

The Influence of ESG Dividend Policy on Firm Value in Non-Financial Companies Listed on the BEI in 2021-2023

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ABSTRACT

This study investigates the impact of Environmental, Social, and Governance (ESG) factors and dividend policy on the value of non-financial companies listed on the Indonesian Depository Exchange (IDX) during the 2021-2023 fiscal year. The sample consists of 68 companies with secondary data obtained from Thomson Reuters Eikon Refinitiv and financial statements. Analysis employing panel data regression reveals a positive and statistically significant impact of the environmental and governance pillars on firm value, while the social pillar exhibits No. discernible effect. Dividend policy doesn't influence the connection between environmental, social, and governance (ESG) factors and a firm's value. The findings confirm that sustainability and good governance practices increase firm value, so companies are advised to strengthen transparency and environmental policies to attract investors and improve competitiveness.

INTRODUCTION

A business's performance is a key indicator of its firm value, which in turn influences how investors see the organization. The company's financial manager is entrusted with the responsibility of making prudent decisions that will maximize the company's worth, ultimately leading to the success of the owner or shareholder.

A well-defined set of goals should precede the formation of any business. Both immediate and distant objectives should be considered. Achieving maximum profit with current resources is the firm's short-term objective, while maximizing corporate value is the major focus of the company's long-term strategy. The sum of a company's equity and its debt is the market worth of that business.

The introduction must include the following points: a) background of the study, b) previous studies related to your research, c) novelty of your study compared to earlier works you have mentioned, and d) purpose of the study. A company's worth is equal to its predicted future profits multiplied by the appropriate interest rate (Adri Fazlilah, 2014). An rise in the share price is one way for a company to maximize its value and benefit its shareholders. The highest benefit to shareholders is directly proportional to the growth in the share price of the firm. Investors should pay close attention to the idea of firm value as it represents the market's overall evaluation of the business. The worth of a firm is the amount that interested parties are ready to part with in the event of a sale (Qodir et al., 2016).

Among the many methods available, Tobin's Q, earnings per share, and price-to-book value ratios are among the most used. The primary metric for this analysis will be Tobin's Q ratio. The Tobin's Q ratio is calculated by dividing the market value of a corporation, encompassing its debt and shares, by its total assets. A high Tobin's Q value suggests effective asset management and the generation of additional value for investors. According to (Sudiyatno & Puspitasari, 2010).

In addition to financial ratios, ESG (Environmental, Social, and Governance) disclosure is also increasingly considered important because it has the potential to affect firm value. ESG allows companies to build good relationships with stakeholders (Diez-Cañamero et al., 2020) improve ethical behavior and strengthen corporate accountability and (Jizi, 2017). Despite claims that ESG disclosure improves public perception, evaluates organizational performance, sends positive signals for firm value, and lessens information asymmetry, the effect of ESG on firm value is still up for debate (Abdi et al., 2022). Whereas some research has shown no correlation between ESG and company value, and others have found the opposite to be true (Atan et al., 2018).

On the other hand, dividend policy is also an important factor that can affect firm value. This policy involves decisions regarding whether the company will distribute dividends to shareholders as well as the amount of the dividend. Company management decides on dividend payments depending on the plan they've put in place (Dinh Nguyen et al., 2021). The ability of a firm to

pay out dividends from its net income is a good indicator of its capacity to grow and reward its shareholders.

(Black, 1997) describes dividends as a “puzzle”, with emerging theories often taking conflicting directions. The notion of dividend irrelevance was forward by (Miller & Modigliani, 1961) maintains that a company's worth is independent of dividend policy, since it is determined by asset profitability and managerial competency. In contrast (Lintner, 1962).

Found that investors tend to prefer certain dividends over fluctuating capital gains. The signal theory of (Spence, 1973) adds that dividend announcements may reassure investors, particularly when the payout amount is more than expected. Paying dividends is an indication of a business's ability to expand the value of its shareholders' investments, therefore this decision has to take the firm's health into account if it wants to help the value of the company rise.

Thus, both ESG disclosure and dividend policy play an important role in corporate strategies aimed at increasing firm value. Both of these factors can influence market perceptions and investor interest, and signal to stakeholders the prospects and financial health of the company.

