CSR AND SHARE OWNERSHIP ON THE DIVIDEND POLICY: EVIDENCE FROM INDONESIA

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Abstract - This study seeks to investigate the impact of CSR and share ownership on a company's dividend policy. We utilize data from Indonesian non-financial public companies from 2017 to 2021. To conduct a regression analysis, this study employs the STATA application and incorporates control variables such as company size, sales growth, leverage, the COVID recession period, and the industrial sector. The analysis results indicate that institutional ownership has a positive influence on dividend policy when CSR is high. However, institutional ownership has no impact on dividend policy when CSR is minimal.

Keywords - CSR, Disclosure, Ownership, Dividend Policy.

I. INTRODUCTION

In Indonesia, limited liability corporations are required to fulfill social and environmental obligations, which are collectively referred to as corporate social responsibility (CSR). The government of Indonesia introduced the Job Creation Law to improve the investment ecosystem; however, there are still constraints that need to be considered when making investments. One of these constraints pertains to environmental risk assessment and resource utilization. The social and environmental responsibilities of limited liability companies are governed by Article 1, paragraph 3 of Law Number 40 of 2007 on Limited Liability Companies. These provisions are further reinforced in Article 109 of Law No. 11 of 2020 concerning Job Creation. Limited liability companies are expected to fulfill their social and environmental responsibilities while conducting business, ensuring that the quality of life, the environment, and sustainable economic development can coexist harmoniously for the benefit of companies, communities, and society.

Article 5 paragraph 2 of Indonesian Government Regulation No. 47 of 2012, which regulates the social and environmental responsibilities of PT companies, states that PT companies can take into account the cost of CSR. This cost will be included in the profit and loss statement, which can reduce the company's profit and ultimately reduce the amount of taxes paid by the company. In addition, the profit earned by the company will certainly affect the dividends paid.

Previous research has tested the relationship between CSR and dividend policy. Most of the research results indicate that CSR has a positive effect on dividend payments[1–9]. Conversely, other research findings have found that CSR has a negative effect on dividend policy [10,11]. The difference in these research results is thought to be influenced by other variables that moderate their relationship. These moderating variables include company life cycle [9], stock ownership[7,8,10], and governance mechanisms [11].

In a public company, the ownership structure can influence the decision-making process regarding dividend payments. Prior studies have shown that companies with a significant proportion of institutional ownership tend to pay higher dividends[12][13]. This trend can be attributed to the institutions' extensive knowledge of financial management and their ability to apply pressure on the company's management, thus encouraging improvements, including dividend distributions. Furthermore, institutions are motivated to own shares in publicly traded companies due to their interest in receiving dividend income. Nevertheless, contrasting research findings suggest that institutional ownership may have a negative impact on dividend policy [14].

It is commonly believed that institutional ownership has a positive influence on both corporate social responsibility (CSR) and dividend policy. The duration of institutional ownership also plays a role in shaping a company's approach to CSR management. Specifically, the presence of institutional investors with a long-term perspective has a positive impact on dividends, but only for companies that demonstrate high CSR performance [8].This suggests a strong connection between institutional ownership and CSR activities. The research question of this study aims to explore potential disparities in the effects of institutional ownership on dividend policy across different levels of CSR performance.

II. HYPOTHESIS DEVELOPMENT

Theoretically, CSR disclosure can affect dividend decisions through two interrelated channels [10]. First, through the cost of debt, and second, through earnings. CSR disclosure (hereafter referred to as CSRD)

reduces information asymmetry between management and investors. Optimal CSRD can increase access to financing, thereby reducing the cost of capital. This will encourage managers to pay dividends. When the cost of capital is low, managers tend to use internal capital, reducing the need for external financing (debt). As a result, the management will be able to pay dividends.

From a signaling theory perspective, greater information makes investors more confident in making managerial decisions. As a result, they feel more confident in directing their investments towards companies with good governance reputations. CSR disclosure becomes a signal to the capital market that the company is able to control environmental and social risks. Therefore, companies with high CSR disclosure are considered to have low risk because investors associate them with effective corporate governance, high social capital, and a good reputation, supported by large investors. This low risk will have an impact on low debt costs, increasing the company's ability to pay dividends.

From the second channel perspective, namely earnings, CSR disclosure is seen as providing a signal to consumers that the company cares about social and environmental aspects. As a result, consumers become more loyal to the company, increasing the company's profitability. This will increase the company's ability to pay dividends. The benefit of all these explanations is that stakeholders will be satisfied, as a win-win situation occurs.

Previous research has mostly shown that CSR has a positive effect on dividend policy [1–9].The relationship between CSR and dividend policy is believed to be influenced by the type of ownership of shares in the company. In companies owned by families, more CSR activities actually decrease the tendency to pay dividends [5,7]. The more transparent the information regarding CSR, the more it is related to increasing dividend payments. Dividend payments tend to be more stable in companies with higher CSR transparency compared to those with low CSR transparency [6]. Other researchers have shown that long-term institutional investors tend to support CSR involvement, while short-term investors do not support it. The length of institutional ownership affects a company's decision in managing CSR. The presence of long-term institutional investors positively influences dividends only for companies with high CSR performance [8]. Therefore, this study suggests that there is an interaction between CSR and institutional ownership on dividend policy (H_1).

