri Aulian Filman[*]**, Dewi Rahmayanti**

Faculty of Economics and Business, University Bengkulu

Abstract

This research aims to examine the influence of Environmental, Social, and Governance (ESG) disclosure on Dividend Policy. The population in this study consists of all companies listed on the Bursa Efek Indonesia from 2017-2021. The variabel used in this research are Dividend Policy as a dependent variable; Environmental, Social, and Governance as independent variable; and company size and levrage as control variable. The sampling technique employed is purposive sampling, resulting in a total of 130 data samples. The analysis methods used include classical assumption tests, multiple linear regression, and hypothesis testing. The research finding indicate that Environmental, Social, and Governance have a positive influence on Dividend Policy. The control variable, Company Size, have a positive impact on Dividend Policy, while Leverage has a negative effect on Dividend Policy.

Keywords: *Dividend Policy, ESG, Company Size, Leverage*

1. INTRODUCTION

Djumahir (2009) explains that dividend policy is a company decision regarding the distribution of net income to shareholders, in the form of dividends, or holding it, in the form of retained earnings. If the company chooses to distribute a larger amount of dividends, the retained earnings will be smaller so that it will reduce the total internal source of funds. This is an issue that is often debated between shareholders and company managers. Bhattacharyya (2007) explains that dividend policy is a difficult problem and a challenge for financial economists.

Dividend policy is one of the important aspects of managing a mining company, which has a significant impact on shareholders and overall company performance. Dividend policy reflects how a company decides to divide the profits generated between reinvestment in the business (retained earnings) and the distribution of dividends to shareholders. The factors that influence a company's dividend policy have profound implications in the context of finance, regulation, risk, and business strategy. Decision-making related to dividend policy is not only influenced by financial factors alone, but non-financial considerations such as ESG can also affect dividend policy.

In an increasingly complex and sustainable business era, ESG has become a major focus of attention for investors, companies and other stakeholders. ESG reflects three main dimensions of business sustainability, namely environmental, social and governance impacts. Companies that implement sustainable business practices are expected to provide added value not only financially, but also through environmental and social aspects. The increased emphasis on ESG seems to be effective due to changes in several dimensions of corporate policies such as corporate strategy and financial policies (Matos et al., 2020).

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*Coressponding author. Email address: fikribkl10@gmail.com

In addition to financial returns, dividend policies influenced by ESG aspects can reflect a company's commitment to responsible and sustainable business. Understanding this relationship can help stakeholders such as investors, management, and regulators make better decisions when managing investment portfolios and developing sustainable business strategies. Yoo & Managi (2022) mentioned that a company can be said to have qualified for high value if it has disclosed ESG information transparently.

Environmental, Social and Governance (ESG) investing has grown rapidly over the past decade, and the number of professionally managed portfolios that have integrated key elements of ESG assessment exceeds USD 17.5 trillion worldwide. In addition, the growth of ESG-related traded investment products available to institutional and retail investors exceeds USD 1 trillion and continues to grow rapidly across markets (Boffo & Patalano, 2020). Kim & Li (2021) mentioned that the idea of ESG factors has become a key consideration for institutional and retail investors. Recently, more and more companies are showing a greater commitment to ESG activities in order to be recognized as a socially responsible company. As a result, more and more investors are assessing companies' ESG activities when making investment decisions.

Several studies have been conducted to see the effect of ESG on firm performance through various aspects, ranging from the relationship between ESG and firm performance (Ruan & Liu, 2021), the relationship between ESG and Financial Performance (ROA & Credit Rating) (Kim & Li, 2021) and (Yoo & Managi, 2022), the relationship between CEO Tenure and ESG (Triyani et al., 2020), and the relationship between Bank Atribute and ESG (Wu et al., 2023). However, there are still few researchers who examine the relationship between ESG and dividend policy (Saldi et al., 2023), (Bilyay-Erdogan et al., 2023) and (Matos et al., 2020), as well as research conducted by (Putra et al., 2023) which examines the relationship between ESG and Dividend Payout Policy with Audit Quality as a moderating variable.

