

ESG Performance, Financial Ratios, Stock Prices, and Dividend Payments: Manufacturing and Energy Companies

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ABSTRACT

Industrialization has led to an increase in environmental problems, resulting in higher demands for companies to adopt Environmental, Social, and Governance (ESG) principles. ESG practices involve a trade-off for companies between ESG performance, which requires large investments and has the potential to sacrifice shareholder profitability in the short term. This study aims to examine the influence of ESG performance, profitability ratios Return on Assets (ROA) and Return on Equity (ROE), and closing stock price on the Dividend Payout Ratio (DPR) for manufacturing and energy companies with high emissions in Indonesia from 2018 to 2023. The model used is panel data regression with a random effects approach. The results show that only ROE and the Governance (G) pillar have a significant positive effect on DPR, while the other variables are not significant. These findings indicate that dividend policy is still profit-based and that governance influences dividend policy considerations.

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1. INTRODUCTION

In 2015, as a form of global responsibility toward the environment, the United Nations (UN) established the Sustainable Development Goals (SDGs), agreed upon by 193 countries, including Indonesia, aimed at addressing social welfare issues, ending poverty, and protecting the environment. The SDGs consist of 17 goals, 169 targets, and 247 indicators on a global scale, with the expectation that they will be fully achieved by 2030 [1]. The ESG concept is used to support these programs or to measure a company's performance regarding the

environment and social responsibility in a sustainable manner.

All countries around the world have submitted sustainable development action plans following ESG principles to build a sustainable and comprehensive development framework [2]. This includes Indonesia, which is committed to achieving Net Zero Emissions (NZE) by 2060. According to [3], despite progress in sustainable business practices over the past decade, there remains uncertainty regarding whether energy-intensive and polluting companies are adjusting their financial practices in response to investor sentiment compared to

environmentally friendly and non-energy companies.

As a country with stable economic growth of around 5% per year over the past decade, driven by the manufacturing and energy sectors [4], Indonesia faces challenges in implementing ESG principles. According to Bank Indonesia's Prom Manufacturing Index (PMI) for the fourth quarter of 2024, the manufacturing sector was in the expansion zone at 51.58% and employed 47.57% of the workforce in Indonesia, contributing 0.90% to Indonesia's economic growth, the highest among other industrial sectors. Given its significant role in the economy and high production capacity, the manufacturing sector faces growing challenges in becoming sustainable and managing waste. Meanwhile, production processes in the manufacturing sector are dominated by fossil fuel combustion [5].

Industrial development has been accompanied by increasing dependence on fossil fuels, leading to rising carbon emissions, global climate change, and environmental degradation. Dependence on coal, natural gas, and oil meant that in 2022, the energy sector accounted for 89% of global carbon emissions [6]. Energy sector commodities, including coal and palm oil, are Indonesia's primary export commodities [5]. Additionally, Indonesia is one of the world's leading suppliers of minerals supporting sustainable energy transformation, such as nickel, tin, gold, copper, bauxite, and others. Thus, both sectors driving Indonesia's economic growth face increasingly challenging obstacles in implementing ESG.

[7] in their study stated that companies in Europe with higher ESG performance and better ESG disclosure standards tend to pay higher dividends. Their findings imply that payments to shareholders are made by participating in ESG practices, thereby enabling companies to obtain higher profits and revenues with lower risks, thereby increasing dividend payments. Another study conducted by [8] found that higher ESG scores provide higher dividend payout ratio stability.

The concept of ESG in practice poses challenges and dilemmas for companies and investors in setting priorities for investment and corporate objectives. Investing in ESG to improve sustainability practices tends to require sacrificing shareholder assets. It is important to understand the extent to which ESG influences dividends, as dividends are the primary payment tool used by companies to shareholders [7].

Meanwhile, research conducted by [9] found that LQ45 companies in Indonesia need to invest more in long-term sustainable practices to achieve high ESG scores. There is a potential sacrifice in short-term shareholder profitability, resulting in lower financial performance. Thus, there is a trade-off between efforts to achieve sustainability and short-term financial performance. Therefore, this study uses profitability ratios, namely Return on Assets (ROA) and Return on Equity (ROE), as financial aspects of the company. These indicators reflect the efficiency of asset utilization and the return to shareholders, which can be key factors influencing the Dividend Payout Ratio (DPR) [10].

In addition to sustainability and profitability aspects, this study also uses closing stock price as a variable reflecting investors' perception of company stability and consistency in future dividend payments. Generally, a higher stock price is perceived as indicating positive investor expectations. Stock prices can be influenced by ESG factors and company stability, which ultimately impact financial policies such as dividend payments [11]. Based on signaling theory, in practice, companies often maintain or even increase dividend payments to signal confidence to the market. Thus, the closing price, which reflects investors' perceptions of the company, has the potential to influence the Dividend Payout Ratio (DPR).

Thus, the focus of this study is to examine whether ESG performance, ROA, ROE, and closing price individually have a significant relationship with the dividend payout ratio in manufacturing and energy companies in Indonesia during 2018–2023. This period is considered the most representative of the current situation, and

during this period, there was an increase in companies' commitment to sustainable transition. In addition to ESG as a sustainability aspect, this study also considers the influence of financial indicators, namely profitability ratios and investor perceptions of stock prices, on dividend payments for Indonesia's strategic sectors, namely manufacturing and energy.

The objectives of this study are:

1. To analyze how profitability ratios (ROA and ROE) influence the Dividend Payout Ratio (DPR) of manufacturing and energy companies in Indonesia during the period 2018–2023.
2. To analyze how Environmental, Social, and Governance (ESG) scores, ROA, and ROE influence DPR in manufacturing and energy companies in Indonesia from 2018 to 2023.
3. To analyze how Environmental (E), Social (S), and Governance (G), ROA, ROE, and closing price (CP) influence DPR in manufacturing and energy companies in Indonesia during the period 2018–2023.

Research Boundaries

1. This research focuses on strategic sectors in Indonesia, namely those with manufacturing and energy activities.
2. Environmental, Social, and Governance (ESG) scores are sourced only from the Bloomberg ESG Pillar Score.
3. Return on Assets (ROA) and Return on Equity (ROE) are used as profitability variables.
4. Investor perception of dividends is measured using the closing stock price.

2. LITERATURE REVIEW

2.1 Upper Echelon Theory

The Upper Echelon refers to the top management team and CEO, whose value preferences influence the

organization's strategic choices [12]. Decisions made by managers are not only strategic based on objective data analysis but are also influenced by cognitive biases such as personal values and perspectives held by a manager or top executive. According to [13], cognitive variation and structure determine organizational decision-making choices and their impact on the overall success of a company's business.

