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ESG performance and dividend policy: The moderating role of family ownership in Indonesia

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ABSTRACT

This study examines the effect of ESG performance on dividend policy and analyzes the moderating role of family ownership in Indonesian non-financial firms. Using a quantitative approach, multiple linear and moderated regression analyses were conducted on data from 208 firms listed on the IDX between 2019 and 2023, sourced from OSIRIS, Bloomberg, and company reports through purposive sampling. The findings show that ESG performance positively and significantly affects dividend policy, supporting stakeholder theory that emphasizes corporate responsibility and long-term stability. However, family ownership weakens this positive relationship, aligning with agency theory's Type II conflict between controlling and minority shareholders. These results suggest that regulators, investors, and managers should consider ownership structure when developing dividend and sustainability policies. This study contributes novel empirical evidence by integrating ESG performance, dividend policy, and family ownership within a single framework in Indonesia's emerging market, where family control remains prevalent.

Introduction

The country's high potential for investment has attracted significant attention from both domestic and foreign investors. Indonesia ranks as the second-largest destination for digital investment in Southeast Asia, with a total investment value of USD 22 billion in 2023 (KOMDIGI, 2024). This surge in investments has contributed to the growth and development of the Indonesian economy. As a result, companies are expected to continue improving their performance to maintain investor interest and trust. In financial terms, investors expect to generate returns through di vidends or capital gains. Usually paid out at the General Meeting of Shareholders (GMS) at the conclusion of the fiscal year, dividends frequently seen as an indication of strong business performance and are interpreted by investors as a signal about the company's prospects for the future.

Dividend payouts also reflect a company's commitment to fulfilling the interests of its shareholders. However, there is often conflict of interest between investor, who expect high dividend payments, and management, which prefer to hold retain profit for reinvestment. This dynamic makes dividend policy formulation critical in guiding investment decisions. The question arises: What factors influence a company's dividend policy decisions?

Environmental issues, particularly pollution, have become a focal point of global discussions. Many countries are working together to achieve the Sustainable Development Goals (SDGs) by 2030. As part of this global effort, Indonesia has joined the 40th UNESCO General Conference since 2019. Despite these efforts, Indonesia still ranks as the 14th most polluted country in 2023, according to IQAir, due to high operational activities from industries such as factories. This has raised concerns over the responsibility of companies in mitigating environmental damage while contributing to economic growth.

One approach to mitigating environmental impacts is through the adoption of ESG practices. Since 2020, the Indonesian Financial Services Authority (OJK) has required all publicly listed firms to issue a separate sustainability report in addition to their annual financial statements. This regulation aligns with growing consumer expectations for businesses to operate responsibly. The rise in environmentally conscious consumers recorded at 112% growth (Babbage, 2020). The significance of businesses incorporating ESG into their strategic choices has been further emphasized by it.

ESG has increasingly become a pivotal factor for both corporations and investors. Sustainability reports give businesses a forum to share their ESG initiatives and results, while investors are expected to utilize such

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information to evaluate potential risks and opportunities. ESG plays a role in building and strengthening trust-based relationships with various stakeholders, such as employees, consumers, local communities, environmental activists, and other concerned citizens. This trust-based relationship is considered essential for supporting the firm's long-term success and financial stability (Jones, 1995), and it subsequently influences the company's dividend policy strategy. This is consistent with prior studies that document a positive effect of ESG performance on corporate dividend policy (Almulhim et al., 2024; Benlemlih, 2019; Buertey et al., 2020; Cheung et al., 2018; Dahiya et al., 2023; Sheikh et al., 2022; Zadeh, 2021). Benlemlih (2019) finds that firms with high ESG performance tend to distribute larger dividends compared to firms with lower ESG performance scores, and that socially responsible companies are more likely to adopt more stable dividend policies. Ellili (2022) also reports that ESG performance has a significantly positive effect on dividend payout ratios. Firms that are more transparent in their ESG performance tend to pay higher dividends.

Findings regarding the relationship between ESG performance and dividend policy remain highly debated, as several studies have reported that ESG performance disclosure may in fact exert a negative effect on corporate dividend policy. Zahid et al. (2023) find that although ESG performance scores contribute to an increase in dividend payments, there is a significant negative impact on dividend growth. This suggests that investments in ESG practices may slow the future growth rate of dividends. Similarly, Chen et al. (2024) report that the mandatory implementation of ESG reporting has a negative effect on firms' dividend payout ratios. Their study shows that following the adoption of the mandatory reporting policy, there was a significant decline in dividend payout ratios, with an average reduction of approximately 25%.

