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THE ROLE OF ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) ON DIVIDENDS AND FIRM VALUE: THE MODERATION EFFECT OF AUDIT QUALITY

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Abstract

This research will examine the influence of ESG (Environmental, Social, Governance) and its components on dividends and firm value. Furthermore, the quality and credibility of information in the market will also influence stakeholder assessments. The important role of audit quality in providing assurance on this information is needed. By using multiple linear regression on 252 firm years from companies listed in IDX 2020-2023 that meet the sample criteria, it was found that ESG has not been able to significantly influence dividends and firm value. However, environmental can influence dividends in a positive way, while governance can influence firm value in a negative way. Even though dividends and audit quality can influence firm value in a positive way, audit quality still cannot increase the influence of dividends on firm value. Audit quality also cannot increase the influence of ESG on dividends. In this case, inefficient ESG practices followed by poor audit quality are the main factor of this insignificant influence. It takes time for ESG investments to influence company performance, which has an impact on high dividend payout ratios and firm value.

Keywords: ESG; Dividend; Firm Value; Audit Quality; Sustainability

JEL Classification: C12, C33, G35, L00, M40, O16, Q56

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INTRODUCTION

The Financial Services Authority (FSA) has issued SEOJK Number 16/SEOJK.04/2021 and POJK Number 51/POJK.03/2017 which require public listed companies to disclosure its sustainability matter. Therefore, each company should plan and report sustainability activities. Various parties have assessed sustainability performance, such as Refinitiv and Bloomberg through the Environment, Social, Governance (ESG) score; the National Center for Sustainability Report (NCSR) through the Asia Sustainability Reporting Rating (ASRRAT), Certified Sustainability Reporting Assuror (CSRA); etc. However, good sustainability performance does not always have a positive impact on firm value or dividend policy. ESG can be a double-edged sword for companies. ESG can show the company's good faith which can increase firm value (El-Deeb *et al.*, 2023; Mohammad & Wasiuzzaman, 2021). On the other hand, inefficient ESG implementation will increase costs which cause a decrease in profits (Seth & Mahenthiran, 2022). This decrease in profits will affect dividend policies, such as the stability or amount of dividend payments. Despite those matters, investment in ESG continues to increase to more than $ 2.5 trillion in mid-2022 (Pérez *et al.*, 2022).

Previous studies have shown conflicting results. Research by El-Deeb *et al.* (2023), Chen *et al.* (2023), and Mohammad & Wasiuzzaman (2021) found that ESG has a significant positive effect on firm value. Mohammad & Wasiuzzaman (2021) has also found that ESG disclosure can increase firm value of 4%. However, Seth & Mahenthiran (2022) found insignificant results. This study found that ESG investment can increase costs, especially human resources (HR) and research & development (R&D) affect on declining profits. This investment can only affect price-to-book value by 1% to 3% in 6-10 years. As a result, there is a potential for a decrease in firm value. However, El-Deeb *et al.* (2023), Chouaibi *et al.* (2022), and Naeem *et al.* (2022) found that each ESG component has a significant positive effect on firm value El-Deeb *et al.* (2023) also found that in developing country, investor also considered the non-financial information, including ESG. Based on previous studies, most studies show that ESG has a significant positive effect on firm value. Furthermore, with the existence of IFRS sustainable disclosure standards S1 & S2, Sustainable Development Goals (SDGs) 2030, Global Reporting Initiative (GRI) Standards, etc., it can be concluded that various stakeholders view ESG as an important issue. Therefore, a test will be conducted on the role of ESG and its components to determine the most influence of ESG components on firm value.

Some companies use dividends strategies that are expected to be a positive signal for stakeholders to overcome the negative impact of ESG investment. However, it was found that differences proxies of dividend policy have different impact. Dividend growth causes ESG and its components have a significant negative effect on dividends (Zahid *et al.*, 2023). Meanwhile, ESG and its components do not have a significant effect on dividend payment stability, regular dividend per share, and dividend yield (Matos *et al.*, 2020). However, social score has a significant positive effect on dividend yield. Furthermore, consistent results were found between the relationship between ESG and its components on the dividend payout ratio (DPR) (Dahiya *et al.*, 2023; Matos *et al.*, 2020; Zahid *et al.*, 2023). However, Seth & Mahenthiran (2022) found that dividends have a positive effect on firm value, while Bakri (2021) found a conflicting result. Dividends can have a positive effect on firm value because they can provide a positive signal to stakeholders. On the other hand, the negative effect of dividends on firm value conducted in Bakri (2021) research can be caused by differences in the dividend proxies used. Seth and Mahenthiran (2022) use DPR, while Bakri (2021) use dividend yield.

The mixed theories and findings from previous studies indicate that there are moderating factors which influence it relationships. Audit quality increases the credibility of financial statements, including ESG information. Abdollahi *et al.* (2020) found that auditor type and auditor opinion are determining factors for investors in making decisions. Thus, public perception of the big four auditors who provide good audit quality and information is important and affects information credibility. Zahid *et al.* (2022) found that ESG influence on firm performance are more evident for company which certified by big four accounting firms. However, Zahid *et al.* (2023) found that audit quality negatively moderates ESG and dividends. Increasing ESG and audit costs will influence the profit generated as an added balance on retained earnings. As a result, retained earnings that can be used to distribute dividends are also reduced. On the other hand, Bakri (2021) found that eventhough dividend affect firm value negatively, audit quality can moderate dividends and firm value positively. Thus, the positive effect of audit quality in moderating the relationship between ESG and dividends and dividends on firm value should be further tested.