Sustainable business model innovation is an important topic for businesses to achieve sustainable development. Although the upper echelon has not been applied in sustainable business innovation, research conducted by [14] found that diversity in top management teams has a positive influence on learning orientation that combines human, social, and organizational capital in developing sustainable business model innovation. Company leaders need to change the structure of the top management team to be more diverse so that discussions on environmental sustainability issues provide new knowledge and skills for the company. In addition, if the top management teams share knowledge about sustainability, this will have a positive impact on the company's sustainability performance orientation [15].

Sustainability - conscious leadership is leadership that focuses on reducing the negative impacts of production processes, including the use of natural resources and the relationship between human resources. It involves creating and maintaining closer relationships among employees and fostering knowledge sharing [14].

Thus, leadership that cares about sustainability in an organization not only contributes to the company's sustainable performance but also influences knowledge among employees and closeness between employees. This interaction further encourages top management teams to pay attention to the

company's sustainable performance and foster environmental responsibility. An organization's attitude toward handling sustainable business innovation while considering the environment depends on the diversity of perspectives that support diverse business actions. Additionally, an organization's commitment to sustainable development depends on the support of top management, who are decision-makers, including various stakeholder groups in formulating organizational policies [16].

2.2 Signaling Theory

In signaling theory, dividend payments provide information about the future prospects of a company's cash flow. The idea behind this theory is that dividend payments send signals to the market about the company's financial prospects. In imperfect markets, there is information asymmetry between companies and investors, as companies have more comprehensive information about future profitability than investors. Therefore, dividends serve as a communication tool for companies to convey information about their financial health to the market [17].

Dividend policy serves as a signal from the company to the market regarding its financial condition based on its future outlook. An increase in dividend payments indicates an increase in profits or stronger cash flows in the future, while a decrease in dividend payments signifies declining cash flows and deteriorating financial prospects [18]. In this case, the market typically reacts by adjusting stock prices, which tend to decline.

Investor's view dividend payments as information about the company's future cash flow expectations. Changes in dividend payments by investors are interpreted as signals of future profit changes, so the consistency of dividend payments cannot be overlooked. Information asymmetry can significantly influence the level of dividend payment equilibrium. Although

a reduction in dividend payments is not always a negative signal, a company may decide to allocate more funds to more profitable investments, thereby reducing dividend payments.

When companies cross-list, they tend to reduce information asymmetry between the company and investors [19]. Companies in developing countries are predominantly controlled by company management, so when they pay higher dividends, it indicates an improvement in corporate governance. For cross-listed companies, dividend payments tend to be controlled by investors, so that a decrease in dividend payments is considered a positive signal that the current reduction is being replaced by improvements in corporate governance. Companies predominantly controlled by management are advised to decide to make dividend payments or even increase them and avoid delaying dividend payments to signal to investors that the company's future financial conditions are optimistic [20].

2.3 Environmental, Social, and Governance (ESG)

Led by the EU, non-financial reporting (NFR) on ESG (Environmental, Social, and Governance) issues has been introduced. The European Union has enacted Directive 2014/95/EU, which requires companies in Europe to disclose non-financial information on ESG, which has three pillars: Environmental (E), Social (S), and Governance (G), in their annual reports starting in 2018.

This concept has continued to evolve, culminating in the establishment of the European Union's Corporate Sustainability Reporting Directive (CSRD) in 2023, which targets large, medium, and small listed companies to provide consistent information on non-financial reports (NFR) in compliance with ESG standards [21]. ESG reporting regulations vary from country to country. Countries without ESG disclosure standards typically disclose information voluntarily, especially in Asia, where ESG

disclosure is largely voluntary because some stock exchanges have not yet mandated NFR disclosure related to ESG themes [22]. As a form of commitment, the Indonesian government has established Presidential Regulation No. 59/2017 as an effort to implement and achieve sustainable development goals and SDGs.

ESG is not only about sustainable human development but also a new perspective for understanding the opportunities and risks faced by companies. As the concept of ESG becomes increasingly recognized by the public, more evidence shows that ESG practices have a positive impact on the reputation of leading companies. This means that the relationship between ESG and business activities, governance, risk, and company performance has been fully proven [23]. In addition, [24] also found in their research that sustainable investments encourage companies to be more environmentally friendly, and companies with consistent ESG practices have lower capital and operating costs, enabling them to make more profitable investments.

ESG in this study refers to the Bloomberg ESG Score. Bloomberg quantitatively assesses how companies manage ESG issues that are important to their sector and can affect revenue, costs, and asset value (financial materiality). The ESG assessment is on a scale of 0–10 using the following method [25].

1. Bloomberg ESG Assessment Structure

The ESG score is structured in tiers with the following process

- a. Field score: evaluates each indicator from the ESG pillars.
- b. Sub-issue score: field scores are combined to form a single sub-issue score.
- c. Issue score: sub issue scores are combined into one issue score. At this stage, the completeness of the data

(disclosure factor) reported by the company is considered.

- d. Pillar score: the main pillars E, S, and G consist of several issues combined into a pillar value.
- e. ESG score: This score reflects the company's overall ESG performance and is formed by combining the pillar scores of E, S, and G, weighted according to the type and sector of the business.

2. Score calculation method

The scoring method used by Bloomberg is the weighted power mean mathematical method. This method was chosen to ensure that companies do not excel in only one ESG pillar, but rather demonstrate balanced performance across the E, S, and G pillars. The specific parameters used in the formula are the power value (p) is 0.05 and the shift value (s) is 1.

a. Environmental (E)

The Environmental (E) pillar assesses the impact of a company's activities on the environment. This pillar represents the company's efforts to respond to energy transition pressures and climate change. Examples include carbon emissions, resource use, waste management, adoption of renewable energy, pollution control, and sustainability [26]. Environmental aspects are greatly influenced by waste management and how environmentally friendly innovations are implemented to manage waste that contributes to pollution and emissions. To effectively manage environmental performance, strategic long-term investments with relatively higher costs are necessary.

