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THE EFFECT OF ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG) RATING AND PROFITABILITY ON DIVIDEND POLICY: EVIDENCE FROM COMMERCIAL BANKS

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Abstract
Dividend policy is one of the factors that attracts considerable attention from investors. The existing phenomenon indicates that dividend policy, as measured by the Dividend Payout Ratio (DPR), tends to increase despite the restrictions on dividend distributions imposed by the Otoritas Jasa Keuangan (OJK). In addition, profitability, as measured by Return on Equity (ROE), tends to decline, while Environmental Social and Governance (ESG) rating exhibit fluctuating movements. These conditions suggest a discrepancy between empirical evidence and theoretical expectations, which posit that both factors serve as important determinants of dividend policy. This study aims to analyze the effects of Environmental Social and Governance (ESG) rating and profitability on dividend policy in commercial banks listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. This research employs a descriptive and associative research design with a quantitative approach. The data used in this study consist of secondary data obtained from annual reports and ESG rating reports of commercial banks listed on the Indonesia Stock Exchange (IDX). The population comprises all commercial banks listed on the IDX, with a sample of 16 commercial banks selected through purposive sampling over a three-year observation period. The analytical technique applied is panel data regression using EViews 13 software, while hypothesis testing is conducted using the partial hypothesis test (t-test). The results reveal that Environmental Social and Governance (ESG) rating has a positive effect on dividend policy, and profitability also has a positive effect on dividend policy. These findings indicate that improvements in ESG rating and profitability are likely to be accompanied by higher dividend distributions.
Keywords: Commercial Banks; Dividend Policy; Environmental Social and Governance (ESG) Rating; Profitability

Abstrak
Kebijakan dividen merupakan salah satu faktor yang menjadi perhatian investor. Fenomena yang terjadi menunjukkan bahwa kebijakan dividen yang diukur dengan Dividend Payout Ratio (DPR) cenderung meningkat di tengah adanya pembatasan pembagian dividen oleh Otoritas Jasa Keuangan (OJK). Selain itu profitabilitas yang diukur dengan Return on Equity (ROE) cenderung menurun, sedangkan Environmental Social and Governance (ESG) rating menunjukkan pergerakan yang fluktuatif. Kondisi tersebut mengindikasikan adanya perbedaan antara fenomena empiris dan teori yang menyatakan bahwa kedua faktor tersebut menjadi dasar dalam penentuan kebijakan dividen. Penelitian ini bertujuan untuk menganalisis pengaruh Environmental Social and Governance (ESG) rating dan profitabilitas terhadap kebijakan dividen pada Bank Umum yang terdaftar di BEI Periode 2022-2024. Penelitian ini adalah penelitian deskriptif dan asosiatif dengan pendekatan kuantitatif. Data yang digunakan dalam penelitian ini adalah data sekunder berupa annual report dan laporan peringkat ESG Bank Umum yang terdaftar di Bursa Efek Indonesia (BEI). Populasi dalam penelitian ini adalah seluruh Bank Umum yang terdaftar di Bursa Efek Indonesia (BEI) dengan sampel sebanyak 16 Bank Umum dengan periode penelitian selama 3 tahun yang dipilih dengan menggunakan teknik purposive sampling. Teknik analisis yang digunakan adalah regresi data panel dengan menggunakan software EViews 13 serta pengujian hipotesis dengan menggunakan uji hipotesis parsial (t). Hasil penelitian menunjukkan bahwa Environmental Social and Governance (ESG) rating berpengaruh positif terhadap kebijakan dividen dan profitabilitas berpengaruh positif terhadap kebijakan dividen. Temuan ini menunjukkan bahwa peningkatan Environmental Social and Governance (ESG) rating dan profitabilitas cenderung diikuti dengan peningkatan pembagian dividennya.
Kata kunci: Bank Umum; Environmental Social and Governance (ESG) Rating; Kebijakan Dividen; Profitabilitas

INTRODUCTION

The investment trend in the capital market has continued to increase over time, as evidenced by the growth in the number of investors or Single Investor Identification (SID) registered on IDX. The number of investors increased from 3,8 million SIDs in 2020 to

17.016.329 SIDs as of the latest report, as stated in Press Release No. 0053/BEI.SPR/07-2025 (Nurahmad, 2025). This growth has also been accompanied by an increase in the number of stock investors. The number of registered stock investor accounts rose from 1,6 million SIDs in 2020 to 6,3 million SIDs in 2024, based on data reported in the Indonesia Capital Market Statistics (Kustodian Sentral Efek Indonesia, 2025).

Stocks have become one of the most preferred investment instruments among investors due to their potential to generate attractive returns. Investment in the capital market, particularly in equity securities, aims to obtain returns through two main components: capital gains, which arise from the difference between the purchase and selling prices of shares, and dividends, which represent the distribution of corporate profits to shareholders.

According to the 2024 IDX Stock Market Summary, the financial sector emerged as the dominant sector based on market capitalization and trading activity. Despite accounting for only 104 listed companies, representing 10,98% of total listed companies, the financial sector contributed the highest market capitalization at 28,77%, equivalent to approximately IDR 3.550 trillion. Furthermore, this sector recorded the highest trading value of IDR 1.021 trillion or 33,22% of total market trading value, along with the highest trading frequency of 39.522 million transactions compared to other sectors.