THEORETICAL REVIEW

Environment on Firm value

The environmental effect is growing in tandem with the expansion of the business and the volume of its operations. The use of natural resources, the creation of trash, and the emissions of carbon dioxide from business activities all contribute to environmental issues. If the company ignores its responsibility to the environment, this can cause losses both internally and externally (Jasch, 2006).

Internally, environmental problems can create uncomfortable working conditions for employees due to exposure to pollution. Meanwhile, on an external scale, environmental damage that occurs can have a wider impact, such as health problems for the surrounding community. Therefore, the implementation of effective environmental management can provide benefits to the company, including increased company value and attractiveness for stakeholders who want to invest or provide funding.

In addition, good environmental management practices also contribute to reducing the company's operating costs, as the company will put more effort into running its business in a more efficient manner. Research conducted by (Aboud & Diab, 2018; Melinda & Wardhani, 2020) indicates that environmental performance significantly impacts business value in a good way. Disclosure of environmental performance is one way the corporation is trying to satisfy the information demands of stakeholders in relation to environmental responsibility. An rise in the value of the firm may be seen as a result of stakeholder trust and sustainability indicators provided by this transparency.

Both Signaling Theory and Agency Theory provide explanations for the practice of openly disclosing environmental performance. According to Signaling Theory, businesses show their dedication to sustainable practices and

the quality of their management by disclosing information about their environmental performance and other metrics. It is believed that these signals will boost investor confidence, which would ultimately lead to a rise in the company's worth (Rohana Sagala & Karlina Aprilia, n.d.).

Shareholders (the principals) and managers (the agents) often face knowledge asymmetries and conflicts of interest, according to Agency Theory.

Since management has more information at their fingertips, they may make choices that go against shareholder interests. A more even playing field, proof of the company's dedication to sustainability, and more trust from investors may all result from open disclosure of environmental information. The company's valuation, its reputation, and the interest of environmentally conscious investors may all rise as a result of this kind of disclosure (Hapsoro et al., 2020).

H1: Environmental performance positively impacts a firm's value.

Social on Firm value

Based on stakeholder theory, companies are not only focused on achieving profits, but also have a responsibility to provide benefits to stakeholders through social responsibility practices (Aboud & Diab, 2018). Therefore, companies are required to have sensitivity to various social problems, both those that occur in the community and within the internal scope of the company.

Social aspects in the company include relationships built with various parties, including employees, customers, and the community (Turban & Greening, 1997). Social relations with employees can be seen from how the company pays attention to the quality of the work environment and ensures the safety and health of its workers. Meanwhile, social interaction with customers is reflected in the company's efforts to maintain consumer satisfaction, both through product quality and after-sales service. Applying ESG (Environmental, Social, and Governance) principles may help bring about a healthy connection with the community. This can be achieved, for instance, by launching social initiatives or policies that benefit the local area.

The connection between the firm and its stakeholders may be built and strengthened via the disclosure of social performance in ESG. The public and interested parties may gain confidence and have a favorable impression of the organization via transparency in this social aspect (Aboud & Diab, 2018). The results of research conducted by (Aboud & Diab, 2018; Fatemi et al., 2018; Melinda & Wardhani, 2020) demonstrate that CSR performance has a favorable correlation with rising stock prices.

H2: Social performance positively impacts a firm's value.

Governance on Firm value

According to (Almeyda & Darmansya, 2019), corporate governance aspects refer to a management system based on ethical behavior and integrity in business operations. The autonomy of the board of directors is an important component of good governance, transparency in information delivery, and protection of shareholder rights.

To reduce the likelihood of agency conflicts, it is crucial for businesses to be transparent about their governance practices. If the owner or shareholder wants to be sure that the firm isn't acting opportunistically, they require reliable information from the agent, which is the company's management. One way that principals can monitor management actions is by conducting direct supervision, but this often incurs considerable agency costs. Therefore, the implementation of good governance and transparency in information disclosure can contribute to reducing agency costs that arise.

High ESG performance in the governance aspect can increase business transparency in a sustainable manner, which ultimately supports the creation of corporate value (Giannarakis et al., 2020). Studies conducted by (Aboud & Diab, 2018; Melinda & Wardhani, 2020) further demonstrate that proper corporate governance as it pertains to the ESG framework is positively associated with a rise in company value.