This study will examine companies listed on the Indonesia Stock Exchange (IDX) 2020-2023. Companies that have been listed on the IDX are closely monitored by various parties, such as FSA, investors, analysts, academics, and communities. Indonesia was chosen as the research object due to the increasing implementation of ESG activities as the impact of the obligation to publish sustainability reports since 2021. In addition, based on Wuryasati (2020), the 2020 GlobeScan and GRI Survey found that Indonesia had received the highest ranking that gained public trust for sustainability disclosure in sustainability reports. It is quite unique because based on the researcher's analysis, many sustainability reports published have not been verified by independent assurance. Therefore, stakeholders' trust of sustainability disclosure may been reflected in the quality of the audit report.

Unclear result on the effect of ESG toward company’s performance in Indonesia has not beed solved. Some researchers focus on the effect of CSR toward company’s performance which effect on the limitation scope of study. ESG score measured by Bloomberg has various indicators which make it more credible and comprehensive. Therefore, in this study it is intense to discuss the effect of ESG toward company’s performance. ESG effect will be measured to company’s financial performance which reflected on dividend policy and firm value. As the information used in this study is assured by the auditor, it is important to involve the measurement of audit quality. Moreover, audit quality has become a concern in Indonesia as the object of this study. Thus, the objectives of this study are to examine the effect of ESG toward dividend and firm value, while also measuring the direct effect of dividen to firm value and the role of audit quality as a moderation variable.

LITERATURE REVIEW

Legitimacy Theory

O’Donovan (2002) stated that legitimacy theory is a concept that emphasizes firm value will be congruent with the social system in which the company is located. In this case, if stakeholders consider sustainability issues for decision making, then the company should increase sustainability concern. Disclosure of sustainability information in financial statements and sustainability reports can provide signals to stakeholders. Having good ESG performance enact company to gain its legitimacy by continuing to operate and develop (Mahmud, 2019).

Bird in The Hand Theory

Modiglini & Miller (1961) proposed the irrelevance theory which states that investors do not care about the source of returns obtained. This theory was later developed by Gordon (1963) and Lintner (1964) into the bird in the hand theory which emphasizes that shareholders prefer dividend distribution compared to future capital gains that are still uncertain. The amount of dividend payments can also increase stock prices and firm value.

Hypothesis Development

This study uses a directional alternative hypothesis that analyzes the influence of the dependent variable on the independent variable. The selection of this type of hypothesis will also be accompanied by a discussion of the direction of the results, whether positive or negative.

Companies listed on the IDX are required to publish reports to increase transparency and accountability. It is in line with paradox theory which emphasizes that managers must be able to overcome various tensions on the bottom line (Walker *et al.*, 2020). However, ESG activities needed investment which will cause additional cost allocations. On the other hand, funds are needed to distribute dividends. Several studies have found positive relationship between ESG and its components on Dividend Payout Ratio (DPR) (Dahiya *et al.*, 2023; Matos *et al.*, 2020; Zahid *et al.*, 2023). Matos *et al.* (2020) found that companies that pay attention to ESG aspects tend to have stable dividend payments to reduce the negative impact of issues circulating in the market. Furthermore, a high ESG score also indicates increased revenue and lower financial constraints. Dahiya *et al.* (2023) found that the relationship between ESG and dividends becomes stronger in mature companies with high information asymmetry. Thus, the positive role of ESG on dividends can be stronger for companies listed on IDX.

H1a: ESG has a positive effect on dividends.
H1b: Environmental score has a positive effect on dividends.
H1c: Social score has a positive effect on dividends.
H1d: Governance score has a positive effect on dividends.

A high ESG score will reflect long-term alignment with stakeholders due to stable profit sharing (Matos *et al.*, 2020). Furthermore, *environmental score* (ES) has a positive effect on dividends because the company's ability to use resources and energy efficiently can result in long-term operational cost efficiency. Reducing costs will increase efficiency and increase profits. Thus, dividend payment policy can be positively influenced by good ES. High *social score* (SS) indicates that the company tends to provide appropriate returns, such as dividend distribution. Good *governance score* (GS) reflects good management. Good governance can improve supervision, system and operational improvements. In addition, high GS also reflects the level of alignment of the company's strategy with stakeholders.

Based on legitimacy theory, companies must pay attention to the triple bottom line to increase firm value. In this case, managers need to pay attention to non-financial aspects other than profit as a form of responsibility to society. The urgency of implementing ESG is supported by the existence of SEOJK Number 16/SEOJK.04/2021, IFRS S1 & S2, SDGs 2030, and GRI standards. ESG can increase firm value by demonstrating ethical behavior and corporate responsibility in order to improve community welfare (Mohammad & Wasiuzzaman, 2021). El-Deeb *et al.* (2023), Mohammad & Wasiuzzaman (2021), and Seth & Mahenthiran (2022) found that ESG has a positive impact on firm value. Furthermore, in the study of El-Deeb *et al.* (2023) it was found that the each ESG component has a positive effect on firm value. Therefore, the following hypothesis is formulated:

H2a: ESG has a positive effect on firm value.
H2b: Environmental score has a positive effect on firm value.
H2c: Social score has a positive effect on firm value.
H2d: Governance score has a positive effect on firm value.