Good environmental performance is not merely about compliance with waste management

regulations but also about strengthening the company's value through sustainable technological innovations and efficient resource use. The difficulty companies face in managing the waste they generate depends on the type of company [27], with energy-intensive and polluting companies facing greater challenges.

b. Social (S)

The Social Pillar (S) concerns the relationship and impact of companies on society and employees, including the evaluation of employment practices, diversity and inclusion, community involvement, human rights, and product safety. This aspect regulates how companies maintain the welfare of their human resources and do not violate the rights and obligations of human resources, maintain a balance of human resources, and mitigate the impact of business activities on society. Companies need to develop better management systems to address social challenges. Some argue that when companies fulfill their social responsibility obligations to society, they gain a competitive advantage [28].

c. Governance (G)

Governance (G) reflects the quality of a company's leadership, internal controls such as the structure of the board of directors, transparency of financial reports, managerial accountability, the company's ability to fulfill its obligations to shareholders, protection for shareholders, the application of ethics and transparency by the company, and compliance with laws, regulations, and internal oversight [26]. Governance plays an important role in minimizing conflicts of interest between the company and shareholders, ensuring that the company complies with norms and ethics because governance refers to

the systems and processes by which the company regulates and directs its business activities. This pillar is an indicator that describes the value of integrity and credibility of the company in managing risks and making long-term decisions [29]. Governance values signal the quality of managerial decisions and strategic choices, including rational dividend policies.

Governance enhances overall ESG performance, and companies with good governance are better equipped to withstand uncertainty and economic crises [11]. For capital-intensive industries such as manufacturing and energy, effective governance strengthens a company's credibility in the capital market, where the market trusts that the company is worthy of financing due to lower risks, which indirectly impacts the company's ability to maintain profit stability [30].

However, research conducted by [3] states that governance in developing countries tends to be weak due to weak legal regulations and a lack of information transparency, resulting in the influence of governance on dividend payment decisions not necessarily being significant even though companies have ESG commitments. The problems faced by companies in the governance pillar are structural and prone to decline, especially in developing markets. Governance is also the actual practical implementation of daily business, which often involves political interests and power for the benefit of company owners in developing markets [31].

2.4 Financial Ratios

Financial ratios are analytical tools used to evaluate a company's financial condition by comparing various elements in financial statements, such as profitability, liquidity, and solvency [32].

Companies with high profitability (ROA and ROE) have a positive relationship with dividend payments [33]. Profitability ratios are financial ratios used to measure a company's ability to generate profits relative to its balance sheet assets, operating costs, and shareholders' equity.

Profitability ratios indicate how well a company utilizes its capital to generate profits and value for shareholders. However, research conducted by [34] states that investing in ESG can reduce investor assets by temporarily lowering profitability ratios. Therefore, this study also examines the effect of financial ratios using the profitability ratios Return on Assets (ROA) and Return on Equity (ROE).

a. Return on Assets (ROA)

Return on Assets is a profitability ratio that measures a business's profit and its relationship to total assets. The ratio compares profit, which is net income generated, with total capital invested in assets, indicating how productive and efficient management is in utilizing all economic resources [35]. Return on Assets is obtained using the formula: total net income divided by total assets.

A higher ROA value means that the company has a greater capacity to generate profits from its total assets. Generally, companies with high ROA are better able to meet investor expectations regarding profit distribution. Profitability directly influences the decision on the amount of dividend payments because profit is the main source of dividend payments [36].

b. Return on Equity (ROE)

Return on Equity is a ratio that measures net income divided by total shareholders' equity. This ratio measures overall profitability for company owners and investors, making it attractive for investors to monitor. ROE is influenced by asset

efficiency, profitability, and leverage. A higher ROE indicates a company's greater ability to generate significant profits from shareholders' funds, which can lead to increased dividends [35].

$$\text{Return on Total Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

c. Dividend Payout Ratio (DPR)

$$\text{DPR} = \frac{\text{Dividend per Share}}{\text{Earnings per Share}}$$

Dividends are the distribution of a company's profits to shareholders in return for their investment, reflecting the company's profit sharing. Dividends are paid in cash or shares. The decision to pay dividends takes into account financial conditions, profit stability, and funding needs for business growth. Dividend payments can serve as a risk management tool, while maintaining a lower dividend payout ratio increases the company's financial flexibility [37].

Sustainability practices that are appreciated by investors and the general public pose challenges for companies in choosing priorities in investment if improving sustainability practices sacrifices shareholder assets that could potentially affect dividends [34]. The dividend payout ratio (DPR) is one of the measures used to assess dividend policy. It indicates the proportion of net income distributed to shareholders and reflects the company's orientation toward distributing profits or retaining net income for business expansion [38].

2.5 Stock Price

The stock price reflects the financial health of the company and its potential for future growth. The closing price is the last price of a stock transaction at the end of trading on a given day,

representing the agreement between buyers and sellers and reflecting the company's reputation and market influence. Stable or high dividends will increase the stock price in the following year because investors perceive this as a signal that the company has stable cash flow and easy access to capital, making the company's prospects for paying dividends more secure [39].

Investors interpret these signals by assessing whether the company's dividend payments are stable or uncertain. Companies with high financial performance operate efficiently and are able to generate high profits; stock prices are also influenced by the company's fundamentals [40]. Stock prices are

determined by dividend policy, but they also influence dividend policy through investor perceptions.

2.6 Hypothesis Development

This study aims to determine the influence of ESG on dividend payments by integrating profitability ratios (ROA and ROE) and closing price as independent variables in energy and manufacturing companies in Indonesia during the period from 2018 to 2023. Dividend payments are the dependent variable, represented by the dividend payout ratio (DPR). Other independent variables include the scores for each ESG pillar, reflecting the company's ESG performance.

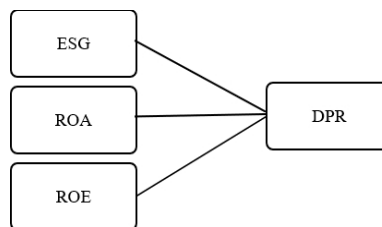


Figure 1. Research Model 1

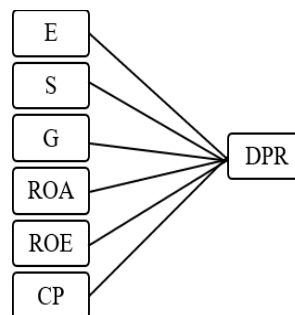


Figure 2. Research Model 2

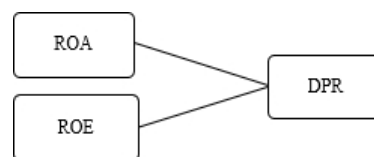


Figure 3. Research Model 3

When a company seeks to improve its sustainability practices, it tends to reduce investor-owned assets, which affects dividend payments. However, an organization cannot solely benefit shareholders but must also provide significant benefits to other

stakeholders. Companies not only require support from investors but also need support from other stakeholders to survive and grow [41]. Therefore, it has become the responsibility of companies to achieve a balance between maximizing

dividends and meeting stakeholder needs by investing in ESG.