The financial sector, particularly the banking industry, has attracted considerable investor interest, as reported in the news RHB Trade Smart (2024), Chalis (2025), and Digivestasi (2025) because, in addition to having strong and stable fundamentals, banking stocks also tend to provide stable and substantial dividend payments. Dividend payments help maintain investor trust (Hayes, 2026). Dhir (2021), the banking sector represents an attractive investment opportunity for investors due to its ability to distribute dividends, which indicate a strong performance track record and provide shareholders with a share of corporate profits. A consistent and long-term dividend history reflects the firm’s ability to generate sustainable returns for investors. The following table presents the average trend of dividend policy of commercial banks listed on the IDX:

Table 1
Average Trend of Dividend Payout Ratio (DPR) of Commercial Banks Listed on the Indonesia Stock Exchange (IDX) during 2020–2024

No.	Year	DPR
1.	2020	40,44%
2.	2021	38,41%
3.	2022	41,66%
4.	2023	44,18%
5.	2024	45,47%

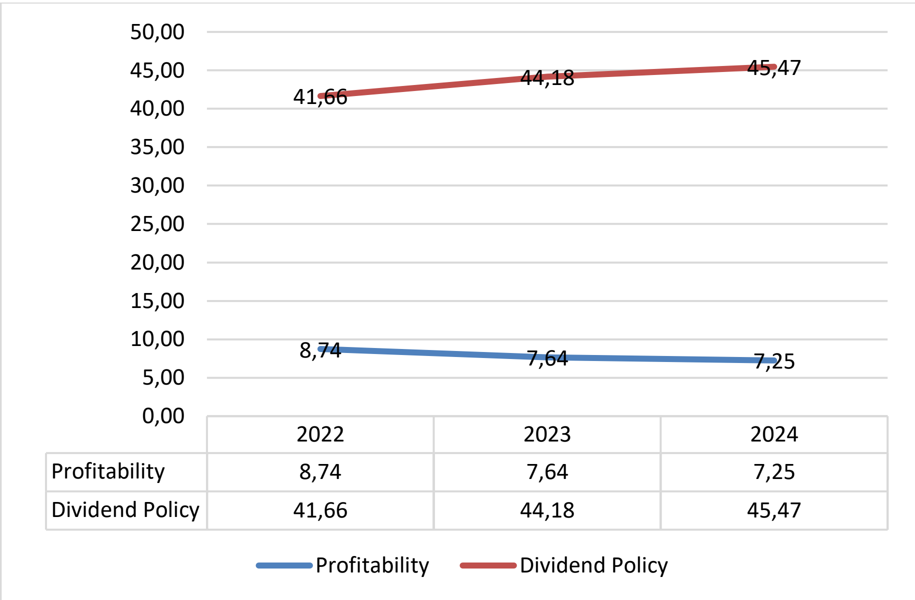
Source: Summary Report of the Performance of Commercial Banks Listed on the Indonesia Stock Exchange (IDX) during 2022–2024 (Processed data).

Table 1 above provides information on the average dividend policy of commercial banks, which shows an increasing trend, reaching 45,47% in 2024, despite the dividend restrictions imposed by the OJK in 2023. These restrictions are stated in Article 108, “which stipulates that 'In determining dividend distributions to shareholders, banks must consider various external and internal factors, while ensuring the fulfillment of shareholders’ rights by prioritizing the interests of the bank” (Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 17 Tahun 2023 Tentang Penerapan Tata Kelola Bagi Bank Umum, 2023).

The implementation of restrictions on bank dividend distributions has generated both supportive and opposing views. From the perspective of banking institutions, dividend restrictions may serve as a mechanism to prevent excessive dividend payouts and preserve capital adequacy, thereby strengthening financial stability and reducing the potential risk of bank distress or failure. Conversely, from the shareholders' perspective, investors tend to prefer consistent and increasing dividend payments as a form of return on investment. Consequently, dividend restrictions may influence investor behavior and potentially encourage shareholders to reallocate (CNBP Indonesia, 2023).

Gitman & Zutter (2015) shareholders perceive dividends as a signal of the firm's future success, and stable and sustainable dividend payments are also considered a positive signal. Changes in dividend policy may lead shareholders to sell their shares, which could result in a decline in stock prices. Therefore, management must carefully consider dividend policy decisions. The decline in stock prices may only be temporary; however, stock prices may remain under pressure if new investors are not attracted to the revised dividend policy.

Several factors are considered to influence dividend policy according to Baker et al. (2018), Dewasiri et al. (2019), Choi & Sauka (2024), Gupta et al. (2024), Patel (2024) profitability is one of the determining factors that influences dividend policy, which is consistent with Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 17 Tahun 2023 Tentang Penerapan Tata Kelola Bagi Bank Umum (2023) which emphasizes that dividend determination must be based on the bank's profitability performance that is generated appropriately. The following presents the average trend of dividend policy and profitability of commercial banks listed on the IDX, as illustrated in Figure 1 below:



Source: Summary Report of the Performance of Commercial Banks Listed on the Indonesia Stock Exchange (IDX) during 2022–2024 (Processed data).