Conflicts of interest and information asymmetry are common in the interaction between firm owners and management, according to Agency Theory. Management may have different objectives from the owners, potentially influencing the company's decision-making. Transparent governance disclosure plays a role in reducing this information imbalance. By providing clear information on governance, management demonstrates a commitment to business ethics and integrity, thereby increasing owner trust and reducing potential conflicts. In addition, this disclosure can strengthen the company's reputation, attract investors who prioritize good governance, and encourage an increase in company value (Hamdani, 2016).

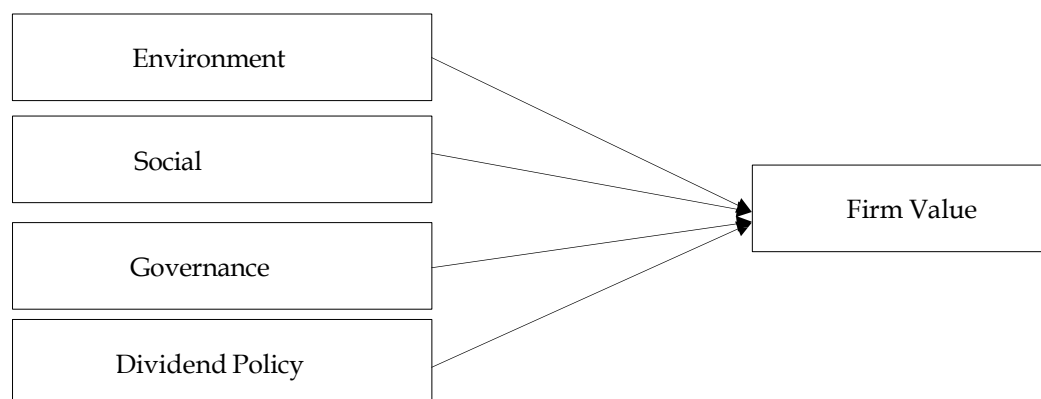
H3: Governance performance has a positive impact on a firm's value.

Dividen Policy on Firm value

The "Bird In The Hand" theory suggests that a correlation exists between the amount of dividends paid out by a firm and its predicted financial success. Experts such as (Baker et al., 2018; Baker & Weigand, 2015; Walter, 1963) support this theory. They claim that increasing the share price is the company's primary objective via the distribution of large dividends.

H5: Dividend policy has a positive impact on the value of a firm

Research Framework



METHODOLOGY

Population and Sample

According to Arikunto (2010), population refers to the entire object that is the subject of research. This research focuses on a population consisting of non-financial firms that were listed on the Indonesia Stock Exchange (IDX) throughout the period from 2021 to 2023. The sample is a subset of the population selected for further analysis. The sample encompasses ESG variables, dividend policy, and firm value in Indonesia from 2021 to 2023.

Data Collection Techniques

The research adopts a data collection approach that draws upon documentation sourced from Refinitiv Eikon and the Indonesian Stock Exchange (IDX). In this study, secondary data serves as the foundation, specifically focusing on the financial statements of non-financial companies listed on the IDX for the fiscal years 2021 through 2023. Additionally, the research incorporates information concerning Environmental, Social, and Governance (ESG) metrics and dividend policies. This dataset, being secondary in nature, offers valuable insights into the financial performance and governance structures of the companies, while also providing a critical lens through which the interplay of corporate financial strategies and sustainability practices can be explored within the context of the Indonesian market.

Data Analysis Techniques

In this study, the data analysis approach employed is panel data regression, a statistical method designed to explore the dynamic interactions between multiple variables. This technique is particularly effective in assessing the influence of independent variables on the dependent variable, while simultaneously factoring in both temporal and individual dimensions. The data was processed using EViews 12, a widely recognized software for econometric analysis. By leveraging panel data regression, this methodology enables a more comprehensive exploration of the data, as it accounts for variations across different entities and over time, offering deeper insights into the complex relationships among the variables under study.

RESULTS

Statistic Descriptive

Descriptive statistics offer a comprehensive overview of the characteristics of the variables employed in the research study. This analysis encompasses data pertaining to the lowest recorded value (minimum), the highest recorded value (maximum), the arithmetic mean, and the standard deviation. These measures elucidate the extent of variation or dispersion within the data set. In addition, descriptive statistics also present the total amount of data analyzed, which helps in understanding the distribution patterns of the variables studied.