Companies with good non-financial performance have a positive reputation among shareholders, even if they pay low dividends. Investors believe that sustainable investments made by companies become dividend payments, indirectly signaling to stakeholders that dividends will be stable and increase in the future due to the efficiency generated from sustainable investments and that the company will be increasingly able to balance financial and non-financial performance [7].

a. Profitability Ratio and Dividend Payout Ratio (DPR)

Profitability ratios are always associated with dividend payment policies. More profitable companies tend to pay higher dividends, especially in countries with strong investor protection [42]. Companies that tend to pay higher dividends are those with high profitability because they have sufficient cash surpluses [43].

However, companies with high profitability may choose to retain profits and allocate them for future investments rather than distributing them as dividends. Thus, the hypothesis developed is:

H0. ROA does not significantly affect DPR
H1a. ROA significantly affects DPR

H0. ROE does not significantly affect DPR
H1b. ROE significantly affects DPR

b. ESG Performance and Dividend Payout Ratio (DPR)

Environmental, Social, and Governance (ESG) performance has become a global concern. Companies and investors are taking ESG into account because it is believed to influence financial policies, one of which is dividend payment policy. Several studies conducted in European markets, where Europe is one of the countries with high ESG

performance due to its early recognition of the importance of ESG practices, have shown that companies tend to have more stable dividend payments because of better governance practices and more effective risk management.

Numerous studies have been conducted to understand how ESG practices influence dividend payments, with some showing a positive correlation. For instance, businesses aligned with ESG principles have achieved operational efficiency in the United States [44], the European Union [7], the United Arab Emirates [45], France [46], and negative results in China [47] and [48], where ESG investments reduce funds that should have been distributed as dividends to shareholders. Therefore, the hypothesis developed is:

H0. ESG scores do not significantly affect DPR
H2a. ESG scores significantly affect DPR

H2b. Environmental (E) has a significant effect on DPR
H2c. Social (S) has a significant effect on DPR

H2d. Governance (G) has a significant effect on DPR

c. Closing Price and Dividend Payout Ratio

Stock prices reflect market expectations regarding a company's financial performance and future prospects. According to signaling theory, the relationship between stock prices and dividend policy is that when a company pays higher dividends, it sends a positive signal to the market that it has strong financial prospects, thereby tending to increase stock prices [49]. However, it is also possible that companies with high stock prices tend to pay lower dividends because they choose to use profits for expansion or acquisitions that can provide significant value to shareholders in the long term. Thus, the hypothesis developed is:

H0. LCP does not significantly affect DPR
 H3. LCP significantly affects DPR

3. METHODS

3.1 Data and Sample

This study uses a secondary data collection method. ESG scores are sourced from Bloomberg, ROA and ROE are obtained from each company's annual report, while closing prices are obtained from Yahoo Finance. Sample selection uses a purposive non-probability sampling method. The selection of research samples has the following criteria:

1. Manufacturing, energy, and energy raw material companies listed on the Indonesia Stock Exchange (IDX) during the study period of 2018– 2023. This is due to the availability of published data.
2. Companies that publish annual reports and have ESG scores from

2018 to 2023. This period was chosen because in 2018, many companies were encouraged to adopt ESG practices following the European Union's Non-Financial Reporting (NFR) requirements, and in Indonesia, there is Presidential Regulation No. 59/2017. The period up to 2023 is considered to reflect the current situation.

3. The company has all the data required for the measurement of research variables within the timeframe of 2018 to 2023.

There were 35 companies in the manufacturing sector and 8 companies in the energy sector with ESG scores on Bloomberg. However, the data available within the study period (2018–2023) includes 8 companies in the energy sector and 10 companies in the manufacturing sector. The total sample consists of 18 companies operating in the manufacturing and energy sectors.

Table 1. Research sample

No	Stock Code	Company	Class
1	ADRO	Adaro Energy Indonesia Tbk PT	Energy
2	ANTM	Aneka Tambang Tbk PT	Energy
3	INCO	Vale Indonesia Tbk PT	Energy
4	ITMG	Indo Tambangraya Megah Tbk PT	Energy
5	MDKA	Merdeka Copper Gold Tbk	Energy
6	PGAS	State Gas Company PT	Energy
7	BRPT	Barito Pacific PT	Energy
8	UNTR	United Tractors Tbk PT	Energy
9	AALI	Astra Agro Lestari Tbk PT	Manufacturing
10	GGRM	Gudang Garam Tbk PT	Manufacturing
11	HMSP	HM Sampoerna Tbk PT	Manufacturing
12	ICBP	Indofood Cbp Sukses Makmur TBK PT	Manufacturing
13	INDF	Indofood Sukses Makmur Tbk PT	Manufacturing
14	INKP	Indah Kiat Pulp & Paper Tbk PT	Manufacturing
15	JPFA	Japfa Comfeed Indonesia TBK PT	Manufacturing
16	KLBF	Kalbe Farma Tbk PT	Manufacturing
17	UNVR	Unilever Indonesia TBK PT	Manufacturing
18	WTON	Wijaya Karya Beton Tbk PT	Manufacturing

3.2 Research Model

$$DPR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \text{uit} \dots \dots \dots h1$$

$$DPR_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 ROA_{it} + \beta_3 ROE_{it} + \text{uit} \dots \dots \dots h2$$

$$DPR_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 ROA_{it} + \beta_5 ROE_{it} + \beta_6 \log(CP)_{it} + \text{uit} \dots \dots \dots h3$$

Variable measurements:

- DPR : percentage of net profit used as dividends
 ESG : ESG score held by the company
 E : environmental pillar score
 S : Social pillar score
 G : Governance pillar score
 ROA : measured as the ratio of net profit to total assets
 ROE : measured as the ratio of net income to total shareholders' equity
 CP : the closing price of a stock at the end of the year

3.3 Analysis Method

a. Panel Data Regression Estimation Model

1. Common Effect Model (Ordinary Least Squares/OLS)

This model is the foundation of panel data regression when examining the relationship between independent and dependent variables. OLS does not distinguish between firms or time periods, so this model is also called pooled regression. It combines cross-sectional and time series data into a single unit and ignores differences in time and individuals. This model should meet the assumptions of the Best Linear Unbiased Estimator (BLUE).

