



The Effect of Corporate Social Responsibility on Dividend Policy With Corporate Governance Index As A Moderating Variable (Study of Energy Sector Companies Listed on The IDX In 2017-2022)

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ABSTRACT

This study aims to determine the effect of corporate social responsibility on dividend policy moderated by the corporate governance index. The research sample obtained by purposive sampling method amounted to 12 companies with a six-year observation period in 2017-2022, resulting in 36 observation data. The analysis technique used in this research is Partial Least Square Equation Modeling (PLS-SEM) using Warp-PLS 8.0 version as a tool. The results show that corporate social responsibility has a positive effect on dividend policy and the corporate governance index weakens the influence of corporate social responsibility on dividend policy.

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1. Introduction

According to Meissner & Brigham (2001) Investors will take into account the expected income from dividends rather than the expected income from capital gains. This is because in the equation of total expected income, the dividend yield component is smaller than the capital gain component, and dividends are a fixed income element in the current year, while capital gains are uncertain. Dividend policy is important for company management because it is a decision-making process for the portion of profit that will be distributed to shareholders as dividends at the end of each year. Dividends are a reward for shareholders for their investment, so they are interested in getting big profits and maximizing their wealth (Bataineh 2021).

Reported from fool.com, Devon Energy, a company engaged in oil and gas production, reduced its dividend payments in the fourth quarter of 2022. Devon Energy announced that it was cutting its dividend from the previous \$0.72 to \$0.49. The dividend component is funded up to 50% from free cash flow. When Devon Energy's free cash flow fell, its variable dividend payments also decreased. The phenomenon of dividend policy is still happening today. In Indonesia, PT Mitrabahtera Segara Sejati (MBSS) through the Annual General Meeting of Shareholders (AGM) stated that it would not distribute dividends to shareholders and decided to use the 2021 net profit as retained earnings. Another



phenomenon regarding dividend policy also occurred at PT Bumi Resources Tbk (BUMI). PT Bumi Resources Tbk decided not to distribute dividends in 2023 due to the company's USD 2.30 billion loss deficit in the third quarter of 2023.

Corporate Social Responsibility (CSR) refers to the commitment of companies or the business world to contribute to sustainable economic development by prioritizing balance between economic, social and environmental aspects (Dahiya et al. 2022). Study Ben Salah & Ben Amar (2022) Dahiya et al., (2023) states that CSR has a positive effect on dividend policy. Where the results are consistent with stakeholder theory which highlights the strong motivation of managers to engage in CSR disclosure practices to monitor the company's ability to distribute dividends to shareholders. But these results are contrary to research The Last Supper (2020) which shows that CSR has no effect on dividend policy. Other results are shown by research (Saeed and Zamir 2021) which states that CSR has a negative influence on dividend policy. According to Baron & Kenny (1986) If there is a weak or inconsistent relationship between the independent variable and the dependent variable, then there is likely a moderator variable that influences the relationship between the variables.

The principles of corporate governance are intended to help policy makers evaluate and improve the legal, regulatory and institutional framework for corporate governance with the aim of supporting economic efficiency, sustainable growth and financial stability (Pinto and Rastogi 2022). Corporate governance scores are likely to have a positive relationship between CSR and dividend policy because companies with better governance offer stronger protection to shareholders by distributing more dividends to investors (Yilmaz et al. 2022).

2. Literature Review

Stakeholder theory states that an organization's responsibility is to satisfy all its stakeholders, not just its shareholders. (Freeman 1984). According to stakeholder theory, a company must not only operate for its own interests but must also provide benefits to its stakeholders. The company's ability to value financial and non-financial stakeholders determines the company's sustainability. (Clarkson 1995). Dividends are the most powerful medium through which companies can provide appreciation to their shareholders, while corporate social responsibility helps companies to meet the needs of their stakeholders. (Dahiya et al. 2022). Corporate social responsibility can show that the profits generated by the company are distributed fairly. Thus, socially responsible companies approach dividend payments from the perspective of ethical profit distribution. (He et al. 2012). The higher the CSR value of a company, the higher the dividend payments will be. (Fonseka and Richardson 2023). This happens because CSR activities that are carried out consistently can improve the reputation and maintain the company's image which has a positive impact on sales, in addition investors tend to choose companies that carry out their social responsibilities (Tjandra 2020). These results are in line with research (Dahiya et al. 2022), (Trihermanto and Nainggolan 2020), Sheikh et al. (2022), Benlemlih (2019), Fonseka and Richardson (2023), and (Ben Salah and Ben Amar 2022) which states that corporate social responsibility has a positive influence on dividend policy. Based on this description, the hypothesis of this study is:

H1: Corporate social responsibility (CSR) has a positive effect on dividend policy.