III. METHOD

This study employs a quantitative approach using regression analysis method. The research data was obtained from the ESGI Dataset and OSIRIS Database for public companies (excluded financial sector) listed on the Indonesia Stock Exchange from 2017-2021. The number of observations used in this study is 405 observations (Table 1).

Number of observations with CSR data		492
Incomplete data	(69)	
DPR>100 or LEV<0	(18)	
Final sample		405

Table 1 Sample Selection

Dividend payout ratio (DPR) is used as a proxy for dividend policy, which can be calculated by dividing earnings per share and dividend per share. CSR disclosure (CSRD) is identified based on the GRI Standard. The number of items disclosed in the sustainability report is identified and compared to the number of GRI items. CSR disclosure measurement is carried out following the research of [15]using data provided by the ESGI Datase[1]. Institutional ownership (OWNINS) is measured by comparing the number of shares held by institutions to the number of shares outstanding.

To address the issue of high multicollinearity between CSR and OWNINS, we have implemented a strategy to analyze the impact of OWNINS on dividend policy separately for high and low CSR levels. This involves calculating the mean CSR value and categorizing observations with CSR values exceeding the mean as having a high CSR.

In this study, we have included several control variables to account for potential influences on dividend policy. These control variables comprise company independence (IND), working capital (WC), firm size (SIZE), sales growth (SGR), leverage (LEV), and a dummy variable for the COVID period. Company independence (IND) refers to the degree of independence from external influences. Working capital (WC) represents the company's current assets minus its current liabilities. Firm size (SIZE) is determined using the natural logarithm of total assets. Sales growth (SGR) is calculated as the growth rate of company sales. Leverage (LEV) is measured by comparing a company's debt to its equity.

All the data for the control variables were obtained from the OSIRIS database. Regarding the COVID period, we assigned a dummy score of 1 to the years 2020 and 2021, while the remaining years were assigned a score of 0, indicating the absence of the COVID period.

To analyze the relationship between the variables, this

[1] ESGI Dataset supplied by Universitas Airlangga

study utilizes multiple regression analysis with the following model.

$$DPR_{i,t} = \beta_0 + \beta_1 OWNINS_{i,t} + \beta_2 CONTROLS_{i,t} + \text{Year Effect} + \text{Industry Effect} \quad (1)$$

IV. RESULTS

The descriptive statistics for each variable are presented in Table 2, while Table 3 displays the Pearson correlation coefficients between the variables. The traditional assumption tests indicate that the errors exhibit heteroscedasticity and are atypical. As a result, we have winsorized the observed data between the 1st and 99th percentiles to address this issue. Furthermore, regression analysis has been conducted using the "vce (robust)" option within the STATA program to account for heteroscedasticity. The results of the regression analysis are presented in Table 4.

Model 1 showcases the regression results for the impact of OWNINS on the dividend payout ratio (DPR) when CSR is high, while Model 2 illustrates the regression results when CSR is low. The findings indicate that institutional ownership has a positive influence on dividend policy when CSR is high. Conversely, institutional ownership does not have a significant effect on dividend policy when CSR is low. These results align with prior research[8].

Regarding the control variables, the study finds that firm independence influences dividend policy in the opposite direction only when CSR is minimal. A high level of firm independence indicates that management has more freedom to make decisions without intense shareholder pressure. In other words, the influence of shareholders as controllers of the company tends to be low. Consequently, there may be less impetus to pay dividends and engage in CSR activities. The COVID-19 recession shows a positive influence on the other control variables, while leverage has a negative impact on dividend policy, regardless of CSR level. Furthermore, CSR has a positive effect on dividend policy only in relation to company size when CSR is high.

	N	Mean	Std. Dev.	Max	Min
DPR	405	9.242	19.109	89.83	0
CSRD	405	.62	0.155	.968	.206
OWNINS	405	82.637	19.991	99.78	5.1
IND	405	4.168	3.428	12	2
COVID	405	.402	0.491	1	0
WC	405	.141	0.207	.678	-.3
SIZE	405	30.155	1.487	33.321	26.383
SGR	405	.144	0.351	1.472	-.495
LEV	405	1.516	1.678	10.521	.088

Table 2Summary statistics

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) DPR	1.000								
(2) CSRD	-0.038	1.000							
(3) OWNINS	0.116	-0.031	1.000						
(4) IND	-0.180*	-0.052	-0.294*	1.000					
(5) COVID	0.355*	-0.179*	0.017	-0.106	1.000				
(6) WC	0.027	0.001	-0.007	0.053	-0.056	1.000			
(7) SIZE	0.199*	0.138*	0.132*	-0.075	0.216*	-0.221*	1.000		
(8) SGR	-0.003	-0.180*	0.001	0.019	-0.025	0.011	-0.120	1.000	
(9) LEV	-0.119	0.000	-0.112	0.049	0.079	-0.482*	0.153*	-0.131*	1.000