2. Fixed Effect Model (FEM)

This model uses the least squares method, assuming that there are differences between individuals, and that each company has specific characteristics that are constant over time for all units in a region or time period. These characteristics can influence the regression results. Therefore, fixed effects eliminate these constant influences so that they

do not interfere with the regression results showing the relationship between the variables being studied. Assuming that there are differences between observation units that are related to other variables in the research model, but the researcher cannot accurately assess whether there are values that do not change (constant) over time. The approach in fixed effects is Least Square Dummy Variables (LSDV), which is a common effect but uses dummy variables with different assumptions between observation units.

3. Random Effect Model (REM)

This model acknowledges that each region or company studied has unique characteristics and differences that are random and not directly related to other variables. In the fixed effect model, this results in a smaller degree of freedom, which can affect parameter efficiency. The random effect approach is used to overcome this problem. This model is also known as Generalized Least Squares (GLS)

b. Regression Estimation Model Selection Test

1. Lagrange Multiplier Test

To see if there are individual effects that reflect unobserved differences in characteristics between units that are constant over time, a Lagrange multiplier test is performed. This test examines whether there are significant individual effects between observation units. The Lagrange multiplier test determines whether to use random effects or Ordinary Least Squares (OLS)

(Wooldridge, 2016). If the test results indicate random effects, then proceed to the next test, which is the Hausman test. The hypothesis of this test is:

- a. Chi-square probability > 0.05 , therefore Ordinary Least Squares (OLS) is used.
- b. Chi-square probability < 0.05 Random Effect Model (REM) is the best model to use.

2. Hausman Test

In panel data analysis, the Hausman test is used to determine whether individual effects should be regressed using a fixed effect model or a random effect model that is more appropriate for the study [50]. The Hausman test hypothesis is:

- a. Chi-square probability > 0.05 , random effect model is the best.
- b. Probability $\chi^2 < 0.05$ is more suitable for using fixed effect regression estimation in the study.

c. Classic Assumption Test

1. Multicollinearity Test

Multicollinearity testing is conducted to determine whether there is too strong a relationship between independent variables in a research model. If perfect multicollinearity exists among variables, the regression equation no longer has a solution, and it becomes difficult to determine the individual influence of each independent variable. The test is based on the Variance Inflation Factor (VIF) value. If the regression model shows a value of $1/VIF > 0.05$, it means that the regression model does not violate multicollinearity [50].

2. Heteroscedasticity Test

The heteroscedasticity test examines whether the residual variance (error) is constant in a regression model. A good research model is one that is free from heteroscedasticity [50]. The heteroscedasticity test used is the Breusch Pagan test, where if the chi-square probability < 0.05 , then heteroscedasticity occurs. Conversely, when the chi-square probability is > 0.05 , then heteroscedasticity does not occur.

d. Hypothesis Testing

1. Partial Test (T-test)

The T-test is a hypothesis testing tool used to identify the strength of influence of each variable individually [50]. The significance level of the T-test in this study explores 0.05 to 0.10. The confidence level is 95% with an error rate of 5% if the significance is below 0.05. If the significance is 0.10, the confidence is 90% with an error rate of 10%. The criteria for decision making in the T-test are:

- a. If the P-value is < 0.05 or at the significance threshold of 0.10, it means that the independent variable has a significant partial effect on the dependent variable.
- b. If the P-value is > 0.05 or at the significance threshold of 0.10, it means that the independent variable has a significant effect on the dependent variable.

2. Simultaneous Significance Test (F-test)

The F-test aims to determine whether the independent variables simultaneously have an effect on the dependent variable. The F-test evaluates whether the

regression model used as a whole is suitable for explaining the dependent variable and can be used for managerial decision-making [51]. The F test in this study is 0.05 is equivalent to a 95% confidence level and a 5% error rate. The decision criteria for the F-test are:

- a. If the P-value is < 0.05 , the regression model is simultaneously significant.
- b. If the P-value is > 0.05 , the regression model is not simultaneously significant.
- c. Coefficient of Determination (Adjusted R^2)

The coefficient of determination is used to determine how much the independent variables in the research model influence the dependent variable. The range of the coefficient of determination is between 0 and 1 ($0 < R^2 < 1$). The closer the adjusted R^2 value is to 1, the better the regression model is at explaining the dependent variable or phenomenon [51].

4. RESULTS AND DISCUSSION

4.1 Regression Estimation Model Selection Test

Before running the regression model using the ordinary least squares method, fixed effect model, or random effect model, a regression model selection test was conducted in STATA using the Lagrange multiplier test and the Hausman test. The results of these tests are as follows:

1. Lagrange Multiplier Test

Based on the results of the Lagrange multiplier test, it was found that the probability of the chi-square distribution for the chi-square distribution with 3 degrees of freedom is $0.000 < 0.05$ for all research models. This test chooses between ordinary least squares and random effect models. The test results show that models 1, 2, and 3 should be explained using random effect models. Therefore, it is necessary to proceed to the next test, namely the Hausman test, to choose the best between random effect models and fixed effect models.

Table 2. Results of the Lagrange Multiplier Test

Prob> Chi ²	Model 1	Model 2	Model 3
	0.000	0	0

2. Hausman Test

Table 3. Results of the Lagrange Multiplier Test

Prob> Chi ²	Model 1	Model 2	Model 3
	0.117	0.807	0.506

The Hausman test is a test to select the best regression estimation model between the random effect model and the fixed effect model. Based on the data above, the results of the Hausman test for each model are $\text{prob} > \chi^2$ greater than 0.05, meaning that the Hausman test recommends the random effect model. These results are consistent

with the Lagrange multiplier test, which indicates that the best model for all models in this study is the random effect model. Therefore, this study uses the random effect regression estimation model.

4.2 Classical Assumption Test

Multicollinearity and heteroskedasticity tests are recommended

to assess the validity of the T-test and F-test.

1. Multicollinearity Test Results

Table 4. Results of Multicollinearity Test

Dependent Variable DPR						
Independent	Model 1		Model 2		Model 3	
	VIF	1/VIF	VIF	1/VIF	VIF	1/VIF
ROE	3.44	0.290977	3.58	0.278967	3.68	0.272106
ROA	3.44	0.290977	3.44	0.290950	4.28	0.233780
ESG			1.14	0.879802		
E					2.64	0.378124
S					2.47	0.405663
G					1.04	0.957654
LCP					1.29	0.775385
Mean VIF	3.44		2.72		2.57	

Based on Table 4.4, the results of the multicollinearity test, as seen through the Variance Inflation Factor (VIF) values, show that the values of all variables in each model 1, 2, and 3 in this study are VIF<10. A VIF value of less than 10 means that the research data is free from multicollinearity and the research model is suitable for use.