Firm value is defined as the result of ethical and responsible behavior of a company that aims to improve the welfare of society (Mohammad & Wasiuzzaman, 2021). Therefore, ESG can improve long-term performance, focus on the company's strengths, and build company's reputation. ESG investment indicates that the company does not only pay attention to profits for the benefit of the company, but is also involved in social responsibility towards stakeholders. Generally, ESG investment can reduce cost of capital which result on increase in firm value. Disclosure of ESG information can also increase investor confidence.

Having a good ES shows how a company can manage its resources well, reduce emissions produced, and innovate in the environmental sector. Responsibility for the environment can build public perception, especially investors, of the company's good faith. This affects the company's reputation and legitimacy. High SS indicates high social responsibility towards stakeholders, increase the company's trust, and brand image. Good governance also greatly influences how stakeholders assess and make decisions. Management policy is the most significant indicator in assessing governance. Management can determine strategic steps and policies to be taken in order to increase firm value. Thus, good GS can increase firm value.

Bird in the hand theory states that in a world full of uncertainty, investors will prefer dividends distribution over capital gain in the future (Bakri, 2021). Therefore, dividends are one of investors' concerns. Seth & Mahenthiran (2022) found that dividends have a significant positive effect on firm value. Dividends can also be a positive signal of future performance.

H3: Dividends have a positive effect on firm value.

Information asymmetry is very prone to occur in large companies, such as companies listed on the IDX. In this case, the credibility of financial statements is a matter of concern. Audited financial statements have become one of the requirements for companies listed in IDX. Auditor's opinion can be categorized into four, which are unqualified, qualified, adverse, and disclaimer of opinion (Arens *et al.*, 2017). Zahid *et al.* (2023) research on 663 companies listed in Western Europe found that audit quality moderates the relationship between ESG and DPR significantly negative. However, in other regions, such as Indonesia, auditor's assurance is important. Various studies conducted in Europe and India have also found a significant positive relationship between ESG and its components on DPR (Dahiya *et al.*, 2023; Matos *et al.*, 2020; Zahid *et al.*, 2023). The existence of this research gap has led researchers want to test the role of audit quality in moderating the effect of ESG on dividends.

H4: Audit quality can positively moderate the effect of ESG on dividends.

According to signaling theory, companies urge to have good audit quality as a signal to overcome the potential negative impact of dividends on firm value. Information disclosed can be a signal to investors which will have an impact on firm value. Seth & Mahenthiran (2022) found that dividends can increase firm value. Furthermore, Bakri (2021) found that good audit quality can increase the effect of dividends on firm value. Good audit quality can reduce information asymmetry which allows investors to plan investment strategies properly.

H5: Audit quality can positively moderate the effect of dividends on firm value.

The Figure 1 is the design of this research.

RESEARCH METHODS

The object of this research is companies listed on the IDX 2020-2023. In conducting the research, a non-probability sampling method with a purposive technique was used to determine the sample to be tested in this study. The criteria for the sample include: (1) Companies that have an ESGS, ES, SS, and GS on Refinitiv; (2) The accounting period ends in December; and (3) Have positive equity. Furthermore, data from this study were taken from Refinitiv database to increase

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credibility. Table 1 represents the sample of this research.

Operational Definitions

Variables and operational definitions of variables can be presented in Table 2.

Multiple Linear Regression Analysis

This study uses a multiple linear regression analysis model to directly measure the relationship between various independent variables with the dependent variable. To prove hypotheses 1-5, 5 models are arranged as follows:

Model 1

$$DPR_{it} = \beta_0 + \beta_1 ESGS_{it} + \beta_{1a} ES_{it} + \beta_{1b} SS_{it} + \beta_{1c} GS_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \varepsilon_{it} \quad (1)$$

Model 2

$$Tobin's\ Q = \beta_0 + \beta_1 ESGS_{it} + \beta_{1a} ES_{it} + \beta_{1b} SS_{it} + \beta_{1c} GS_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \varepsilon_{it} \quad (2)$$

Model 3

$$Tobin's\ Q = \beta_0 + \beta_1 DPR_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \varepsilon_{it} \quad (3)$$

Model 4

$$DPR_{it} = \beta_0 + \beta_1 ESGS_{it} + \beta_2 AQ_{it} + \beta_3 ESGS_{it} * AQ_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \varepsilon_{it} \quad (4)$$

Model 5

$$Tobin's\ Q = \beta_0 + \beta_1 DPR_{it} + \beta_2 AQ_{it} + \beta_3 DPR_{it} * AQ_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \varepsilon_{it} \quad (5)$$

Remarks:

Tobin's Q : *Firm value Company i in Period t*
DPR_{it} : *Dividend payout ratio Company i in Period t*
$ESGS_{it}$: *ESG Score Company i in Period t*
ES_{it} : *Environmental Score Company i in Period t*
SS_{it} : *Social Score Company i in Period t*
GS_{it} : *Governance Score Company i in Period t*
AQ_{it} : *Audit Quality Company i in Period t*
$SIZE_{it}$: *Company Size i in Period t*
LEV_{it} : *Debt ratio Company i in Period t*
ROA_{it} : *Return on Asset Company i in Period t*

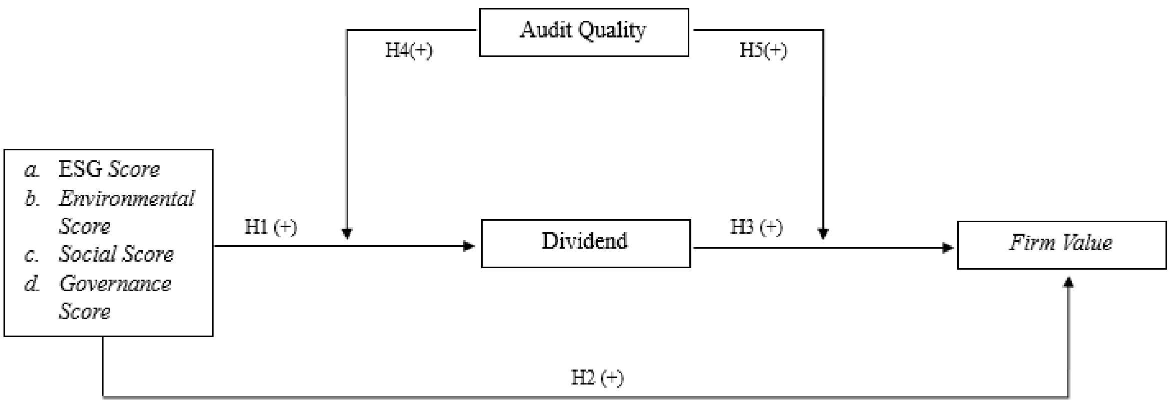

Figure 1. Conceptual Framework

Table 1. Research Object

Remarks	2020	2021	2022	2023	Total
Companies Listed on IDX	710	776	823	902	3,211
Sampling Criteria					
Companies that do not have an ESG Score on Refinitiv	666	729	745	805	2,945
Companies with a financial reporting ending period other than December 31	0	0	0	0	0
Companies with negative equity	0	0	0	14	14
Research Object	**44**	**47**	**78**	**83**	**252**

Source: Adopted from IDX

Table 2. Operational Variables

Type	Variable	Formula			
Dependent Variable	TOBINSQ	$\text{Tobin's } Q_{it} = \frac{\text{Total Market Value of Firm }_{it}}{\text{Total Asset Value of Firm }_{it}}$			
Independent Variable	ESG Score (ESGS)	ESGS=ES+SS+GS which is assessed by Refinitiv:			
		Pilar	**Category**	**Indicators**	**Weight**
		Environmental Score (ES)	Resource Use	20	11%
			Emission	22	12%
			Innovation	19	11%
		Social Score (SS)	Workforce	29	16%
			Human Rights	8	4,5%
			Community	14	8%
			Product Responsibility	12	7%
		Governance Score (GS)	Management	34	19%
			Stakeholders	12	7%
			CSR Strategies	8	4,5%
			Total	**178**	**100%**
Mediating Variable	Dividend (DPR)	$DPR_{it} = \frac{\text{Dividend Paid}_{it}}{\text{Net Income}_{it}}$			
Moderating Variable	Audit Quality	AQ_{it} = Public Accounting Firm big four: 1; non big four : 0			
Control Variable	Size	Size = Ln (total asset)			
	Leverage (LEV)	$LEV_{it} = \frac{\text{Total Debt}_{it}}{\text{Total Asset}_{it}}$			
	Return on Assets (ROA)	$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$			

Source: Adopted from Previous Studies

RESULT AND DISCUSSION

Descriptive and Frequency Statistics

Each variable on Table 3 will be presented in descriptive statistics on table 3, while frequency statistics are presented in Table 4 for AQ variable which are nominal scale.

SS was the highest score among other ESG components. DPR has the lowest value of 0 because the company has no obligation to pay dividends. In general, companies will distribute dividends when profits with the approval on the GMS. PT United Tractors Tbk (UNTR) in 2022 made dividend payments with a ratio of 121% of 2022 net profit. Dividend payments with a ratio exceeding 100% are a first for UNTR (Saumi & Pratomo, 2024). Audit quality as a moderating variable has the lowest value of 0 and the highest of 1. From 252 samples, there are 183 company or 72.62% of the samples that have been audited by big 4 accounting firms.

Correlation Coefficient Analysis

In this study, the Pearson correlation test was used with the result can be seeing in Table 5. Based on Table 5, it can be concluded that most variables significantly influence each other. AQ as a moderating variable in this study has a significant positive relationship with ESG and both dependent variables, which are TOBINSQ and DPR.