Based on the above background, the purpose of this study is to analyze the effect of ESG on dividend policy in companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2021. The research in this article uses control variables to reveal the relationship between the dependent and independent variables. The appropriate control variables for this study are leverage and company size.

2. LITERATURE STUDY

Research conducted by Zahid et al. (2023) which examines "ESG, dividend payout policy and the moderating role of audit quality: Empirical evidence from Western Europe". This research was conducted on companies located in Western European countries for the period 2010-2019 with the final sample consisting of 663 companies. The results show that the ESG score and its components (environmental, social, and governance) have a significant positive impact on the dividend payout ratio, thus making dividend payments a priority in developed countries in Western Europe and commitment to ESG practices increases shareholder compensation, limits agency conflicts, curates information asymmetry, and sends positive signals to financial markets.

Research conducted by Matos et al. (2020) which examines "Does ESG Affect the Stability of Dividend Policies in Europe?". This study uses data from The Stoxx Euro which consists of 600 companies for the period 2000-2019. The results show that higher ESG scores are more aligned with shareholder interests through stable and proportional profit distribution. Large companies are more likely to pay dividends, especially considering the sample consists of the largest companies listed on European

Stock Exchanges. In addition, dividend payout rates are more stable for both operationally profitable and capital-intensive companies.

R esearch conducted by Saldi et al. (2023) which analyzes "ESG AND DIVIDEND POLICY IN INDONESIA". The population in this study were all companies listed on the Indonesia Stock Exchange from 2011-2020. There are 17 companies that can be used as samples in this study. The results show that the environmental score has a positive and significant effect on the dividend payout ratio. Therefore, the higher the environmental rating of a company, the higher the dividend payout ratio it reports. The next variable, the social score has a positive and significant influence on the dividend payout ratio, as well as the governance score which has a positive and significant influence on the dividend payout ratio.

Research conducted by Bilyay-Erdogan et al. (2023) which examines "ESG performance and dividend payout: A channel analysis". The research was conducted on non-financial companies in 21 countries in Europe from 2002-2019. The final sample consisted of 19,692 firm-year observations. The results showed that companies with better ESG performance tend to pay higher dividends. The three pillars of ESG scores (environmental score, social score, and governance score) also help to increase dividends. Moreover, a more in-depth study shows that a company's ESG performance mainly increases dividend payouts through two channels: profit and risk. Companies with good ESG performance tend to have better shareholder relationships and more efficient management, resulting in higher returns and lower earnings risk, thereby generating higher dividends.

Hypothesis: ESG performance has a positive effect on dividend policy.

Agency Theory

Agency Theory developed by Jensen & Meckling (1976) states that agency theory is a theory that explains the relationship between the owner (principal) and the manager (agent). Agency relationships occur when one party (client) entrusts another party (agent) to provide services or tasks within the scope of company management. The agent has maximum control over information (full information). Meanwhile, the principal has greater authority. The principal grants decision-making authority to the agent and is also required to report to the principal as part of their accountability.

According to agency theory, information asymmetry provides challenges for internal (management) and external (shareholders) stakeholders of a company. Due to information asymmetry, investors tend to prefer dividends over retained earnings. Over time, different solutions to agency problems include effective supervision, increased insider ownership, use of debt, and board independence. commitment to ESG practices increases shareholder compensation, limits agency conflicts, curates information asymmetry, and sends positive signals to financial markets (Zahid et al., 2023).

Signaling Theory

Bhattacharya (1979) reveals that a company's dividend policy can be an important signal to investors about the health and future prospects of the company. In a world of asymmetric information, a company's dividend policy can be used to convey information to investors and thus influence the market value of the company. Dividends paid today are valued more by investors than potential future earnings growth. Therefore, a firm's dividend policy can influence investors' perception of the firm's value and prospects.