Figure 1
Average Trend of Dividend Payout Ratio (DPR) and Profitability of Commercial Banks Listed on the Indonesia Stock Exchange (IDX) during 2022–2024

Based on the figure above, the profitability of commercial banks has shows a declining trend over the last three years, contrary to the pattern of dividend distributions, which have generally increased during the same period. While profitability is theoretically regarded as one of the key determinants of dividend policy, the observed condition in commercial banks suggests that higher dividend payments are not necessarily associated with higher profitability levels.

According to Santosa et al. (2023) their study found that previous-year dividends and profitability have a significant positive effect on dividend policy. Meanwhile, Barus (2021) found that profitability has a significant negative effect on dividend policy, indicating that higher profitability may lead to lower dividend distributions.

Beyond profitability, non-financial performance factors, particularly Environmental Social and Governance (ESG) performance, are also considered potential determinants that may influence a firm's dividend payout decisions Ramzan & Ul Hameed (2024) it emphasizes the importance of integrating sustainability into corporate strategies to improve financial outcomes and support global sustainability targets. Along with the increasing focus on sustainability, ESG performance has become an important topic that can be associated with various corporate aspects, including dividend policy.

In several commercial banks, Environmental Social and Governance (ESG) rating has shown fluctuations, while dividend distributions have tended to increase over the past three years. Firms with strong ESG performance can serve as a positive signal indicating a higher tendency to distribute dividends, whereas companies with greater exposure to controversial issues may signal lower dividend payments, as found in the study conducted by Erdogan et al. (2023), Filman & Rahmayanti (2024), Salvi et al. (2024), Barros et al. (2023), Saldi et al. (2023), Almulhim et al. (2024), Matos et al. (2020), Perdana (2025), Ismillah & Faisal (2023), Ellili (2022), Nataprawira (2023).

Karki & Seth (2025) the findings reveal a positive association between Environmental Social and Governance performance and dividend payments. Furthermore, each individual dimension, including environmental performance, social performance, and governance performance, exhibits a similar positive relationship, suggesting that companies with stronger sustainability practices tend to adopt higher dividend payout policies.

In line with Ananzeh et al. (2024), Ryu et al. (2025), firms with higher ESG rating are more likely to pay dividends than those with lower ESG rating, and firms shows stronger ESG performance tend to distribute higher dividend payments. Overall, ESG performance has a positive influence on corporate dividend policies among Korean companies, with environmental and social factors serving as particularly important determinants in shaping dividend decisions. Whereas Chen et al. (2024) it states that companies respond to ESG reporting by reducing dividend payments, indicating that corporate dividend responses to mandatory ESG reporting are not consistent across countries worldwide.

This study integrates financial performance, represented by profitability, and non-financial performance, represented by Environmental Social and Governance (ESG) rating, to examine their impact on dividend policy in commercial banks, which operate within a highly regulated industry. The study is conducted during the period following the strengthening of governance regulations and dividend restrictions imposed by the OJK. Unlike previous studies that have predominantly focused on companies from other sectors, this research focuses on the financial sector, particularly commercial banks listed on the Indonesia Stock Exchange (IDX), which face a trade-off between capital stability, corporate sustainability, and shareholders' demand for dividend distribution.

In this study, dividend policy is measured using the Dividend Payout Ratio (DPR) to determine the proportion of earnings distributed as dividends to shareholders. Profitability is measured using Return on Equity (ROE) to assess the extent to which a firm is capable of generating profits from shareholders' invested equity. Meanwhile, Environmental Social and Governance (ESG) performance is measured using the Katadata ESG Index (KESGI) developed by Katadata Insight Center. The research focuses on commercial banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024.

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LITERATURE REVIEW

Signaling Theory

Signaling theory serves as the theoretical framework underpinning this study. This theory was initially introduced by Spence (1973) it explains that the sender (the information owner) provides signals in the form of information that reflects the condition of a firm and is beneficial to the recipient (investors). This theory provides guidance on how information is communicated to investors and the market, which can indicate a firm's performance achievements and prospects (Miller & Rock, 1985).

According to signaling theory, Environmental Social and Governance (ESG) rating and profitability serve as relevant information through which companies can communicate positive signals to investors. A higher ESG rating reflects improved transparency in sustainability disclosures and indicates the firm's commitment to complying with prevailing standards and regulations. Meanwhile, strong profitability demonstrates the firm's capacity to generate profits from its operational activities. These factors may strengthen investor confidence and influence corporate decisions in establishing higher or more consistent dividend policies.

Environmental Social and Governance (ESG) Rating

Environmental Social and Governance (ESG) rating constitute three primary pillars for measuring corporate sustainability performance based on Peraturan Otoritas Jasa Keuangan Nomor 51/POJK.03/2017 Tentang Penerapan Keuangan Berkelanjutan (2017) the implementation of sustainable finance emphasizes the need to promote alignment among economic, social, environmental, and governance dimensions, as well as other relevant principles. Such an approach seeks to establish a balanced financial system that supports sustainable economic development while integrating environmental stewardship, social inclusiveness, and good governance.

ESG represents a triad of best practices encompassing environmental and social considerations, guided by effective governance mechanisms, with the aim of enhancing overall societal well-being (Szymonowicz et al., 2023). Environmental Social and Governance (ESG) rating is regarded as one of the relevant references for analyzing dividend decisions, where according to Zahid et al. (2023) dividend policies and ESG performance share several common objectives, as both play a role in enhancing corporate reputation and promoting good corporate governance by conveying credible signals to the market. ESG rating provide investors with relevant information regarding potential future financial performance and market risks, which can support the assessment of securities and facilitate more effective investment decision-making (Engert, 2024).