Table 1. Statistic Descriptive

	TOBINS	ENV	SOC	GOV	DP
Mean	1,44601	43,78281	53,321	47,13993	0,519736
Median	0,837332	41,32833	53,21629	46,57221	0,346696
Maximum	17,30062	89,07982	95,83226	94,67399	12
Minimum	0,090737	5,325656	14,55202	5,02603	0,1400
Std. Dev.	2,008079	22,13564	18,38522	22,37184	1,154573
Skewness	4,429842	0,185434	0,110943	0,201166	8,813771
Kurtosis	27,75536	1,920946	2,591662	1,986702	23,653
Jarque-B	5876,236	11,06615	1,835773	10,10348	60010,27
Probability	0,000	0,004	0,399	0,006	0.000
Sum	294,9861	8931,693	10877,48	9616,546	106,0261
Sum Sq. Dev.	818,5733	99467,24	68617,34	101601,3	270,6067
Observation	204	204	204	204	204

The data is distributed broadly, with a mean score of 47.13 and a standard deviation of 22.37 for the Governance dimension. Vale Indonesia Tbk PT has 94.67 points on the Governance variable, while Indah Kiat Pulp & Paper Tbk PT has 5.02 points.

Finally, the data distribution is somewhat narrow for the Dividend Policy variable, with an average value of 0.51 and a standard deviation of 1.154. The lowest Dividend Policy value, 0.14, belongs to Mahaka Media Tbk PT. In contrast, the highest Dividend Policy value of 12 is recorded by Gajah Tunggal Tbk PT.

Chow Test

Panel data analysis relies on using the Chow Test to ascertain whether the data is better suited to a Common Effects Model (CEM) or a Fixed Effects Model (FEM).

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	42,61319	-67,132	0,0000
Cross-section Chi-square	636,3272	67	0.0000

As can be seen in Table 4, the Chi-square and Cross-Section F values are 0.0000 and 0.0000, respectively. This experiment employed a Common Effects Model (CEM) for its study because the Cross-Section F and Chi-square probability values are greater than the significance threshold of 0.05.

Hausman Test

Panel data analysis makes use of the Hausman Test to ascertain whether model is most suitable to the data: the Fixed Effects Model (FEM) or the Random Effects Model (REM).

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1,705135	4	0,7898

Table 3 indicates that the probability of selecting a random cross-section with a probability of 0.7898 is 78.98%, which is more than the study significance value of 0.05, therefore the Random Effects Model was selected for this test. A Random Effects Model was used in this research based on the outcomes of the two tests conducted to pick a regression model for panel data.

LM Test

To find out whether a Common Effects Model (CEM) or a Random Effects Model (REM) is more suited for the data, the LM Test is used to panel data analysis.

Table 4. LM Test

	Cross-section	Time	Both
Breusch-Pagan	176,4732	0.831994	177,305 2
	0,0000	-0,3617	0,0000

The table data indicates that the Breusch-Pagan probability (BP) is 0.00, which is larger than the significance level of 0.05. Consequently, the Common Effects Model is the best one to use.

Panel Data Regression Analysis

Based on the results of the model selection tests, panel data regression analysis was performed using the Common Effects Model (CEM) to assess the hypotheses put forward in this research. The CEM was chosen for its suitability to the data structure and its ability to provide consistent estimates of the relationships between the variables.

Table 5. Regression Result

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	1,198087	0,437111	2,740921	0,0067
ENV	0,025371	0,009331	2,718939	0,0071
SOC	-0,016456	0,011887	-1,384455	0,1678
GOV	-0,025697	0,007653	2,328459	0,0183
DP	-0,025697	0,12257	-0,209651	0,8342

From the regression analysis in Table 7, the equation is as follows:

$$FV = 1.198087 + 0.025371 \cdot ENV - 0.016456 \cdot SOC + 0.000593 \cdot GOV - 0.025697 \cdot DP + \varepsilon$$

Based on the regression results, the constant (intercept) of **1.198087** indicates that if the **ENV, SOC, GOV, and DP** variables are all zero, the **firm value (FV)** will be **1.198087**. According to the ENV coefficient of 0.025371, all other variables being equal, a one-point rise in the environmental variable (ENV) would result in a 0.025371 increase in firm value (FV). Assuming all other variables stay constant, a 1-point rise in the SOC (social) variable will lead to a 0.016456 fall in firm value (FV), according to the SOC coefficient of -0.016456. The GOV coefficient of 0.000593 shows that, holding all other

variables constant, there will be a 0.000593 rise in firm value (FV) for every 1 point increase in the GOV (governance) variable. With all other variables held constant, a 1-point rise in the DP variable will result in a 0.025697 fall in firm value (FV), according to the DP coefficient of -0.025697.