*** p<0.01, ** p<0.05, * p<0.1

Table 3Pairwise correlations

	Expected Sign	(1)CSRD=1 (High) DPR	(2)CSRD=0 (Low) DPR
Institutional Ownership (OWNINS)	+	0.079**	0.002
		(2.00)	(0.03)
Independence of Company (IND)	-	-0.357	-0.982***
		(-1.08)	(-3.34)
COVID10 Period (COVID)	?	17.916***	19.362***
		(3.81)	(4.12)
Working Capital (WC)	-	0.048	2.314
		(0.01)	(0.33)

SIZE	+	2.107***	1.437
		(2.91)	(1.59)
Sales Growth (SGR)	-	-5.164	-1.732
		(-1.26)	(-0.75)
Leverage (LEV)	-	-1.754**	-1.070*
		(-2.28)	(-1.92)
_CONS		-57.946**	-32.613
		(-2.60)	(-1.20)
Year FE		Yes	Yes
Industry FE		Yes	Yes
F		4.407	4.710
R^2		0.265	0.330
Adjusted R^2		0.197	0.256
N		213	192

Table4 Regression Analysis
t statistics in parentheses
***p< 0.1, ****p< 0.05, *****p< 0.01**

The study's findings suggest that the interaction between institutional ownership, CSR level, and dividend policy is significant only when CSR is high. Several reasons can explain the differing effects of institutional ownership on dividend policy between companies with high and low CSR.

Companies with a high CSR level often exhibit a strong commitment to social and environmental responsibility. In this context, significant institutional ownership can exert pressure or create expectations for these companies to prioritize sustainable dividend policies aligned with CSR principles. Institutions may be more likely to advocate for consistent dividend payments to ensure that companies prioritize sustainability-related factors.

Risk perception also plays a role, particularly in the case of high CSR levels. A high CSR level can be seen as an effort to promote accountability and transparency in business practices, improving the perception of a company's risk and control. Consequently, institutional investors with substantial ownership may perceive companies with high CSR as secure and reliable investments. To meet investor expectations and maintain a positive perception of corporate risk and control, institutions may prioritize a sustainable dividend policy.

Furthermore, companies with a high CSR level often have a long-term orientation and a commitment to sustainable growth. In such cases, significant institutional ownership may recognize the long-term value of maintaining and enhancing a sustainable dividend policy to support the company's growth objectives. This can be achieved by building shareholder trust and fostering long-term relationships.

In contrast, these explanations may not be as applicable when CSR is low. Companies with a low CSR level may prioritize financial aspects and profitability over social and environmental responsibility. Given the focus on financial factors, institutional ownership may have less impact on dividend policy in such situations.Overall, the findings highlight the importance of considering the interaction between institutional ownership, CSR level, and other factors when analyzing the impact on dividend policy in different contexts.h.

V. CONCLUSION

This study aims to examine the influence of CSR and share ownership on a company's dividend policy. The findings reveal that institutional ownership has a positive impact on dividend policy when CSR is high, while this effect is not observed when CSR is minimal. However, it is important to acknowledge the limitations of this study.

One limitation is that the evaluation of CSR level (CSRD) is based solely on Sustainability Reporting (SR). It is assumed that companies not issuing SR do not disclose CSR information. However, there is a possibility that companies include CSR-related information in their annual reports. By solely relying on SR, the study may not capture the full extent of CSR activities undertaken by companies. Future research should consider incorporating annual reports or utilizing a combination of both report types to obtain a more comprehensive assessment of CSR.

Additionally, the study does not assign distinct weights to SR and annual reports, as each report type is based on different sets of information. However, the presence of SR is often seen as an indication of a company's commitment to implementing CSR practices. Future research could explore the relative importance and impact of SR and annual reports on dividend policy, considering the varying levels of CSR disclosure.

Overall, while this study provides insights into the relationship between CSR, share ownership, and dividend policy, it is important to address the limitations mentioned and consider incorporating additional data sources to enhance the understanding

of CSR's impact on dividend policies in future research.

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APPENDIX

Variables Measurement

Variable	Measurement	Data Source
DPR	Earnings per share / dividend per share.	OSIRIS Database
CSRD	Number of items disclosed in the sustainability report compared to the number of GRI items.	ESGI Dataset
OWNINS	The number of shares held by institutionsto the number of shares outstanding.	Annual Report
IND	The degree of independence of a company A = 5: No recorded shareholder with more than 25% direct or total ownership. B = 4: No recorded shareholder with more than 50% direct or total ownership. And one or moreshareholders are recorded with more than 25% direct or total ownership. C = 3: One recorded shareholder with more than 50% direct or total. Also given to a company whena source indicates that the company has an ultimate owner. D = 2: One recorded shareholder with a direct ownership of over 50%.	OSIRIS Database
COVID	COVID19 Period, 1 = 2020 and 2021; 0 = 2017-2019.	
WC	Working capital.	OSIRIS Database
SIZE	Natural logarithm of total assets.	OSIRIS Database
SGR	$(\text{Net Sales}_t - \text{Net Sales}_{t-1}) / \text{Net Sales}_{t-1}(\%)$	OSIRIS Database
LEV	Debt /Equity	OSIRIS Database

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