ESG

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The ESG concept was first initiated by the United Nations and the Swiss Federal Department of Foreign Affairs (2004)) in a report whose theme was "Who Cares Wins: Connecting Financial Markets to a Chaning World". The statement "Who Cares Wins" reflects the growing number of market participants and stakeholders adopting a broader approach to environmental, social, and governance (ESG). The slogan emphasizes that considering a company's ESG factors is not only a moral responsibility, but also has a significant impact on long-term business and investment performance.

In the context of ESG, "Who Cares Wins" represents the idea that companies and investors who understand and incorporate ESG factors into their decision-making will reap long-term benefits. This reflects the view that ESG aspects are not only relevant for preserving the environment and social welfare, but can also enhance the value of companies and investment portfolios.

3. RESEARCH METHODOLOGY

This research data collection method uses secondary data derived from www.revinitif.com, annual reports and financial reports published through the Indonesia Stock Exchange (www.idx.co.id) or the company's official website. The research population consists of all companies listed on the Indonesia Stock Exchange in 2017-2021. However, not all p companies listed on the Indonesia Stock Exchange in 2017-2021 can be used as samples in this study. Therefore, this study uses purposive sampling technique to collect research samples. Purposive sampling is a research sampling technique that is not random but has certain criteria, such as being listed on the Indonesia Stock Exchange between 2017-2021, publishing annual reports and financial reports, obtaining ESG scores, and distributing dividends. Based on the above criteria, there are 26 companies that can be used as research samples.

Research Variables and Variable Operational Definitions

The dependent variable in this study is Dividend Policy (Y). the author uses dividend payments consistent with previous literature (Zahid et al., 2023). Dividend payout ratio can be measured by:

$$\text{Dividend payout ratio} = \frac{Dividend\ per\ Share}{Earning\ Per\ Share}$$

Independent variables are variables that affect or cause changes in the dependent variable. The existence of an independent variable does not depend on the existence of other variables, nor does it depend on the presence or absence of other variables. The independent variable used in this study is environmental, social, governance disclosure (X). Measuring environmental, social, governance disclosure can be measured using the total annual ESG score from the database, as done (Matos et al., 2020). This score is on a scale from 0 to 100 and is determined based on various indicators published by (Nasdag, 2019).

Table 1. Control Variables

No	Variabel	Indicator
1	Leverage	Debt to Equity Ratio $= \dfrac{\text{Total Debt}}{\text{Total Equity}}$
2	Size	Size = Ln Total Asset

Data Analysis Technique

Classical Assumption Test

a. Normality Test

The normality test can be done using the Kolmogorov-Smirnov test. Data is said to be normally distributed if the probability value is> 0.05.

b. Multicollinearity Test

The way to determine whether there is multicollinearity in a regression model is if the tolerance value> 0.10 and VIF < 10, it means that there is no multicollinearity in the study. However, if the tolerance value <0.10 and VIF> 10, it means that there is a multicollinearity disorder in the study.

c. Heteroscedasticity Test

To detect heteroscedasticity, one method that can be used is the Glejser method. This method tests the relationship between the absolute value of the error and the independent variable. If there is a significant relationship, then the regression model has heteroscedasticity.

Multiple Linear Regression Analysis

Multiple linear regression analysis is an association analysis that is used simultaneously to examine the effect of two or more independent variables on one dependent variable with a metric measurement scale for both the independent and dependent variables. if there are three independent variables, denoted by X1, X2 and X3, the linear regression model is as follows:

The formula for multiple linear regression is generally as follows:

$$DPR = a + b1\ ENVit + b2SOCit + b3\ GOV\ it + b4SIZE4 + b5LEVit + e$$

Description:
DPR = Dividend Policy
ENV = Environmental score
SOC = Social score
GOV = Governance score
SIZE = Firm size
LEV = leverage
a = Constant
b1 - b5 = Regression coefficient
it = Company i in year t
e = Term error

4. RESULT AND DISCUSSION

Classical Assumption Test

a. Normality Test

The normality test can be done using the Kolmogorov-Smirnov test. Data is said to be normally distributed if the probability value> 0.05.