Profitability

Profitability is a ratio used by investors to assess a firm's performance. This is because profitability is associated with earnings, which serve as the basis for dividend distribution, in accordance with Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 17 Tahun 2023 Tentang Penerapan Tata Kelola Bagi Bank Umum (2023) which emphasizes that dividend determination must be based on the bank's profitability performance that is generated appropriately.

Profitability is a ratio used to measure a firm's ability to generate earnings (Husnan & Pudjiastuti, 2015). Amount of dividends distributed depends on the profitability generated by the firm. Profitability is considered a primary determinant of dividend payments according to Baker et al. (2018), Dewasiri et al. (2019), Choi & Sauka (2024), Gupta et al. (2024), Patel (2024). Profitability serves as a positive signal regarding the firm's financial performance and prospects. Profitability reflects the firm's ability to generate earnings from its available capital, thereby increasing the firm's capacity to pay dividends.

Previous Research

Research by Matos et al. (2020), Barros et al. (2023), Erdogan et al. (2023), Ismillah & Faisal (2023), Putra et al. (2023), Zahid et al. (2023), Almulhim et al. (2024), Maquieira et al. (2024), Salvi et al. (2024), Karki & Seth (2025), Liu & Lee (2025), Makhija et al. (2025), Ryu et al. (2025), Prahbawati & Isnalita (2025) stated that firms with high ESG rating tend to pay higher dividends than firms with low ESG rating, indicating a positive relationship between ESG and dividend policy, whereas Chen et al. (2024) which stated that companies required to disclose ESG information, on average, reduce their dividend payout ratio.

Research by Hadian (2019), Sarumpaet & Suhardi (2019), Zainuddin & Mananohas (2020), Novatiani et al. (2021), Supriadi et al. (2022), Wulandari et al. (2022), Akbar & Doddy Ariefianto (2023), Lihu & Tuli (2023), Santosa et al. (2023), Januarsi & Sanusi (2024), Nugraha et al. (2024), Putri et al. (2024), Wahyuni & Yulazri (2024), Brata et al. (2025), Setiawati & Simanungkalit (2025) stated that there is a positive relationship between profitability and dividend policy, indicating that higher earnings can encourage firms to provide larger dividend payments to shareholders, whereas Barus (2021) stated that the relationship between profitability and dividend policy is highly significant; however, this contradicts the fact that when profits are lower, dividend payments increase.

Research Hypothesis

Based on the theory and previous research findings, the hypotheses are formulated as follows:

H_1 : Environmental Social and Governance (ESG) rating has a positive effect on dividend policy.

H_2 : Profitability has a positive effect on dividend policy.

METHODS

This study uses a quantitative approach. Based on the variables examined, the type of research used is descriptive and associative research. Descriptive research is used to describe each variable, namely Environmental Social and Governance (ESG) rating, profitability, and dividend policy. Meanwhile, associative research is used to examine the effect of Environmental Social and Governance (ESG) rating and profitability on dividend policy on commercial banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The population in this study consists of commercial banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The sample in this study was selected using a non-probability sampling technique with a purposive sampling method. The criteria established by the author are presented in Table 2 below:

Table 2
Description of Sample Selection

No.	Sample Selection Criteria	Number
1.	Commercial banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024	47
2.	Commercial banks not distributing dividends during 2022–2024	(25)
3.	Commercial banks that distributed dividends inconsistently during 2022–2024	(4)
4.	Commercial banks with incomplete data availability required for analysis or calculation of the following variables: Katadata ESG Index (KESGI), profitability (ROE), and dividend policy (DPR) during 2022–2024	(2)
	Number of banks selected as samples	16
	Total observations during 2022–2024	3
	Total samples during the research × 3 years	48

Source: idx.co.id and id.tradingview.com (Processed data)

Operationalization of Variables

Variable (X1) Environmental Social and Governance (ESG) Rating

An opinion or a score, or a combination of both, regarding a rated item's profile or characteristics with regard to environmental, social and human rights, or governance factors, or regarding a rated item's exposure to risks or impact on environmental, social and human rights, or governance factors, that is based on both an established methodology and a defined ranking system of rating categories, irrespective of whether such ESG rating is labelled as 'ESG rating', 'ESG opinion' or 'ESG score'. (Regulation (EU) 2024/3005 Of The European Parliament And Of The Council, 2024)

Indicator: KESGI = 20% environmental + 30% green economy + 30% social + 20% governance

Variable (X2) Profitability

Profitability ratios measure the income or operating success of a company for a given period of time. (Weygandt et al., 2019)

Indicator: $$ROE = \frac{\text{Net income}}{\text{Equity}}$$

Variable (Y) Dividend Policy

Decisions that a firm makes regarding whether to distribute cash to shareholders, how much cash to distribute, and the means by which cash should be distributed. (Gitman & Zutter, 2015)

Indicator: $$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

The method used in this study is an explanatory research method using panel data, where panel data is a combination of cross-sectional and time-series data. This study applies panel data regression analysis. In panel data regression, there are three models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) Ismanto & Pebruary (2024).Before determining the best model, three statistical tests must be conducted, namely the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. The decision to accept or reject the hypothesis is based on the Prob. value and the direction of the relationship between variables. This study uses EViews 13 software.