2. Multicollinearity Test Results

The heteroscedasticity test in this study was conducted using the Breusch-Pagan/Godfrey test. The test results showed that the Prob value was greater than Chi2 for models 1, 2, and 3. This means that all models in this study did not experience heteroscedasticity because the chi2probability value was greater than 0.05.

Table 5. Results of Heteroscedasticity.

Prob> Chi2	Model 1	Model 2	Model 3
		0.377	0.3716

4.3 Hypothesis Testing

1. T Test

Table 6. T-test Results

Dependent Variable DPR									
Independent	Model 1			Model 2			Model 3		
	Coef f	Std Robus t Error	P-value	Coeff	Std Robus t error	P Value	Coeff	Std Robus t Error	P Value
ROA	0.512	0.503	0.309	0.495	0.526	0.347	0.356	0.677	0.53
ROE	0.277	0.105	0.008***	0.265	0.113	0.020**	0.279	0.130	0.032**
ESG				1.977	2.845	0.487			
E							0.104	2.055	0.996
S							1.333	1.702	0.433
G							0.2831	0.161	0.079*

Dependent Variable DPR									
Independent	Model 1			Model 2			Model 3		
	<i>Coef</i> <i>f</i>	<i>Std</i> <i>Robus t</i> <i>Error</i>	<i>P-value</i>	<i>Coeff</i>	<i>Std</i> <i>Robus t</i> <i>error</i>	<i>P</i> <i>Value</i>	<i>Coeff</i>	<i>Std</i> <i>Robus t</i> <i>Error</i>	<i>P</i> <i>Value</i>
LCP							3.078	2.724	0.258
Cons	32,296			25,953			2,778		
Note: Significant at 10%; *. Significant at 5%; **. Significant at 1%***									

T-test to see the partial effect of independent variables on dependent variables. The basis for deciding on this test is if the P-value is less than 0.05, where $P\text{-value} < 0.05$, then there is a partial effect. The following are the results of the T-test on the research hypothesis:

1. Profitability Ratio and Dividend Hypothesis

- a. Hypothesis H1a: ROA has a significant effect on DPR. The test results show a higher significance level at the 10% threshold in models 2 and 3. $P\text{-value} > 0.05$, so hypothesis H1a is rejected. This means that ROA does not have a significant effect on the dividend payout ratio. The efficiency of asset utilization is not a factor influencing dividends.
- b. Hypothesis H1b: ROE has a significant effect on DPR. The significance value in models 1, 2, and 3 is lower than 0.05, i.e., $P\text{-value} < 0.05$, so H1b is accepted with positive coefficients in all models. ROE has a significant effect, indicating that the higher the return on equity, the more likely it is to increase dividend payments.

2. Hypothesis ESG and Dividends

- a. Hypothesis H2a: ESG scores have a significant effect on

DPR. The significance level of ESG is $0.487 > 0.05$, so H2a is rejected. ESG scores do not have a significant effect on DPR. Sustainability performance has not yet become a factor influencing dividend payments.

- b. Hypothesis H2b: Environmental (E) significantly influences DPR. The significance value of the test results in model 3 is $0.996 > 0.05$, so H2b is rejected. The environmental pillar does not have a significant effect on the dividend payout ratio. This indicates that companies' environmental activities or compliance have not yet become a factor influencing dividend payment decisions.
- c. Hypothesis H2c: Social (S) significantly influences DPR. The significance value is $0.433 > 0.05$, so H2c is rejected, meaning that the social pillar does not have a significant influence on DPR. Corporate social responsibility activities do not influence dividend payment decisions.
- d. Hypothesis H2d: Governance (G) significantly influences DPR. The significance value of the Governance (G)

variable in model 3 is $0.079 < 0.10$, H2d is accepted with a positive coefficient of 0.283, governance has a significant influence on DPR. This means that corporate governance structure plays a role in dividend payment decisions, although it is not yet very strong.

3. Hypothesis: Stock Price (Closing Price/CP) and Dividends

H3: LCP has a significant effect on DPR. The significance value of stock price (LCP) is $0.258 > 0.05$, therefore H3 is rejected. Closing stock price does not have a significant effect on DPR. Thus, market perception as reflected through stock price does not

influence company dividend policy in this study.

2. F Test

The simultaneous significance test (F-test) was conducted to determine whether the independent variables simultaneously influence the dependent variable. The decision criterion for this test is that if the P-value is < 0.05 , it means that there is a simultaneous influence of the independent variables on the dependent variable. Conversely, if the P-value > 0.05 , then there is no simultaneous influence between the independent variables and the dependent variable.

Table 7. Results of F-test

	Model 1	Model 2	Model 3
P-value	0.000	0.000	0

Based on Table 4.9, the results of the F-test are as follows:

- a. In Model 1, the P-value is < 0.05 , indicating that the independent variables in Model 1, namely ROE and ROA, have a significant simultaneous effect on the dependent variable, DPR.
- b. In Model 2, the independent variables (ROE, ROA, and ESG) simultaneously have a significant

influence on the dependent variable (DPR) according to the P-value < 0.05 .

- c. Model 3 has a P-value of < 0.05 , indicating that the independent variables (E, S, G, ROE, ROA, LCP) simultaneously influence the dependent variable (DPR).

3. Coefficient of Determination (Adjusted R²)

Table 8. Adjusted R² Values

	Model	Model 2	Model 3
R-Square	0.1967	0.1949	0.223

The Adjusted R² value is a measure of how well the independent variables in the research model explain the dependent variable. In this study, the Adjusted R² value for Model 1 is 0.1813, and for Model 2 it is 0.1716, and Model 3 at 0.1768. These figures indicate that approximately 17% to 18% of the variation in the

dividend payout ratio (DPR) is explained by the independent variables in the study. The addition of ESG variables and closing price did not increase the adjusted R² value, indicating that for the manufacturing and energy sectors in Indonesia, profitability is the dominant factor

influencing dividend distribution policy.

4.4 Profitability Ratio and Dividend Payout Ratio Testing

H0. ROA does not significantly affect DPR H1a. ROA significantly affects DPR

The analysis results show that Return on Assets (ROA) does not have a significant effect on Dividend Payout Ratio (DPR). This can be seen from the P-value of the entire research model, which is greater than the significance level of 0.05 or 0.10. Therefore, hypothesis H1a is rejected, and H0 is accepted.