Table 2. Normality Test Results

Test	Info	Unstandardized Residual
N		130
Normal Parameters	Mean	0
	Std. Deviation	12.54309408
Most Extreme Differences	Absolute	0.131
	Positive	0.131
	Negative	-0.098
Kolmogorov-Smirnov Z		0.492
Asymp. Sig. (2-tailed)		0.969

From table 2, it can be seen that the p value is greater than 0.05, which means there is insufficient evidence to reject the null hypothesis that the data is normally distributed. Therefore, it can be concluded that the data in this study meets the assumption of normality and can be continued with further analysis.

b. Multicollinearity Test

The multicollinearity test can be seen from the tolerance and VIF values. Tolerance value is a value that shows how much variance of an independent variable cannot be explained by other independent variables. A low tolerance value indicates multicollinearity. Usually, a tolerance value below 0.1 is considered to indicate multicollinearity. VIF value is a value that indicates how much the variance of an independent variable increases due to correlation with other independent variables. A high VIF value indicates multicollinearity. Usually, a VIF value above 10 is considered to indicate multicollinearity.

Table 3. Multicollinearity Test Results

Variabel	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ENV	0.599	1.67
SOC	0.422	2.367
GOV	0.708	1.413
SIZE	0.603	1.658
LEV	0.662	1.511

a. Dependent Variable: DPR

From the table above, it can be seen that the tolerance value for all independent variables is greater than 0.1 and the VIF value for all independent variables is less than

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10. This indicates that there is no significant multicollinearity between the independent variables in the regression model. Thus, the regression model can be used to analyze the effect of ESG on dividend policy in companies in Indonesia by considering the control variables, namely leverage and company size.

c. Heteroscedasticity test

To detect the presence of heteroscedasticity, one method that can be used is the Glejser method. This method tests the relationship between the absolute value of the error and the independent variable. If there is a significant relationship, then the regression model has heteroscedasticity.

Table.4 Heteroscedasticity Test Results

Variabel	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.660	0.944		2.819	0.006
ENV	0.001	0.002	0.064	0.585	0.559
SOC	0.006	0.003	0.29	1.241	0.127
GOV	0.002	0.002	0.126	1.261	0.210
SIZE	0.083	0.031	0.289	-0.670	0.409
LEV	-0.003	0.015	-0.212	1.058	0.062

a Dependent Variable: ABRESID

The results of the heteroscedasticity test using the Glejser method in table 4 show that there are no significant regression coefficients in the new model. This means that the initial regression model does not experience heteroscedasticity and meets the classical assumptions. Thus, the estimated regression coefficients and hypothesis tests of the initial regression model can be interpreted validly.

Hypothesis Test

Table 5. Multiple Linear Regression Test Results

Variable	Coefficient	Tstatistic	Sig	R-square	Fstatistic	sig (F-sig)
C	2.693	2.016	.000	0.432	38,525	.000
ENV	.321	3.143	.021			
SOC	.287	1.930	.000			
GOV	.254	1.708	.037			
SIZE	.173	2.670	.042			
LEV	-.012	-1.019	.644			

a. Partial Test (T test)

Partial Test (T test) is one of the statistical methods used to test the effect of independent variables on the dependent variable individually. In this study, the independent variable is environmental, social, and governance (ESG), while the dependent variable is dividend policy. In addition, this study also uses control variables, namely leverage and company size.

It can be seen in table 5, the partial test results show that the environmental, social, governance and company size variables have a positive and significant effect on dividend policy in companies in Indonesia, while the leverage variable has a negative and insignificant effect on dividend policy in companies in Indonesia.

b. Simultaneous Test (Test f)

Simultaneous Test (Test f) is one of the statistical methods used to test the effect of several independent variables together on the dependent variable. This test is useful for knowing whether the regression model created has the ability to explain the variance of the dependent variable or not.