RESULTS AND DISCUSSION

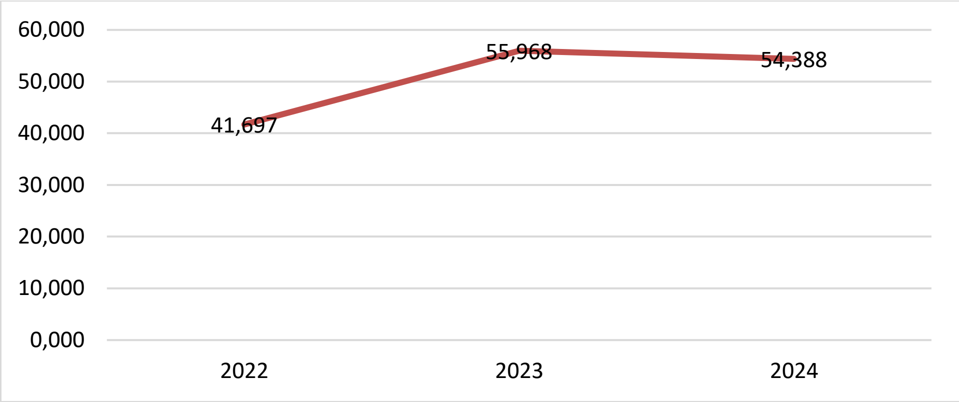
Descriptive Data Analysis

Overview of the Environmental Social and Governance (ESG) Rating

In the era of sustainability, Environmental Social and Governance (ESG) has become increasingly important. ESG represents a set of practices encompassing Environmental Social and Governance aspects that aim to enhance overall welfare. Every firms listed on the Indonesia Stock Exchange (IDX) is expected to prepare and publish annual sustainability performance reports.

The Environmental Social and Governance (ESG) variable in this study uses ESG rating from an Indonesian ESG rating institution, namely the Katadata ESG Index (KESGI), developed by the Katadata Insight Center. The assessment consists of various indicators. Each indicator is standardized to ensure uniform measurement units. Subsequently, the score for each indicator is calculated, aggregated, and the final score is determined by aggregating the scores using the respective weights assigned to each aspect.

The Katadata Insight Center began conducting ESG rating assessments for the banking sector in 2022, where each aspect includes various indicators covering Environmental Social and Governance dimensions. The final score is then obtained based on the assessment results and the predetermined weighting of each aspect. During the research period from 2022 to 2024, the condition of the Environmental Social and Governance (ESG) rating, based on the average value of commercial banks, showed a fluctuating trend, as presented in Figure 2 below:



Source: Processed data

Figure 2
ESG Rating Trend

Based on the figure above, it can be observed that the Environmental Social and Governance (ESG) rating shows a fluctuating trend. In 2022, the average ESG rating of commercial banks was 41,697. In 2023, it increased by 14,271 to 55,968. However, in 2024, the ESG rating decreased by 1,580 to 54,388. The following presents the descriptive statistics of the Environmental Social and Governance (ESG) rating:

Table 3
Descriptive Statistics of the ESG Rating

Description	ESG Rating
Mean	50,68396
Median	51,50500
Maximum	73,49000
Minimum	25,50000
Std. Dev	11,39147
Observations	48

Source: Results of data processing using EViews 13

Based on the descriptive statistics results, the Environmental Social and Governance (ESG) rating variable has a mean value of 50,68396 with a median value of 51,50500. The highest ESG rating value is 73,49000, while the lowest value is 25,50000. The standard deviation value of 11,39147 indicates that the ESG rating data during the research period experienced a relatively fluctuating level of variation across observed units and periods.

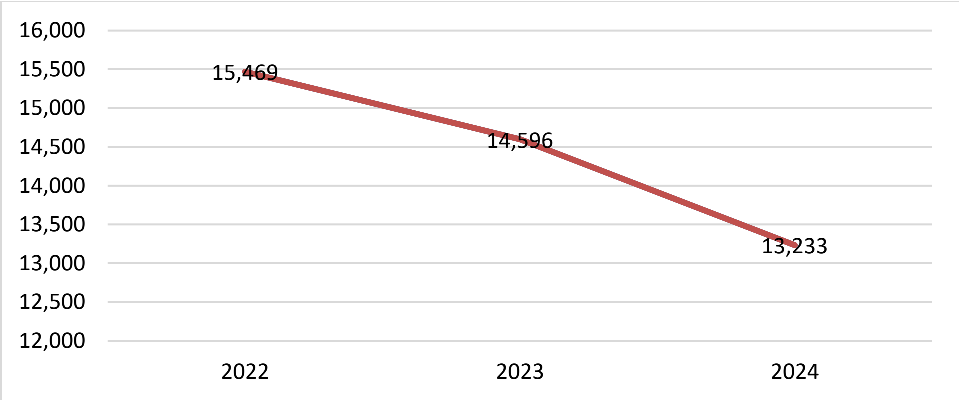
A high Environmental Social and Governance (ESG) rating indicates that the firm has fulfilled the indicators across Environmental Social and Governance aspects. A higher ESG rating reflects better transparency in the firm's sustainability reporting and demonstrates that the firm has complied with applicable standards and regulations.