Table 3. Descriptive Statistics

	TOBINSQ	ESGS	ES	SS	GS	DPR	AQ	SIZE	LEV	ROA
Valid	252	252	252	252	252	252	252	252	252	252
Missing	0	0	0	0	0	0	0	0	0	0
Mean	1.14	49.16	38.07	53.38	50.20	0.34	0.73	31.50	0.54	0.05
Std. Deviation	1.97	19.32	23.30	21.72	23.43	0.32	0.45	1.57	0.23	0.14
Minimum	0.04	13.91	0.00	8.85	2.98	0.00	0.00	26.69	0.08	-1.67
Maximum	15.61	87.24	87.54	95.89	94.01	1.21	1.00	35.32	0.99	0.58

Source: JASP

Table 4. Frequency Statistics of Audit Quality

AQ	Frequency	Percent	Valid Percent	Cumulative Percent
0	69	27.38	27.38	27.38
1	183	72.62	72.62	100.00
Missing	0	0.00		
Total	252	100.00		

Source: JASP

Table 5. Pearson Correlation

Variable		TOBINSQ	ESGS	ES	SS	GS	DPR	AQ	SIZE	LEV	ROA
1. TOBINSQ	Pearson's r	—									
	p-value	—									
2. ESGS	Pearson's r	0.134	—								
	p-value	0.033	—								
3. ES	Pearson's r	0.257	0.797	—							
	p-value	< 0.001	< 0.001	—							
4. SS	Pearson's r	0.080	0.909	0.689	—						
	p-value	0.206	< 0.001	< 0.001	—						
5. GS	Pearson's r	0.067	0.827	0.499	0.601	—					
	p-value	0.287	< 0.001	< 0.001	< 0.001	—					
6. DPR	Pearson's r	0.247	0.352	0.429	0.282	0.242	—				
	p-value	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001	—				
7. AQ	Pearson's r	0.152	0.351	0.279	0.254	0.305	0.388	—			
	p-value	0.016	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001	—			
8. SIZE	Pearson's r	-0.181	0.494	0.364	0.500	0.314	0.219	0.294	—		
	p-value	0.004	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001	< 0.001	—		
9. LEV	Pearson's r	-0.120	0.164	-0.032	0.208	0.158	0.006	-0.035	0.341	—	
	p-value	0.058	0.009	0.611	< 0.001	0.012	0.923	0.583	< 0.001	—	
10. ROA	Pearson's r	0.360	0.169	0.222	0.097	0.150	0.303	0.086	-0.020	-0.152	—
	p-value	< 0.001	0.007	< 0.001	0.126	0.017	< 0.001	0.175	0.758	0.016	—

Source: JASP

Table 6 shows that ESGS, SS, and GS do not significantly affect DPR, while ES has a significant positive effect on DPR. Therefore, H1a, H1c, and H1d are rejected, while H1b is accepted. ESGS cannot significantly affect DPR because there are different influences between ESG components on DPR. ESGS and DPR will have a stronger relationship in companies with high profits (Dahiya *et al.*, 2023). This research sample also includes companies that experience losses. Therefore, the insignificant effect of ESGS on DPR probably is due to the presence of a sample of companies that suffered losses in this study. Dahiya *et al.* (2023) found that ES has the highest effect on DPR compared to SS and GS. This is in line with the results of this study where ES has a significant positive effect on DPR, while SS and GS do not have a significant effect on DPR. High ES indicates that the company utilizes resources and operational cost efficiently in the long term. Companies that achieve cost efficiency can generate higher profits which result in a potential increase in dividend distribution.

Environmental issues have also become a concern for various stakeholders. Article 22 of Law Number 32 of 2009 as last amended in Lieu of Law Number 2 of 2022 states that any business that has a significant impact on the environment must carry out environmental impact analysis. Paying attention to environmental issues can avoid sanctions, both from the community and the government. Furthermore, by paying attention to environmental issues, the company's brand image and consumer loyalty will elevate. High ES can also increase competitive advantages by increasing sales and productivity, minimize financial constraints, and build a good reputation. Increasing stakeholder confidence in the company can increase the company's ability to obtain funding and distribute dividends. Dividends can be a solution to agency problems as it minimizes information asymmetry.

The high contribution to SS practices that negatively affect dividends has been accepted by investors as a premium cost (Zahid *et al*., 2023). Matos *et al.* (2020) stated that investors are more sensitive to social issues in considering decisions in the capital market. However, Matos *et al.* (2020) also found that SS had an insignificant effect on DPR because there is no direct effect of having concern for social issues with the company's financial performance.

Table 6 show that GS cannot significantly influence DPR indicate that GS is still unable to ensure the business practices carried out with the published reports are in accordance. In general, companies listed on the IDX will publish annual and sustainability reports on their websites. The published annual reports generally follow applicable accounting standards (IFRS) which have been audited by a public accounting firm. Meanwhile, most of it publish sustainability reports with GRI standards and have not used independent assurance services. The absence of standards and assurance makes the information in the sustainability report less reliable. As a result, GS cannot significantly influence financial information, including DPR. In this study, GS assessment was carried out with 3 categories, namely management, shareholders, and CSR strategy. In this case, the largest weighting lies in management with a weighting of 19%. Meanwhile, the weight given to the shareholders' criteria is 7%. This assessment indicates that management is a special concern in conducting GS assessments. However, dividend distribution agreements will be greatly influenced by shareholders in GMS. Insignificant effect of SS and GS on DPR are in line with Africa *et al.* (2024).