ROA is an indicator that represents the operational efficiency of asset utilization in generating profit. The manufacturing and energy sectors are capital-intensive sectors, meaning industries that require large assets (such as equipment, property, and factories) in the production process and are difficult to adjust in the short term. Thus, these sectors tend to have high assets, but this is not always followed by an increase in profit. The manufacturing and energy sectors also face commodity price volatility that affects profitability. This makes it difficult to maintain a consistent relationship between ROA and dividends because when profits rise or fall due to price volatility, it does not affect the total assets, which remain constant.

The research findings are consistent with the results of [52], who found that capital-intensive sector companies tend to prioritize reinvesting profits to maintain the continuity of the company's growth rate. Maintaining the continuity of existing investments rather than distributing them as dividends. Companies choose to retain profits rather than distribute them as dividends.

Even when return on assets increases or remains low, companies do not choose to change the dividend payout ratio. There is a fixed dividend policy. A condition where dividends are kept

constant despite low return on assets indicates that the dividend payment policy is not sensitive to ROA [53]. Among the companies in the sample, 7 out of 18 companies had a fixed dividend policy during the study period. The rest maintained dividend payment levels with small changes.

In line with Signaling Theory, where dividends are viewed as signals of a company's future performance, in conditions of low or unstable profits, companies may choose to maintain dividend levels to demonstrate optimism and maintain investor confidence.

H0. ROE does not have a significant effect on DPR

H1b. ROE has a significant effect on DPR

In hypothesis 1b, the analysis results show that Return on Equity (ROE) has a significant effect on Dividend Payout Ratio (DPR) in the manufacturing and energy sectors. The P-value is consistently significant below the significance level of 0.05 in all research models with positive coefficients. Therefore, hypothesis H1b is accepted.

Return on Equity (ROE) is an indicator that measures a company's efficiency in using equity. A higher ROE indicates better profits and financial health. For some sectors such as manufacturing and energy, ROE is the most relevant indicator relevant indicator of a company's ability to pay dividends [54]. In this sector, companies with higher ROE often have a competitive advantage in the form of greater profitability, which ultimately enables them to distribute higher dividends.

The higher the profit generated from shareholders' investments, the more willing investors are to invest. Investors view ROE as a signal that the company has healthy finances, leading to higher expectations for dividends. Companies will face pressure to maintain or even increase dividends to meet investor

expectations [55]. Additionally, higher ROE means companies generate higher profits from their equity, enabling them to pay higher dividends due to available surplus funds [56].

Research conducted by [57] suggests that dividends increase ROE because they reduce shareholders' equity. Companies prefer to increase dividend payments to boost ROE. This is often done under the guise of rewarding investors, but it can also be a strategy to increase ROE without needing to increase net profits.

Strategic decisions regarding ROA and ROE on dividends are influenced by managerial characteristics and perceptions. ROA, which indicates operational efficiency of assets, has no significant relationship with dividends, because the manufacturing and energy sectors have large fixed assets to support company growth and deal with commodity volatility. Conversely, ROE, which indicates the efficiency of equity utilization, has a significant positive influence on dividends. Dividends can even be paid for managerial purposes aimed at increasing ROE by reducing equity. Thus, dividend decisions are not only based on objective financial data but also influenced by managerial characteristics such as the upper echelon theory [58].

4.5 ESG Performance and Dividend Payout Ratio

H0. ESG scores do not significantly influence DPR

H2a. ESG scores significantly influence DPR

Based on the analysis results, the significance values of the ESG variables in models 2 and 3 are greater than the significance values of 0.05 and 0.10. Therefore, H2a is rejected; ESG does not significantly influence dividends.

ESG in Indonesia is largely driven by pressure to comply with sustainable responsibility disclosure requirements.

Such as the pressure from Financial Services Authority Regulation No. 51/2017. However, current practices tend toward symbolic compliance, with only minimal integration of ESG values into operations [59]. As a result, ESG performance has no impact on short- or long-term financial performance and does not influence dividend payment policies.

ESG commitment in Indonesia remains low, even in the most basic aspect, which is reporting documents. Of the total 852 companies listed on the IDX in 2021, 380 companies did not report sustainability reports, either as separate documents or integrated with their annual reports. The average ESG score is very low, indicating that ESG reporting remains limited and non-substantive [60].

Research by [61] shows that in developing countries such as Indonesia and Malaysia, ESG practices have not been implemented in depth. Many companies apply ESG concepts not because awareness of the importance of sustainability, but rather as a strategy to maintain their image and respond to external pressure. Even some companies that have actively implemented ESG practices were found to engage in aggressive tax avoidance practices, aiming to cover the high costs of ESG implementation.

H2b. Environmental (E) significantly influences DPR

The analysis results show that Environmental (E) does not have an influence on the Dividend Payout Ratio (DPR). The test value is $0.996 > 0.05$. Therefore, hypothesis 2b is rejected.

The environmental pillar (E) is the implementation of ESG that requires the most investment and has an impact on short-term financial performance, which affects a company's ability to pay dividends [9]. Meanwhile, for capital-intensive companies, the main priority related to capital management needs to

consider financial stability [62]. Environmental performance (E) is not a primary focus for the manufacturing and energy sectors in Indonesia, and as a result, the environmental performance pillar (E) in these sectors remains very low.

The findings of this study align with those of [63], who conducted research during the COVID-19 era and found that environmental performance was not a priority for manufacturing companies in Indonesia in financial decision-making. In crisis situations, companies prioritize financial aspects such as capital balance, profitability, and company growth over environmental performance.

H2c. Social (S) significantly influences GDP.

Significance value $0.433 > 0.10$. This indicates that the Social (S) pillar has no effect on the dividend payout ratio (DPR). Hypothesis H2c is rejected.

According to [64] in his study of the Thai capital market, the social pillar (S) does not have a significant effect on stock returns. This is because the social pillar (S) has not yet become an indicator that influences financial decisions, and social issues are still new to companies in developing markets. Social issues such as employee welfare, gender equality, and community involvement do not have an impact on stock returns.

Social (S) implemented through employee engagement with the community is motivated by moral and social reasons aimed at enhancing awareness and ethical actions contributing to society, rather than for profit [65]. Therefore, companies have not linked social (S) with financial policies such as dividend distribution.

Additionally, research by [66] found that companies tend to prefer allocating resources to CSR that meets the expectations of external stakeholders. Meanwhile, social responsibility (S) such

as employee benefits, training, and development are often neglected because they are perceived as not yielding returns.