Overview of the Profitability

Profitability is one of the factors used to assess a firm's financial performance, as it reflects the firm's ability to generate earnings from both operational and non-operational activities. Profitability is used as a basis for determining policies and making decisions that provide an indication of operational effectiveness. Low profitability may negatively affect external stakeholders' confidence in the firm.

The profitability ratio used in this study is Return on Equity (ROE). Return on Equity (ROE) is used to measure profitability and indicates how effectively bank management utilizes available equity to generate net income. ROE reflects the extent to which equity is utilized productively. An increase in net income will improve ROE. Conversely, an increase in equity that is not accompanied by growth in earnings may cause ROE to decline. The higher the Return on Equity (ROE), the better the firm's profitability performance.

During the research period from 2022 to 2024, profitability, based on the average value of commercial banks, showed a declining trend. This decline was attributed to the increase in the cost of funds, as banks competed to attract public funds by offering higher deposit interest rates, increased credit loss provisions due to credit risk, changes in market interest rates, and other factors that reduced banks' ability to generate profits. This trend is presented in Figure 3:



Source: Processed data

Figure 3
Profitability Trend

Based on the figure above, it can be observed that profitability shows a declining trend. In 2022, the average profitability of commercial banks was 15,469. In 2023, it decreased by 0,873 to 14,596. Furthermore, a decline also occurred in 2024, with a decrease of 1,363, resulting in a value of 13,233. The following presents the descriptive statistics of the profitability:

Table 4
Descriptive Statistics of the Profitability

Description	Profitability
Mean	14,43250
Median	13,91000
Maximum	27,31000
Minimum	3,930000
Std. Dev	6,224980
Observations	48

Source: Results of data processing using EViews 13

Based on the descriptive statistics results, the profitability variable has a mean value of 14,43250 with a median value of 13,91000. The highest profitability value is 27,31000, while the lowest value is 3,930000. The standard deviation value of 6,224980 indicates that the profitability data during the research period experienced a relatively fluctuating level of variation across observed units and periods.

High profitability reflects a firm's strong ability to generate earnings through its operational activities, whereas low profitability indicates less effective operational performance, resulting in a lower ability to generate profits. Low profitability may reduce external stakeholders' confidence in the firm.

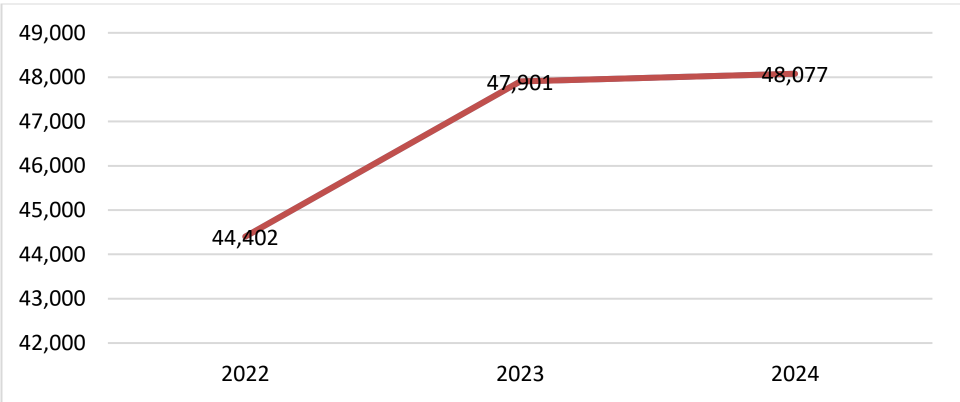
Overview of the Dividend Policy

Dividends are a portion of a firm's earnings distributed to shareholders. Dividends are provided as compensation to shareholders in addition to capital gains, which are determined through the General Meeting of Shareholders (GMS) based on mutual agreement and in accordance with the number of shares owned or invested.

Dividend policy is one of the corporate policies, alongside investment and financing policies. Dividend policy represents a financing decision that determines the proportion of earnings distributed by the firm to shareholders compared to the portion of earnings retained and reinvested. In its implementation, dividend policy regulates the distribution of earnings to shareholders, the amount to be distributed, and the method of distribution.

The banking sector demonstrates stability and tends to provide relatively high dividends due to its strong fundamentals. Dividend distribution reflects a positive track record of success and provides shareholders with a share of the firm's profits. A longer history of dividend payments indicates greater benefits for investors, demonstrating that the business has consistently generated returns for shareholders over time.

In this study, dividend policy is measured using the Dividend Payout Ratio (DPR), which compares cash dividends per share to earnings per share. During the research period from 2022 to 2024, dividend policy showed an increasing trend based on the average value of commercial banks, as presented in Figure 4 below:



Source: Processed data

Figure 4
Dividend Policy Trend

Based on the figure above, it can be observed that the dividend policy shows an increasing trend. In 2022, the average dividend policy of commercial banks was 44,402. In 2023, it increased by 3,499 to 47,901. Furthermore, an increase also occurred in 2024, with a rise of 0,176, reaching 48,077. The following presents the descriptive statistics of the dividend policy:

Table 5
Descriptive Statistics of the Dividend Policy

Description	Dividend Policy
Mean	46,79313
Median	47,23500
Maximum	86,00000
Minimum	10,00000
Std. Dev	19,54889

Observations	48

Source: Results of data processing using EViews 13

Based on the descriptive statistics results, the dividend policy variable has a mean value of 46,79313 with a median value of 47,23500. The highest value of dividend policy is 86,00000, while the lowest value is 10,00000. The standard deviation value of 19,54889 indicates that the dividend policy data during the research period experienced a relatively fluctuating level of variation across observed units and periods.