These inconsistent results serve as the motivation for this research, which investigates the linkage between ESG and dividend policy in the Indonesian context. Additionally, the study investigates how family ownership may moderate this link. Ownership structure is a key component of corporate governance that significantly shapes a firm's accounting practices, earnings management, and dividend distribution. Family ownership is particularly relevant in Indonesia, where approximately 95% of companies are family controlled, contributing 82% to the national GDP and 40% to total market capitalization (Dewi, 2022). Despite this dominance, limited studies have assessed how family ownership influences the link between ESG and dividend policy.

Attig et al. (2021) find that family firms tend to pay lower dividends compared to non-family firms. During the 2008–2009 financial crisis, the negative effect of family ownership on dividend payout ratios became even more pronounced, indicating that controlling families were more likely to reduce or even eliminate dividends in times of crisis. Their study also reveals that family firms with more pronounced agency problems characterized by high free cash flow tend to pay lower dividends. On the other hand, Sikalidis et al. (2022) find a U-shaped relationship between family ownership and dividend policy. At low levels of family ownership, an increase in ownership reduces dividend payments; however, after surpassing a certain threshold, dividend payments begin to increase. Additionally, family ownership reduces the likelihood of violating minimum dividend requirements (MDR) at lower ownership levels, but increases this likelihood at higher levels.

In order to assess how ownership structure influences dividend policy outcomes, this study uses family ownership as a moderating variable. Family firms are often guided by the concept of socioemotional wealth (SEW), which may lead them to prioritize intergenerational objectives and long-term stability over immediate financial returns, potentially reducing dividend payouts in favour of reinvestment. The findings are expected to offer practical insights for investors in evaluating firms' sustainability and financial strategies. As ESG practices and reporting frameworks are still in their infancy, this study also contributes to enrich the literature on corporate governance and sustainability in Indonesia by highlighting the connection between ESG performance, dividend policy, and ownership structure.

The novelty of this study lies in the introduction of family ownership structure as a moderating variable in the relationship between ESG performance and dividend policy. To the best of the researcher's knowledge, no existing studies, particularly within the Indonesian context, have examined how family ownership may strengthen or weaken the influence of ESG performance on corporate dividend decisions. This provides a new empirical contribution by integrating governance characteristics with sustainability performance in explaining dividend behavior.

A framework for analyzing the relationship between dividend policy and ESG performance is offered by stakeholder theory. This theory asserts that corporations are not solely accountable to shareholders but must also create value for all component of stakeholders including civil society, communities, customers, employees, governments, suppliers, and shareholders themselves whose interests and support are essential for long-term sustainability and success (Sarturi et al., 2025). Donaldson and Preston (1995) explained three theoretical approaches to stakeholder management: descriptive, instrumental, and normative. Within this framework, the instrumental perspective is particularly relevant, as it emphasizes that effective stakeholder management can enhance financial performance. Businesses that actively participate in ESG typically have higher levels of stakeholder trust, which translates into customer loyalty, improved employee productivity, enhanced reputation, and easier access to external financing (Pramesti et al., 2024). These outcomes ultimately increase firm value and reduce financial risk.

A company's ability to pay out dividends is boosted by increased firm value and better financial performance. As a result, companies with high ESG scores are better equipped to put in place dividend policies that are consistent, dependable, and advantageous to shareholders. From the shareholder perspective, dividends serve not only as a return on investment and compensation for bearing business risks but also as an important indicator of management's commitment to balancing stakeholder interests. Thus, robust ESG practices indicate that a company is managed responsibly and has the capacity to fulfill its commitments to various stakeholders, including shareholders, by maintaining consistent and favorable dividend distributions.

Literature Review

Stakeholder Theory

Stakeholder Theory, first introduced by Freeman (2010), posits that firms must create value for all stakeholders including employees, customers, communities, governments, shareholders, and suppliers rather than prioritizing shareholders alone. Long-term organizational success depends not only on profitability but also on strong stakeholder relationships Donaldson and Preston (1995) further emphasize that firms have a moral obligation to consider stakeholder inte rests, and that effective stakeholder management can enhance long-term financial performance through descriptive, instrumental, and normative perspectives.

Building on this view, Philips et al. (2003) argue that Stakeholder Theory provides a comprehensive framework for understanding and managing diverse stakeholder interests, extending beyond corporate social responsibility to broader issues of ethics and sustainability. Stakeholders increasingly demand transparency in social, environmental, and governance practices (van der Laan Smith et al., 2005), prompting firms to adopt ESG disclosures as a form of accountability.