H2d. Governance (G) has a significant effect on DPR

The estimation results indicate that the significance value of the Governance (G) variable is $0.079 < 0.10$. This means that H2d is accepted, that Governance has an influence on the dividend payout ratio at the 10% significance level.

For shareholders, governance (G) provides protection and reduces the takeover of minority shares (managerial expropriation). For emerging markets with weak institutional structures and weak investor protection weak investor protection. Corporate governance becomes the primary tool for fostering investor confidence and assessing commitment to profit sharing [67]. Investors are more likely to choose companies with good governance for investment. In line with signaling theory, good governance sends positive signals to investors through stable dividend payments. Additionally, the significance of governance pillars supports the upper echelon theory, which states that the quality of managerial governance influences a company's commitment to dividends for investors.

Research conducted by [68] found that prior to the 1997–1998 Asian financial crisis, corporate governance had a negative relationship with dividends, whereby companies with poor corporate governance continued to pay high dividends because they wanted to send a positive signal to the market to attract investors. This was particularly true in Indonesia, which had lower governance compared to other Southeast Asian countries but high dividend payouts. After the crisis, governance had a positive relationship with dividends, with companies with better governance tending to pay higher dividends. This

gave minority shareholders the power to make companies pay dividends.

Another finding by [69] is that governance has a significant positive impact on the dividend payout ratio only when the law in a country is weak. When governance is strong but the external environment is weak, managers use dividends to demonstrate the company's accountability, thereby reassuring investors. In countries with strong investor protection laws, improved governance was found to reduce the dividend payout ratio but increase share buybacks by companies, as this is considered more flexible in terms of taxation.

Governance pillars enhance corporate transparency, enabling shareholders to have better information about the company's financial condition and reducing information asymmetry between the company and shareholders. Shareholders will find it easier to monitor financial conditions and exert pressure to pay dividends. According to [70] well-monitored companies tend to pay dividends because dividends are not only a responsibility to shareholders but also a disciplinary mechanism for managers to prevent excessive cash usage.

Thus, based on the explanation of the relationship between the E, S, and G pillars and dividends, the influence of ESG is not yet strong enough to affect how profitability ratios (ROA and ROE) influence dividends as analyzed in Model 2. This can be seen from the low average scores of the E and S pillars, which require significant investment to improve their performance. Manufacturing and energy companies in Indonesia have not invested much in supporting the performance of pillars E and S. Furthermore, ESG has not been integrated into corporate financial strategies and is merely reported to fulfill obligations. ROE is a consistently significant variable, meaning that dividend payments by manufacturing

and energy companies in Indonesia are based on profits earned.

4.6 ESG Performance and Dividend Payout Ratio

H0: LCP does not significantly affect DPR. H3: LCP significantly affects DPR.

Based on the test results, the P-value of the closing price variable is 0.258, which means it does not show a significant effect on dividends at the significance level of 0.05 or 0.10. Therefore, H3 is rejected.

Research conducted by [71] compared developing countries with developed countries such as Europe. In his findings, stock prices in developing markets are often influenced by external factors, namely short-term market sentiment and macroeconomic conditions. Shareholders consider government policies, currency fluctuations, and global pressures, so that stock price fluctuations in developing markets do not accurately reflect the financial condition of companies.

In his research, [71] states that the Price to Earnings ratio, obtained by dividing the share price by earnings per share (EPS), indicates how much investors are willing to pay for every rupiah of profit generated by the company. This ratio has a significant negative impact on stock returns. This means that in emerging markets, stocks with high values tend to generate low returns, which may be due to fluctuations in stock prices rather than financial performance. In contrast, in European markets, the Price to Earnings ratio does not affect stock returns, as investors are more cautious and do not overreact to macroeconomic conditions or profit fluctuations. Therefore, stock prices in developed countries already reflect the true valuation of companies.

In addition, research conducted by [16] shows three approaches to earnings management, namely the Jones, Deschow, and Francis methods, over a 20-

year period from 1990 to 2010. These methods identify companies' efforts to manipulate reported earnings according to their wishes. Indonesia received a higher score higher than ASEAN countries such as Malaysia and the Philippines. Therefore, profit information is not credible for investors, and the stock prices formed in the market do not reflect the actual financial performance of companies.

Stock prices have not yet become a variable that influences dividend policy. Investors tend to pay attention to profitability levels such as ROE, which is very important in capital-intensive markets such as manufacturing and energy, where investors have expectations regarding growth potential and how companies are able to generate profits [72].

5. CONCLUSION

Profit is the primary source of dividend payments used by companies. Profitability ratios using ROA and ROE were tested for their influence in Model 1. The regression results indicate that only ROE has a significant influence on dividend payments at the 1% significance level. Meanwhile, ROA does not have an influence on dividend payments. This means that profitability, which reflects the efficiency of equity utilization, better explains dividend policy compared to profitability derived from asset efficiency. This is because the manufacturing and energy sectors require significant assets to support their production activities. High assets do not always lead to increased profits, especially since companies tend to prioritize reinvesting profits to maintain sustainable growth rates.

Investing in ESG performance requires significant capital and yields returns in the long term. In the short term, there is a

trade-off between ESG and profit distribution. In model 2, ESG is tested together with ROA and ROE against dividends. The estimation results indicate that ESG has no effect on dividends, ROA remains insignificant, and ROE remains significantly influential on dividends at the 5% significance level. Thus, ESG is not strong enough to influence the relationship between ROE and dividends. ESG-based sustainable performance has not yet become a factor influencing dividend policy considerations and is not integrated with financial strategies. This is also reflected in the low ESG scores, indicating that ESG integration remains low, resulting in limited investment allocated to ESG.

In model 3, all variables in the study were tested. The estimation results for the Environmental (E) and Social (S) pillars showed no effect on dividends. Meanwhile, the Governance (G) pillar had an effect on the dividend payout ratio at the 10% significance level. The pillar that reflects the quality of corporate governance encourages investors to trust the company, especially in countries with weak investor protection regulations. Meanwhile, environmental and social practices are symbolic and formalities to fulfill obligations, so they are not integrated with the company's financial strategy. Companies maintain profit levels to be distributed as dividends instead of investing in environmental and social aspects, which are considered a cost burden.

Meanwhile, investors' perceptions of stock prices do not have a significant influence on the dividend payout ratio. In emerging markets, stock prices do not reflect the actual value of the company, often being easily influenced by external factors, leading to overly high investor expectations that result in high stock prices not being followed by high dividends. This is due to a lack of transparency regarding the company's financial condition.

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