Dividend policy is used as a signal by shareholders to assess the firm's future success. Stable and sustainable dividend payments represent a positive signal regarding the firm's prospects. Changes in dividend payments may affect shareholders' decisions, particularly when shareholders prefer dividend income over capital gains.

Associative Data Analysis

Chow Test

This test is conducted to determine the appropriate model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM), with the following hypotheses:

H_0: Common Effect Model (CEM)

H_1: Fixed Effect Model (FEM)

The decision-making criteria for the Chow test are as follows:

a. If the P-value of the cross-section F is > 0,05, then H_0 is accepted.

b. If the P-value of the cross-section F is < 0,05, then H_0 is rejected.

Based on the test results, the following results are obtained:

Table 6

Results of the Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	9,729093	(15,30)	0,0000
Cross-section Chi-square	84,908408	15	0,0000

Source: Results of data processing using EViews 13

Based on the results of the Chow test, it can be observed that the Prob. Cross-section F value is 0,0000 < 0,05. Therefore, H_0 is rejected, indicating that the selected model is the Fixed Effect Model (FEM). If the FEM is selected, the analysis is continued with the Hausman test.

Hausman Test

This test is conducted to determine the appropriate model between the Random Effect Model (REM) and the Fixed Effect Model (FEM), with the following hypotheses:

H_0: Random Effect Model (REM)

H_1: Fixed Effect Model (FEM)

The decision-making criteria for the Hausman test are as follows:

a. If the P-value > 0,05, then H_0 is accepted.

b. If the P-value < 0,05, then H_0 is rejected.

Based on the test results, the following results are obtained:

Table 7

Results of the Hausman Test

Correlated Random Effects – Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	3,781530	2	0,1510

Source: Results of data processing using EViews 13

Based on the results of the Hausman test, it can be observed that the Prob. Cross-section random value is 0,1510 > 0,05. Therefore, H_0 is accepted, and the selected model is the Random Effect Model (REM). If the Random Effect Model (REM) is selected, the analysis is continued with the Lagrange Multiplier (LM) test.

Lagrange Multiplier (LM) Test

This test is conducted to determine the appropriate model between the Common Effect Model (CEM) and the Random Effect Model (REM), with the following hypotheses:

H_0: Common Effect Model (CEM)

H_1: Random Effect Model (REM)

The decision-making criteria for the Lagrange Multiplier (LM) test are as follows:

a. If the P-value of the cross-section Breusch-Pagan is > 0,05, then H_0 is accepted.

b. If the P-value of the cross-section Breusch-Pagan is < 0,05, then H_0 is rejected.

Based on the test results, the following results are obtained:

Table 8

Results of the Lagrange Multiplier (LM) Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	22,23669	1,055625	23,29231
	(0,0000)	(0,3042)	(0,0000)

Source: Results of data processing using EViews 13

Based on the results of the Lagrange Multiplier (LM) test, it can be observed that the Prob. Cross-section Breusch-Pagan value is 0,0000 < 0,05. Therefore, H_0 is rejected, indicating that the selected model is the Random Effect Model (REM). Based on the results of the Chow test, Hausman test, and Lagrange Multiplier (LM) test, the most appropriate model selected for this study is the Random Effect Model (REM).

Panel Data Regression Equation

Based on the results of panel data regression analysis using the Random Effect Model (REM), the panel data regression equation in this study is presented as follows:

Dividend_Policy = 17,18397 + 0,334762ESG_Rating + 0,875945Profitability + [CX=R]

Based on the regression equation, the results can be interpreted as follows:

1. The constant value of 17,18397 indicates that if the Environmental Social and Governance (ESG) rating and profitability variables remain constant, the value of the dividend policy variable will be 17,18397.
2. The beta coefficient value of the Environmental Social and Governance (ESG) rating variable is 0,334762, indicating that if other variables remain constant and the ESG rating increases by one unit, the dividend policy variable will increase by 0,334762.
3. The beta coefficient value of the profitability variable is 0,875945, indicating that if other variables remain constant and profitability increases by one unit, the dividend policy variable will increase by 0,875945.

Coefficient of Determination Test

The coefficient of determination test (R^2) is used to measure the extent to which the independent variables can explain the variation in the dependent variable. The coefficient of determination value ranges between 0 and 1, which can be observed from the Adjusted R-squared value. The closer the coefficient of determination value is to 1, the stronger the relationship between the independent and dependent variables.