From table 5, it can be seen that the calculated F value is 38.525 with a significant value of $0.000 < \alpha$ (0.05). This means that there is a simultaneous influence of ESG on dividend policy.

c. Determination Coefficient Test

The coefficient of determination test is one of the statistical methods used to measure how much influence the independent variable has on the dependent variable. In this study, the independent variables are environmental, social, and governance (ESG), and the control variables are size and leverage while the dependent variable is dividend policy.

The coefficient of determination test results show that the R-squared value is 0.432, which means that the ESG, leverage, and company size variables can explain 43.2% of the variation in the dividend policy variable. The remaining 56.8% is influenced by other factors not included in the research model.

The Effect of Environmental Performance on The Company's Dividend Policy

In the research results, environmental variables have a positive and significant influence on dividend policy in companies in Indonesia. This means that the higher the environmental value of a company, the higher the possibility of the company to distribute dividends to shareholders. The regression coefficient value for this variable is 0.321 with a significance level of 0.021. This is in line with previous research, namely (Saldi et al., 2023).

The signaling theory states that the company's dividend policy is a signal to the market regarding the company's performance and prospects in the future. Companies that have good environmental performance tend to give positive signals to the market, so that they can increase company value and attract investor interest. Conversely, companies that have poor environmental performance tend to give negative signals to the market, which can reduce company value and reduce investor interest.

This can be explained by several reasons. First, good environmental performance indicates that the company has efficient, innovative and future-oriented management. This can increase investor and market confidence in the company, allowing the company to obtain cheaper and easier funding. Thus, the company can generate higher profits and distribute them to shareholders. Second, good environmental performance can reduce the legal, social and environmental risks faced by the company. Companies that comply with environmental regulations, reduce greenhouse gas emissions, and contribute to the welfare of society can avoid sanctions, lawsuits, and protests that could harm their business. Thus, the company can save operational costs and improve its financial stability. Third, good environmental performance can increase customer and employee loyalty to the company. Companies that care about the environment and society can attract and retain customers and employees who share their values. This can increase the company's sales, productivity and innovation, thereby strengthening its competitive position in the market.

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The Effect of Social Performance on Corporate Dividend Policy

Corporate social performance is a measure of how well a company fulfills its social responsibilities to various stakeholders, such as employees, consumers, society, the environment, and government. Corporate social performance can be measured using indicators such as the sustainability index, social responsibility ratings, or social responsibility reports. This study found that social variables have a positive and significant effect on dividend policy in companies in Indonesia. This means that the higher the social value of a company, the higher the possibility of the company to distribute dividends to shareholders. The regression coefficient value for this variable is 0.287 with a significance level of 0.000. This is in line with research conducted by (Saldi et al., 2023).

In signal theory, according to this theory, dividends are a signal from management about the company's future prospects. Companies that have good prospects will tend to pay high dividends to show their quality and credibility to investors. Social discussion can strengthen the positive signal from dividends, because it shows that the company has good social and environmental performance, so it can increase investor confidence.

Corporate social performance can improve the company's reputation and image in the eyes of stakeholders, thereby increasing their trust and loyalty. This can have a positive impact on the company's sales, profits and market value, which in turn can increase the company's ability and willingness to pay high dividends to shareholders. Corporate social performance can also reduce the business and legal risks that companies face, such as the risk of lawsuits, government sanctions, consumer boycotts, or community protests. This can lower the cost of capital and increase the stability of the company's cash flow, which in turn can increase the company's ability and willingness to pay high dividends to shareholders. Therefore, companies that want to increase value for shareholders should not only pay attention to their financial performance, but also their social performance. Thus, the company can achieve a balance between profitability and social responsibility.