Corporate governance is an inseparable component of sustainable performance (Yilmaz et al. 2022). Sustainability performance depends on the decisions taken by the company. One of them is the fulfillment of corporate social responsibility. Companies can improve the fulfillment of these responsibilities through good corporate governance. Good corporate governance can prioritize the interests of each stakeholder involved in it, so that the company can fulfill its social responsibilities and produce better corporate social responsibility (CSR) performance (Aboud and Yang 2022). The Unknown (2019) stated that corporate governance scores are likely to have a positive effect on dividend payments because companies with better governance offer stronger protection rights to their shareholders. In addition, corporate social responsibility (CSR) fulfillment activities can improve a company's reputation, which leads to a good response to the company and reduces financial risk (Harjoto and Jo 2015). In his research, Yilmaz et al. (2022) proves that corporate governance helps maintain the rights of the company's shareholders. Good corporate governance can reduce concerns



about self-interested managerial behavior in dividend policy. Based on the description, the hypothesis of this study is:

H2: Corporate governance index strengthens the influence of corporate social responsibility on dividend policy.

3. Method, Data, and Analysis

The population used in this study is the energy sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2022. The sampling technique in this study uses the purposive sampling method, namely the determination of samples based on certain criteria in order to provide optimal information (Nurhayati 2019), so that 12 companies were obtained as samples in this study. The data collection technique used in this study is the documentation technique, namely collecting data and information from the annual reports of energy sector companies listed on the Indonesia Stock Exchange for the period 2017-2022. This study uses quantitative data analysis techniques. The analysis technique used to analyze the data that has been obtained is descriptive statistical analysis and Partial Least Squares-Structural Equation Modeling (PLS-SEM). This analysis was carried out using the WarpPLS version 8.0 program.

4. Result and Discussion

The results of the research analysis of the influence of corporate social responsibility on dividend policy with the corporate governance index using *Partial Least Squares-Structural Equation Modelling* (PLS-SEM) with the help of the WarpPLS version 8.0 program produces the following output :

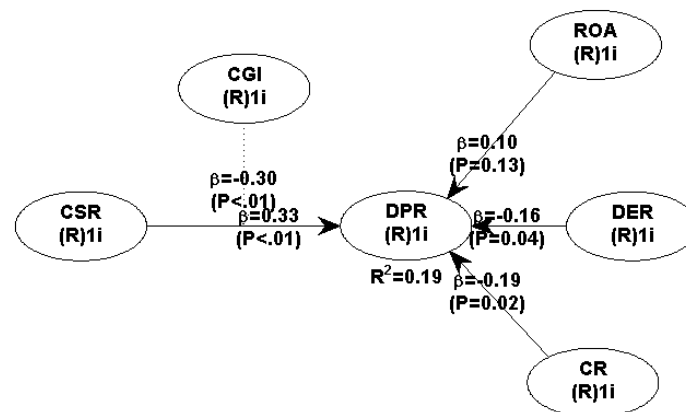


Figure 1. Research Model Output

Hypothesis testing in this study is used to determine whether the hypothesis proposed by the researcher in this study can be accepted or rejected. The level of significance used in this study is 5%. This means that the relationship is considered significant if the P-Value is less than 0.05. Therefore, if the P-Value is below 0.05, it indicates that the hypothesis in the study can be accepted. The following are the results obtained based on data processing using WarpPLS 8.0.