The results of this study indicate that managers cannot overcome various tensions on the bottom lines in paradox theory. Dahiya *et al.* (2023) also found that the relationship between ESG and dividends becomes stronger in mature companies with high information asymmetry. The sample in this study used companies that have been listed on the IDX with various strict requirements. Therefore, information asymmetry can be minimized. In this case, a high ESGS does not necessarily mean that it can directly cause a positive effect on the DPR.

Table 6 shows that ESGS, ES, SS, and GS do not significantly affect TOBINSQ. Therefore, all hypotheses in model 2 are rejected. In accordance with signaling theory, ESG practices can be a positive signal for investors. Furthermore, legitimacy theory recommend that companies pay attention to the triple bottom line to increase firm value. The assessment of TOBINSQ is carried out using market value which also shows that a company's ESG practices and policies do not have a significant impact on market value. Different results were found in the influence of ESG components on firm value. ES and SS do not have a significant impact, while GS has a significant influence. The results for ESGS, ES, and SS are not significant on TOBINSQ is in accordance with Said & ElBannan (2024). The effect of high ESG score are insignificant due to the sample of this study are developing countries. According to Naeem *et al.* (2022), the impact of ESG performance on firm value are stronger in developed countries than developing countries like Indonesia.

The results of this study are in line with Seth & Mahenthiran (2022) who found that ESG did not have a significant impact on firm value. This indicates that ESG does not accounted as important indicator in assessing firm value for stakeholders in Indonesia. Mohammad & Wasiuzzaman (2021) stated that ESG can increase value creation in the long term, while in short term ESG can negatively affect firm value due to increased costs for training and R&D. The sample in this study used time series and cross-section data. The impact of ESGS on TOBINSQ can be seen further by examining a company over time. As a result, ESGS does not have a significant impact on TOBINSQ. Nur'aeni & Sari (2023) also found that ES has a positive but insignificant influence on firm value. Companies that have high environmental risks tend to increase firm value with aspects other than ES. As a result, the practices carried out to increase ES are still unable to meet investor expectations. Performance related to the environment that does not meet stakeholder expectations will cause the disclosure of this information to be irrelevant in assessing firm value. In this case, SS cannot significantly affect TOBINSQ. In order for SS to significantly affect firm value, strong incentives and support are needed for SS to be an indicator in assessing firm value (Mohammad & Wasiuzzaman, 2021). Chouaibi *et al.* (2022) stated that if a company or country is viewed poorly based on its ESG performance and valuation, then ESG practices can actually create a negative signal.

GS indicator includes measuring CSR strategies. In the case of bad CSR initiatives, banks can impose sanctions with higher loans (Mohammad & Wasiuzzaman, 2021). ESGS is highly influenced by GS because ESG policies, both for implementation and reporting, will be greatly influenced by management policies which are one of GS indicators. This study shows significant negative results on the role of GS on TOBINSQ. The results of this study are in line with research conducted by Truong (2024). Good GS should be able to minimize agency problems, information asymmetry, and performance manipulation actions. However, it was found that high GS actually causes TOBINSQ to be negative. This indicates that the conflict of interest between management and shareholders has caused the company's reputation to decline. A bad reputation will have an impact on decreasing firm value. However, the significant influence of GS on firm value indicates that stakeholders consider GS as an important indicator. Good GS can be a company's legitimacy. Therefore, when management can manage company policies and directions to reduce agency problems, good GS can increase firm value. In the long term, good firm value will also affect competitive advantage and company sustainability.

This study found that DPR can significantly positively affect TOBINSQ. Bird in the hand theory also supports the results of this study where investors prefer dividends over the company's future expectations which are much riskier. This preference can also be seen from the enthusiasm of the Indonesian people who pay attention to stock indexes, including IDX High Dividend 20. Therefore, companies included in this index can be categorized as having good performance that can distribute dividends regularly. Dividend distribution can also minimize agency problems by providing an overview of current performance and good future performance prospects. The results of this study are also in line with Seth & Mahenthiran (2022). Dividend distribution is a positive signal for stakeholders regarding the company's future prospects. Therefore, a higher DPR value can increase firm value and H3 is accepted.

In model 3, all independent variables show a significant positive effect on DPR. However, ESGS*AQ cannot significantly affect DPR. This indicates that audit quality cannot increase the effect of ESGS on DPR. ESG can reduce cost of capital because the company is able to show the company's future profitability, better credit ratings, and favorable loan terms. This encourages various companies to improve

ESG practices and publish it in sustainability reports. In general, ESG information disclosure can be valuable information for stakeholders and reduce information asymmetry. Zahid *et al.* (2023) stated that the positive relationship between ESG, AQ, and DPR becomes stronger in mature and companies with higher information asymmetry. Companies with good ESGS are able to use resources efficiently and increase operational cost efficiency in the long term. This result indicates that stakeholders support investment related to ESG. Increased investment in ESG followed by good practices can increase stability of dividend payments with increasing DPR. Dividend distribution is also carried out in order to minimize the negative impact of inefficient ESG practices. This practice can cause a clientele effect. This theory states that companies tend to attract investors who have a preference for dividend payments. In accordance with the bird in the hand theory, dividend payments are more certain than potential future profits from good ESG implementation. On the other hand, some investors can assess ESG as an investment for the growth of company performance in the future. This result is also in accordance with previous research (Dahiya *et al.*, 2023; Matos *et al.*, 2020; Zahid *et al.*, 2023).