DISCUSSION

The Influence of Environmental Pillar (ENV) on Firm Value

According to the results, the ENV variable had a t-value of 2,7189, a t-table value of 1.67, and a probability of 0,0071, which is lower than the significance level of 0.05. The findings seem to be statistically significant, according to this. The ENV variable has a substantial implication on the financial success of the firm, as shown by the positive t-value. If the hypothesis is correct, then environmental performance has a considerably larger effect on the financial success of the organization, according to the study's results.

Companies that implement environmental sustainability practices tend to record better financial performance and gain greater trust from investors. This trust then contributes to an increase in the company's market value. This result agrees with studies done by (Khan et al., 2016), which reveals that companies that carry out material environmental practices tend to have a higher market value (Khan et al., 2016).

There is a tight relationship between Signal Theory and corporate environmental practices. According to Signal Theory, a company's value and performance may be enhanced by the disclosure of positive environmental information to investors and other stakeholders. According to (Trumpp et al., 2015), environmental information disclosure is a way for a firm to tell its financial statement consumers about the things the company is doing in its environment. This dynamic is also supported by agency theory. Companies may show their dedication to environmental issues by providing details about the choices they've made and the actions they've done to protect the environment. That the company's operational operations are always done in line with community standards and expectations is shown by this activity.

By implementing environmental information disclosure practices, the company provides transparency to stakeholders regarding its level of concern and responsibility for environmental issues. Stakeholders may use the data at their disposal to evaluate the company's sustainability efforts and how well it meets its environmental obligations. Through disclosure channels, managers may lessen information asymmetry, allowing stakeholders to more effectively oversee management practices and corporate performance (Lang & Lundholm, 1993).

The Influence of Social Pillar (SOC) on Firm Value

The study shows that the SOC variable does not have a substantial impact on the company's financial success; its probability is 0.018, which is bigger than 0.05. In line with Stakeholder Theory, which highlights the complexity of long-term benefits, this statement states that firms may prioritize the interests of different stakeholders, including social issues. In addition, the

specific environment in which the business functions determines whether such strategies have any effect at all.

The impact on financial success is where the social components of the ESG framework really shine. A company's stability and reputation may be enhanced by social aspects including caring for the well-being of the community and actively participating in a range of social concerns.

Another factor that will significantly affect the company's reputation is how well it responds to ever-changing societal norms. Therefore, understanding and responding to social issues is not just an option, but an integral part of the risk management strategy that must be implemented in corporate policies to ensure long-term business sustainability.

This approach is in line with Stakeholder Theory, which suggests that within a company there are various groups of stakeholders who have concerns about the company's actions and policies. These groups include owners, management, employees, suppliers, customers, government agencies, and the wider community (Freeman, 2010) if the company is able to carry out activities that accommodate the interests and satisfaction of these groups, the prospect of the company's future success will be greater (Farida & Setiawan, 2022). In addition, companies must also consider how their decisions and operations impact society and the environment. In this way, businesses may better safeguard their reputation and guarantee the continuity of their operations.

The Influence of Governance Pillar (GOV) on Firm Value

GOV got a t-table value of 1.67, a t-value of 2.328459, and a probability of 0.018, all of which are less than 0.05. These results show that the GOV variable significantly affects financial performance for the better. Furthermore, this research shows that firm value (FV) is heavily influenced by corporate governance, where better governance significantly contributes to an increase in firm value.

To effectively manage and control the relationship between a company's management and its stakeholders, robust corporate governance practices are essential. This includes managing the rights and obligations of each party to be aligned with the company's vision and mission. To achieve this goal, a company or organization needs to design and implement an integrated governance system as a guide in business operations. Thus, good governance not only protects the interests of all stakeholders but also contributes to increasing value for shareholders.