Table 9
Results of the Coefficient of Determination

Weighted Statistics			
R-squared	0,178057	Mean dependent var	14,57922
Adjusted R-squared	0,141526	S.D. dependent var	8,709276
S.E. of regression	8,069481	Sum squared resid	2930,243
F-statistic	4,874158	Durbin-Watson stat	1,906555
Prob(F-statistic)	0,012132		

Source: Results of data processing using EViews 13

Based on the table above, it can be seen that the Adjusted R-squared value is 0,141526 or 14,1526%. This coefficient of determination indicates that the independent variables, consisting of Environmental Social and Governance (ESG) rating and profitability, are able to explain 14,1526% of the variation in dividend policy, while the remaining 85,8474% of the variation is explained by other variables that were not included in this research model.

Partial Hypothesis Test (t-test)

Partial hypothesis test (t-test) was conducted to determine the significance of the partial effects of Environmental Social and Governance (ESG) rating and profitability on dividend policy. The results of the partial hypothesis test (t-test) are presented as follows:

Table 10
Results of the Partial Hypothesis Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17,18397	10,03064	1,713148	0,0936
ESG_Rating	0,334762	0,142500	2,349217	0,0233
Profitability	0,875945	0,393519	2,225927	0,0311

Source: Results of data processing using EViews 13

Based on the results of the partial hypothesis test (t-test), it can be explained that:

1. The Prob. t-statistic value of the Environmental Social and Governance (ESG) rating variable is 0,01165 (0,0233/2) < 0,05, and the coefficient value is positive at 0,334762. Therefore, H_1 is accepted, indicating that the Environmental Social and Governance (ESG) rating has a positive effect on dividend policy.
2. The Prob. t-statistic value of the profitability variable is 0,01555 (0,0311/2) < 0,05, and the coefficient value is positive at 0,875945. Therefore, H_2 is accepted, indicating that profitability has a positive effect on dividend policy.

Discussion

The effect of Environmental Social and Governance (ESG) Rating on Dividend Policy

Environmental Social and Governance (ESG) rating has a positive and significant effect on dividend policy. ESG rating provide valuable information for assessing a firm's prospects, as a high ESG rating can serve as a positive signal that encourages the distribution of higher dividends. The higher the ESG rating, the greater the dividends distributed. A high ESG rating reflects a firm's commitment to sustainable performance, good corporate governance, effective risk management, and strong social and environmental responsibility. Furthermore, strong ESG performance can enhance stakeholders' confidence through enhanced long-term value creation.

The findings of this study are in line with those of Matos et al. (2020), Barros et al. (2023), Erdogan et al. (2023), Ismillah & Faisal (2023), Putra et al. (2023), Zahid et al. (2023), Almulhim et al. (2024), Maquieira et al. (2024), Salvi et al. (2024), Karki & Seth (2025), Liu & Lee (2025), Makhija et al. (2025), Ryu et al. (2025), Prahbawati & Isnalita (2025) who found that Environmental Social and Governance (ESG) rating has a positive and significant effect on dividend policy.

The Effect of Profitability on Dividend Policy

Profitability has a positive and significant effect on dividend policy. Profitability reflects a firm's ability to generate earnings from its available capital, thereby enhancing its capacity to distribute dividends. The higher the level of profitability, the greater the dividends distributed. Firm's with high profitability tend to pay larger dividends as a signal of sound financial performance and prospects. Furthermore, increased dividend payments can strengthen investor trust and reduce uncertainty regarding the firm's future performance.

The findings of this study are in line with those of Hadian (2019), Sarumpaet & Suhardi (2019), Zainuddin & Mananohas (2020), Novatiani et al. (2021), Supriadi et al. (2022), Wulandari et al. (2022), Akbar & Doddy Ariefianto (2023), Lihu & Tuli (2023), Santosa et al. (2023), Januarsi & Sanusi (2024), Nugraha et al. (2024), Putri et al. (2024), Wahyuni & Yulazri (2024), Brata et al. (2025), Setiawati & Simanungkalit (2025) who found that profitability has a positive and significant effect on dividend policy.

Implications

From a theoretical perspective, the findings of this study support signaling theory. Strong Environmental Social and Governance (ESG) rating and high profitability can serve as positive signals regarding a firm's prospects. A high ESG rating indicates that a firm has fulfilled the relevant indicators across Environmental Social and Governance dimensions. Moreover, a higher ESG rating reflects greater transparency in the firm's sustainability reporting and demonstrates compliance with applicable standards and regulations. Similarly, high profitability signifies a firm's strong ability to generate earnings through its operational activities. Therefore, companies with ESG rating and strong profitability are more likely to convey positive signals to the market through dividend payments.

CONCLUSION

This study aims to examine the effect of Environmental Social and Governance (ESG) rating and profitability on dividend policy among commercial banks listed on the Indonesia Stock Exchange (IDX) during 2022–2024. Based on data analysis conducted on 48 samples using EViews 13, the results indicate that all variables have a positive and significant effect on dividend policy. This finding suggests that the level of dividends distributed is influenced by the banks' Environmental Social and Governance (ESG) rating as well as their profitability.

Recommendations

Based on the coefficient of determination (R^2), 85,8474% of the variation is explained by other variables that were not included in this research model. Therefore, future studies are recommended to incorporate additional factors that may influence dividend policy, such as investment opportunities, legal constraints, contractual constraints, the firm's growth prospects, owner considerations, market considerations, and tax considerations related to dividends. Furthermore, future research should consider expanding the sample size and extending the observation period to obtain more comprehensive and robust findings.

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