

ABSTRACT

This study aims to analyze the effect of Environmental, Social, and Governance (ESG) performance on dividend policy as well as the moderating role of financial sustainability in this relationship. Furthermore, this study also examines the direct relationship between financial sustainability and dividend yield. This research also examines the effect of each ESG dimension (environmental, social, and governance) on dividend policy in companies listed on the Indonesia ESG Leaders Index and the IDX High Dividend 20 Index.

The population used in this study is all companies listed on the Indonesia Stock Exchange (IDX). The sample consists of 9 companies consistently listed on the Indonesia ESG Leaders Index and the IDX High Dividend 20 Index during the 2015–2024 period. However, only 90 observation data met the criteria for testing. The analytical tool used to test the hypotheses is panel data regression with the Fixed Effect Model (FEM) corrected using Driscoll-Kraay robust standard errors.

The results show that overall ESG performance has a positive and significant effect on dividend policy. Furthermore, financial sustainability is not proven to moderate the relationship between ESG and dividend policy. However, it is found that financial sustainability has a direct positive and significant relationship with dividend yield. Furthermore, the social and environmental dimensions have a positive and significant effect on dividend policy, while the governance dimension has no significant effect. Moreover, the positive relationship between ESG performance and dividend policy remains consistent after controlling for firm size, profitability, leverage, and firm age.

Keywords: ESG Performance, Dividend Policy, Financial Sustainability, Sustainable Growth Rate