One of the primary tactics for long-term sustainable company management is the use of strong corporate governance. It helps companies avoid the risk of financial difficulties and ensures healthy business continuity. Moreover, strong governance also enhances the trust of investors, shareholders and other stakeholders by adhering to key principles such as transparency, accountability, responsibility, independence and fairness (Dewi & Zaira Novridayani, 2020).

This strategy is consistent with Agency Theory, which states that managers and business owners are both agents and principals in resolving conflicts of interest. According to this theory, managers may tend to act in their

personal interest, which is not always in line with the interests of shareholders. Therefore, good governance serves as a control mechanism to ensure that management acts in accordance with corporate objectives and the interests of the owners of capital. Effective implementation of governance can reduce information asymmetry, increase market confidence, and ensure that decision-making is done objectively and responsibly.

The Influence of Dividend Policy (DP) on Firm Value

According to the data, the Dividend Policy (DP) variable has a t-count of -0.209651, which is less than the t-table value of 1.657, and a probability of 0.8342, which is higher than the significance level of 0.05. These findings point to a negative and statistically negligible impact of the DP variable on company value. This study corroborates the predictions of Miller and Modigliani (MM) in their Dividend Irrelevance Theory. MM posited that dividend policy does not influence a company's value or cost of capital (Miller & Modigliani, 1961).

The conclusion that dividend policy does not significantly impact company value is supported by other prior research. Several studies conducted on companies in Indonesia found that dividend policy is not the main factor in determining firm value, because investors tend to consider profitability and growth prospects more (Fadhilah & Alam Umar, 2024; Widya & Andi, 2022).

Since dividend payments lower the cash or assets held by the corporation, they may have no impact on firm value. For every dollar that goes into dividends, there is less money available for investments that may propel the firm forward. Therefore, dividend policy could be seen negatively by investors, particularly those who value long-term growth more than immediate dividend payments.

CONCLUSIONS AND RECOMMENDATIONS

The primary objective of this research is to investigate the impact of dividend policy and the ESG pillars on firm value (FV). The primary focus of this study is on non-financial firms listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Empirical evidence suggests that robust corporate governance (GOV) and environmental considerations (ENV) are significant determinants of firm value (FV). On the other hand, there is little evidence that the social pillar of ESG has a substantial impact on company value. These findings underscore the importance of environmental sustainability as well as effective governance in supporting the enhancement of firm value.

This work has significant practical ramifications. Environmental and corporate governance considerations should take precedence over social considerations when evaluating a company's potential for success, as these two areas have a more direct and immediate effect on financial performance. From a regulatory perspective, relevant authorities may consider revising ESG policies to further emphasize strengthening environmental and governance frameworks, including providing incentives for companies that implement sustainability and good governance practices. Meanwhile, for companies, this research emphasizes the importance of continued investment in improving

environmental and governance standards to support growth in corporate value and long-term sustainability. While social initiatives may not directly provide financial benefits, environmental and governance aspects remain key factors in driving firm value.

Especially in the non-financial sector, future study might delve more into the processes that enable the rise of business value. To further grasp the larger context of social elements' contributions, future research might also look at how they affect business value over the long run.

FURTHER STUDY

This study demonstrates that environmental, social, and governance (ESG) factors and dividend policy have a significant impact on the value of non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. However, there are still some limitations that can be an exploration opportunity for future research. Future studies can expand the scope of variables by considering other factors that have the potential to affect firm value, such as financial policy, level of innovation, and sustainable investment strategies. In addition, this study examines non-financial companies in general, so further studies can conduct more specific analysis of various industrial sectors, such as manufacturing, technology, and energy, to see how different sector characteristics affect the relationship between ESG and dividend policy on firm value.

The long-term impact of ESG and dividend policy is also an interesting aspect to be studied further. By expanding the research period and using longer historical data, future studies may provide deeper insights into the sustainability of ESG's influence on firm value. In addition, different research approaches, such as qualitative or mixed methods, may provide a broader perspective on firms' motivations in implementing ESG practices as well as how dividend policy is viewed by stakeholders. With more in-depth exploration, it is expected that future research can contribute more comprehensively to the understanding of sustainability, corporate governance, and financial strategies that support the enhancement of firm value.

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