The Effect of Governance Performance on Corporate Dividend Policy

Governance is a system that regulates the relationship between shareholders, the board of commissioners, directors, and other stakeholders in a company. Governance has a positive and significant effect on corporate dividend policy in Indonesia, because governance can improve company performance, transparency and accountability. Companies that have good governance tend to have a higher dividend policy, as they can meet shareholders' expectations for a return on their investment. In addition, a high dividend policy can also show the credibility and reputation of the company in the eyes of the capital market.

In this study, the governance variable has a positive and significant effect on dividend policy in companies in Indonesia. This means that the higher the governance value of a company, the higher the possibility of the company to distribute dividends to shareholders. The regression coefficient value for this variable is 0.254 with a significance level of 0.037. This research is in line with previous research, namely (Matos et al., 2020).

Governance performance can affect the company's dividend policy because good governance performance can increase firm value, thereby increasing the company's ability to pay dividends and also with good governance performance can reduce

conflicts of interest between management and shareholders, so management is more willing to distribute profits to shareholders.

Conversely, poor governance performance can lead to problems such as agency, information asymmetry, private benefits, corruption and financial statement manipulation. These can harm the value of the company, reduce the company's ability to pay dividends, increase conflicts of interest between management and shareholders, and reduce the company's reputation and image in the eyes of the market.

The effect of company size on company dividend policy

Company size is one of the factors that influence dividend policy, because company size reflects the company's ability to generate profits, bear risks, and access funding sources. The firm size variable has a positive and significant effect on dividend policy in companies in Indonesia. This means that the larger the size or assets owned by a company, the higher the possibility of the company to distribute dividends to shareholders. The regression coefficient value for this variable is 0.173 with a significance level of 0.042. This is in accordance with previous research (Hamill & Al-Shattarat, 2012) where the results showed that company size has a positive and significant effect on dividend policy, meaning that larger companies tend to pay higher dividends than smaller companies. This is in accordance with the pecking order theory, which states that companies will prioritize internal funding sources over external ones, and will pay dividends if they have excess cash.

Firm size is positively related to dividend policy, as larger firms tend to have more stable earnings, lower risk, and easier access to capital markets (Fatemian & Hooshyarzadeh, 2016). Larger firms also have more excess cash that can be used to pay dividends without sacrificing future investments. In addition, larger companies usually have a better reputation in the eyes of investors, so paying dividends can increase firm value and lower the cost of capital (Hamill & Al-Shattarat, 2012).

The effect of leverage on corporate dividend policy

The results showed that the leverage variable has no significant effect on dividend policy in companies in Indonesia. This means that the level of debt or long-term liabilities owned by a company does not affect the company's decision to distribute dividends or not. The regression coefficient value for this variable is -0.012 with a significance level of 0.644.

This happens because companies can adjust their leverage and dividends according to market conditions and shareholder preferences (Wahjudi, 2020). For example, if firms face financial difficulties, they may lower their dividends to conserve cash and reduce their debt to improve their solvency. Conversely, if companies have good investment opportunities, they may increase their dividends to attract shareholders and increase their debt to capitalize on the interest tax effect. In addition, corporate leverage and dividends are affected by other factors in addition to each other, such as firm size, profitability, growth, business risk, ownership structure, and regulatory environment. Therefore, it is difficult to isolate the effect of leverage on dividends without controlling for these other factors.

5. CONCLUSION

The conclusion of the research on Factor Analysis of the Effect of Dividend Policy on Companies in Indonesia is as follows: Environmental, social, governance (ESG) has a positive and significant influence on dividend policy in companies in Indonesia. This shows that companies that have good ESG performance tend to distribute higher

dividends to their shareholders. This can be interpreted as a form of corporate commitment to increase shareholder value while fulfilling social and environmental responsibilities. Company size has a positive and significant effect on dividend policy in companies in Indonesia. This is in accordance with signaling theory which states that large companies have the ability to pay higher dividends as a signal of company quality and stability. Leverage has a negative and significant effect on dividend policy in companies in Indonesia. This is in accordance with the pecking order theory which states that companies that have high levels of debt tend to reduce dividend distributions to save financial costs and maintain financial flexibility.

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