Audit quality can generally affect DPR through assurance of information presented in financial statements. Generally, big four public accounting firms have a better procedure in identifying audit risks to maintain their reputation. Therefore, it tends to have better audit quality than non-big four public accounting firms. Companies audited by big four public accounting firms generally also have higher resources with fund allocations for ESG, human resources, and technology. Therefore, public accounting firms with greater capacity are needed to audit its financial statements. Companies that conduct audits will have stricter supervision, better reporting quality, prudence in making financial estimates, a lower risk of misrepresentation, etc., that can be a positive signal for shareholders. Good audit quality can minimize information asymmetry, increase credibility, and increase transparency. This makes audit quality have a significant positive impact on the DPR.

However, the results of this study show that AQ cannot significantly moderate the role of ESG on DPR, then H4 is rejected. AQ cannot increase the influence of ESG on the DPR because the auditor has not focused on the assessment of ESG during the sample period. IFRS sustainable disclosure standards S1 & S2 as audit indicators will be effectively apply starting from 2024. As a result, disclosure of information related to ESG in the 2020-2023 period has not been tested by auditor. This result is in line with research from Zahid *et al.* (2023) which states that when assurance is carried out by a big four public accounting firms as ESG moderation with the DPR, no significant influence is found. Most of the samples have also been audited by a big four public accounting firms with better assurance potential based on the credibility they have. In the last few periods, it was found that there was a decline in audit quality by the big four public accounting firms. ASIC (2022) found that in the 2021-2022 period, Deloitte had 50% negative findings, followed by KPMG at 48%, PwC at 17%, and EY at 15%. Details of this breakdown can be seen in table 10 below.

Table 7 provide an overview of why good audit quality still cannot increase the influence of ESG on DPR. As time goes by, audits by big four public accounting firms do not guarantee a better quality than non-big four public accounting firms. Furthermore, AQ as a homologizer moderator has been proven unable to increase the influence of ESG on DPR. However, Zahid *et al.* (2023) found that audit quality moderates the relationship between ESG and DPR significantly negative. It was found that big four public accounting firms have lost their credibility by 57% due to high employee turnover (Arora, 2020). Zahid *et al.* (2023) also stated that the negative effect of good audit quality on dividends has been treated as a form of premium cost. Differences in results can be found in different environments.

In model 5, it is found that DPR cannot significantly affect TOBINSQ, while AQ as the moderating variable can significantly positive affect TOBINSQ. This makes AQ a homologizer moderator. DPR does not significantly influence TOBINSQ in model 5 can be influenced by other factors, such as the existence of the AQ variable as a moderator. Good audit quality can increase the credibility of information which can increase stake-holder confidence in the information presented in the financial statements. Through this financial information, stakeholders can assess the firm value and future performance prospects of the company. Therefore, audit quality is an aspect that investors pay attention to in assessing firm value. These results are in line with Bakri (2021). However, the moderation of AQ with DPR in influencing TOBINSQ has not been able to provide significant results. The results of this study are in line with research conducted by Diab *et al.* (2024) which found that although audit quality has a significant positive effect on firm value, the interaction between audit quality and dividends is not significant for firm value. AQ cannot increase the influence of DPR on TOBINSQ because of poor audit quality in developing countries. Generally, poor audit quality caused by a lack of professionalism and independence of auditors, non-compliance with applicable audit stan-dards, and ineffective audit rotation. In practice, it is common for companies to move from one public accounting firms to another but are still audited by the same auditor. As a result, professional skep-ticism is reduced and auditors become less sensitive to the information being audited. In this case, it can be concluded that public accounting firms cannot be a guarantee of good audit quality. Good audit quality must be followed by professionalism and independence of the auditor. Therefore, good audit quality is needed to find out the actual condition and prospects of the company. This is done to reduce infor-mation asymmetry and agency problems.

To confirm the result of this study, robustness test is conduct by having each ESG components as an independent variable and regressed with the same dependent variables. Rechecking the value of ESG score provided by Bloomberg with the calculation of ESG score from each component has also been done. It is done to have a better view of how ESG affected dividend policy and firm value.

Based on the linear regression analysis and discussion of the results of the five models, the results of the hypothesis test that have been analyzed can be seen in Table 8. From Table 8 it can be seen that the accepted hypothesis is H1b and H3 which means that ES has a positive effect on dividends and dividends have a positive effect on firm value.

CONCLUSION AND RECOMMENDA-TION

Increasing public awareness of the importance of ESG supported by OJK regulations has caused various companies, especially companies that have been listed on the IDX to include ESG in formulating strategies. ESG can improve brand image and firm value, while can also cause a decrease in profits which has an impact on dividend policy and firm value. In this research, it is examined the effect of ESG towards company performance which reflected in dividend policy and firm value while also testing the impact of having good audit quality on the relationship between ESG, dividend policy, and firm value.