Table 1 Path Coefficient and Path Value

Variables	Path Coefficients	P-Values	Rule of Thumb	Information
CSR	0.328	< 0.001	P < 0.05	Accepted
CGI*CSR	-0.301	< 0.001	P < 0.05	Rejected
ROA	0.099	0.130		



DER	-0.156	0.040		
CR	-0.191	0.016		

Based on the results of data processing, the path coefficient value of corporate social responsibility is 0.328 with P-value <0.01. These results indicate that corporate social responsibility (CSR) has a positive effect on dividend policy at a significance level of 5% so that H1 is accepted. These results prove that high CSR disclosure will simultaneously increase a company's dividend policy. The positive and significant influence of CSR on the company's dividend policy is in line with the concept of stakeholder theory which states that the organization's responsibility is to satisfy all its stakeholders (Freeman 1984). Companies with greater CSR activities and transparency in their disclosure tend to pay higher dividends to shareholders. These companies are considered as socially and financially responsible companies. It also indicates that the strategies used by the company in terms of community, environmental, social, and economic strategies influence decisions related to financial policies and strengthen social commitment. Therefore, CSR is considered as a positive net present value project that increases income, which then leads to high dividend payments. (Badru and Qasem 2021). The results of this study are in line with the results of research Trihermanto and Nainggolan (2020), Dahiya et al. (2022), as well as Fonseka and Richardson (2023) which states that corporate social responsibility has a positive effect on dividend policy.

Based on the results of data processing, the coefficient value of the interaction variable path between CSR and corporate governance index (CGI) is -0.301 with a P-value of <0.001. These results indicate that the corporate social responsibility (CSR) variable moderated by the corporate governance index (CGI) has a negative effect at a significance level of 5% so that H2 is rejected. These results prove that a high corporate governance index (CGI) value can weaken the influence of corporate social responsibility (CSR) on the company's dividend policy. A good governance score indicates the implementation of good corporate governance in a company. Companies that have good corporate governance tend to implement stricter supervision and monitoring practices for company funds, this has an impact on management's caution in allocating company profits, including dividends. Dividend policy is often considered a strong signal about the company's performance and stability to the capital market. Companies that have a consistent and profitable dividend policy will be more trusted by investors. In an effort to maintain or increase stock prices and gain investor trust, company management tends to allocate funds into larger dividends than CSR initiatives that may be considered to have a lower return on investment or do not directly provide immediate financial benefits.

Furthermore, companies with good governance scores will be more selective in decision making, especially in assessing company performance based on financial aspects and transparent transactions, such as audits and financial reporting. Focusing on these financial indicators can reduce attention to non-financial aspects such as CSR in strategic decision making. As a result, company management will be encouraged to allocate resources to activities that directly improve financial performance, such as dividend policy, rather than to expand CSR programs. Thus, good corporate governance (CGI) scores will have an impact on weakening CSR disclosure by prioritizing dividend policy (Yilmaz et al. 2022).

5. Conclusion and Suggestion

This study examines the effect of corporate social responsibility (CSR) on dividend policy with the moderation of corporate governance index (CGI) using a sample of 12 energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2017-2022. Based on the PLS-SEM analysis that has been carried out on the research data and discussion in the previous chapter, it can



be concluded that Corporate social responsibility (CSR) has a positive effect on dividend policy in energy sector companies listed on the Indonesia Stock Exchange in 2017-2022 and Corporate governance index (CGI) strengthens the influence of corporate social responsibility (CSR) on dividend policy in energy sector companies listed on the Indonesia Stock Exchange in 2017-2022.

The limitations of this study are that this study is only limited to corporate social responsibility (CSR) variables moderated by the corporate governance index (CGI). This shows that there are limitations in the variation of the dependent variable (dividend policy), because there are many other factors that can affect dividend policy. The limited measurement of dividend policy used, namely only using the dividend payout ratio as its measurement. This study only takes samples of energy sector companies listed on the Indonesia Stock Exchange in 2017-2022.

For further researchers, it is expected to be able to add or test dividend policy variables with other proxies, such as dividend yield and dividend dummy. Further research is also expected to be able to add other variables that may affect dividend policy, such as free cash flow, stock price synchrony. Then test corporate governance variables more specifically, such as ownership structure and CEO characteristics. And finally, further research is expected to expand the scope of the company data samples studied, for example all non-financial companies listed on the Indonesia Stock Exchange and replace or add to the research period.

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