Table 6. Multiple Linear Regression Results Model 1-5

Variable	Model 1		Model 2		Model 3		Model 4		Model 5	
	Dep Var = DPR		Dep Var = TOBINSQ		Dep Var = TOBINSQ		Dep Var = DPR		Dep Var = TOBINSQ	
	B	t-stat	B	t-stat	B	t-stat	B	t-stat	B	t-stat
ESGS	0.002	0.296	0.060	1.270			0.002	0.910*		
ES	0.005	2.416***	0.015	1.275						
SS	-0.002	-0.605	-0.026	-1.218						
GS	-3.994×10^{-4}	-0.146	-0.025	-1.454*						
DPR					1.277	3.351***			0.204	0.238
AQ							0.141	1.337*	0.446	1.347*
ESGS*AQ							0.002	0.675		
DPR*AQ									0.983	1.024
SIZE	0.020	1.402*	-0.397	-4.458***	-0.275	-3.483***	0.008	0.582	-0.337	-4.088***
LEV	0.043	0.503	0.444	0.835	-8.967×10^{-4}	-0.002	0.022	0.259	0.231	0.436
ROA	0.519	3.889***	4.125	4.997***	4.140	4.824***	0.556	4.238***	4.195	4.925***
F-Stat	11.05***		10.97***		15.05***		14.62***		11.20***	
Adjusted R^2	0.22		0.22		0.18		0.25		0.2	

Source: JASP
Notes: *** : Significant at 1%
** : Significant at 5%
* : Significant at 10%

Table 7. Negative Findings of Audit Review by big-4 Public Accounting Firms

Public Accounting Firms	2021-2022			2020-2021		
	Negative Findings	Audit Review Scope	Percentage	Negative Findings	Audit Review Scope	Percentage
Deloitte	9	18	50%	5	17	29%
KPMG	13	27	48%	8	27	30%
PwC	4	24	17%	5	20	25%
EY	4	26	15%	2	30	7%

Source: ASIC (2022)

Table 8. Research Result

Hypothesis		Estimate	p
H1a	ESG Score → Dividend Policy	0.296	0.384
H1b	Environmental Score → Dividend Policy	2.416	0.008***
H1c	Social Score → Dividend Policy	-0.605	0.273
H1d	Governance Score → Dividend Policy	-0.146	0.442
H2a	ESG Score → Firm Value	1.270	0.103
H2b	Environmental Score → Firm Value	1.275	0.102
H2c	Social Score → Firm Value	-1.218	0.112
H2d	Governance Score → Firm Value	-1.454	0.074*
H3	Dividend Policy → Firm Value	3.351	< 0.001***
H4	ESG Score→Audit Quality → Dividend Policy	0.675	0.250
H5	Dividend Policy→ Audit Quality → Firm Value	1.024	0.154

Source: JASP, Processed

Notes:

*** : Significant at 1%

** : Significant at 5%

* : Significant at 10%

The results of this study indicate that ESG cannot affect dividends. However, ES has a positive effect on DPR. ES is an aspect that is considered because environmental issues have become a concern for various stakeholders, including the government. Meanwhile, SS and GS have not been able to significantly influence DPR because their implementation is still inefficient, agency problems, and so on. ESG and its components also cannot significantly positively influence firm value. Investment in ESG takes around 6-10 years to affect firm value (Seth & Mahenthiran, 2022). The policies and practices carried out have not provided positive signals or met stakeholder expectations. As a result, the influence of ESG, ES, and SS is not significant. GS can significantly affect TOBINSQ, but in a negative way. This indicates that the agency problem that occurs causes a decrease in firm value.

The results of the test on dividends against firm value prove that DPR positively affects firm value. In accordance with the bird in the hand theory, investors prefer dividend distribution compared to the company's potential growth which is still uncertain. It can be concluded that investors on the IDX tend to have a preference for investing in companies that distribute dividends. In this study, it was found that although audit quality has a significant positive effect, audit quality still cannot significantly moderate the effect of ESG on DPR and DPR on firm value. AQ cannot moderate the effect of ESG on DPR because in the sample period ESG was still not within the scope of the auditor. Meanwhile, AQ cannot moderate the effect of DPR on TOBINSQ can be caused by the insignificant effect of DPR on TOBINSQ, causing good audit quality not to affect the firm value assessment indicator. Furthermore, poor audit quality in developing countries make AQ not be able to moderate the effect of financial or non-financial information significantly positive.

This study still has limitations that can be developed. The limitations in question include Limited to companies listed on the IDX with ESGS, ES, SS, and GS on Refinitiv for 4 years, which are 2020-2023; The ESG issue is new and there are companies that have not been able to carry out ESG practices efficiently; and Auditors have not considered ESG factors in assessing company’s information on 2020-2023. The author recommends various recommendations for further research in order to accommodate the limitations of this study. Further research recommendations by Conducting research comparing the effectiveness of ESG implementation before and after SEOJK Number 16 / SEOJK.04 / 2021 and POJK Number 51 / POJK.03 / 2017 were enacted; Examining the impact of audit quality as a moderation on ESG and DPR in 2024 and beyond to determine the effectiveness of the implementation of IFRS sustainable disclosure; and Testing other variables, such as earnings management, EPS, digitalization, and artificial intelligence that can affect dividend policy and firm value assessment.

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