Within the context of dividend policy, Stakeholder Theory suggests that ESG performance shapes how firms allocate their earnings. Barnett and Salomon (2006) state that investors tend to avoid investing in firms perceived as failing to meet certain corporate social responsibility (CSR) standards. Companies with strong ESG performance are more likely to attract investors who value sustainability and responsible business practices. Berman et al. (1999) explain that management practices oriented toward stakeholders can enhance financial performance. Such practices strengthen stakeholder trust and improve a firm's financial stability, thereby enabling more consistent dividend distributions. Conversely, firms that neglect ESG performance risk losing investor confidence, which may lead to greater earnings volatility and more conservative dividend policies. Thus, ESG performance not only enhances long-term firm value but also influences dividend decisions to align with stakeholder expectations.

Agency Theory

Smith (2019) was the first to suggest the presence of agency problems, noting that when organizations are managed by non-owners, managers may not act in the best interests of owners. Agency conflicts arise because principals are willing to bear risks for economic gain, while agents tend to be more risk-averse and prioritize their own interests. Jensen and Meckling (1976) formally developed agency theory, explaining that divergent objectives between owners and managers create agency costs, which principals attempt to mitigate through monitoring mechanisms.

Researchers in economics and finance have categorized agency problems into three types. First, conflicts between principals and agents arising from information asymmetry and differing attitudes toward risk-sharing (Jensen & Meckling, 1976; Ross, 1973). Second, conflicts between majority and minority shareholders, which occur when majority owners make decisions that benefit themselves at the expense of minority shareholders (Gilson & Gordon, 2003; Shleifer & Vishny, 1997). Third, conflicts between owners and creditors, which emerge when owners undertake high-risk investments that conflict with creditors' interests.

Type II agency conflicts arise in firms with concentrated ownership, where tensions occur between majority shareholders, who hold control over the firm, and minority shareholders, who lack such control. Majority shareholders are individuals or groups holding a substantial portion of shares, whereas minority shareholders hold relatively small stakes. Due to their greater voting power, majority shareholders can make decisions that favor their own interests, often at the expense of minority shareholders (Fama & French, 2001). Such agency conflicts are common in countries or firms with concentrated ownership structures, including family firms, where minority shareholders often face challenges in safeguarding their interests and wealth (Demsetz & Lehn, 1985).

The influence of ESG performance on dividend policy

The relationship between ESG performance and dividend policy can be explained through stakeholder theory, which posits that firms create value for a wide range of stakeholders who influence or are affected by corporate activities (Freeman, 2010). Strong stakeholder management enhances trust and improves financial performance, as highlighted in the instrumental perspective of the theory (Donaldson & Preston, 1995). Improved financial performance enables firms to distribute earnings more consistently, supporting a stable and favorable dividend policy for shareholders.

From a stakeholder-oriented view, dividends represent a key benefit for shareholders. Firms committed to meeting stakeholder expectations reflected through strong ESG performance are more likely to maintain responsible governance and adopt stable dividend policies. High ESG performance signals that a company effectively addresses stakeholder demands, including those of shareholders, thereby reinforcing its commitment to dividend distribution.

This theoretical perspective is reinforced by empirical findings. According to research by Shah and Shome (2025), companies with more robust CSR commitments typically pay out bigger and more consistent dividends than those with less robust CSR engagement. Similarly, Matos et al. (2020), in their research in European firms, shown that increased ESG is linked to dividend stability, with the environmental and governance dimensions having the strongest effects and the social dimension having the least impact. Ellili (2022) adds that transparent ESG disclosure positively contributes to dividend payout ratios, as companies with greater transparency in disclosure tend to reward shareholders with larger dividends. More recent studies (Almulhim et al., 2024; Buertey et al., 2020; Sheikh et al., 2022) reinforce these results, consistently demonstrating companies with high ESG distribute larger dividends. When combined, these theoretical and empirical findings have demonstrated that ESG significantly influences dividend policy by strengthening stakeholder connections, increasing business value, and telling shareholders that management is accountable.

H_1: ESG performance has a positive effect on dividend policy.

ESG performance, dividend policy, and family ownership

A concept known as agency theory may be used to examine how family ownership influences the interactions between dividend policy and ESG. According to Alchian and Demsetz (1972), firms are legal entities managing individual contracts that often lead to agency disputes. While later studies highlight conflicts between majority–minority shareholders (Cappellieri et al., 2025; Truong, 2025) and owners–creditors (Cao et al., 2025; Jiang & Ma, 2025). Stress information asymmetry between principals and agents. This study adopts the second type of agency conflict namely, the conflict between majority and minority shareholders to develop the hypothesis regarding the moderating role of family ownership in the relationship between ESG performance and dividend policy.

Family ownership, defined as shareholdings exceeding 50% held by a family (Wei & Chen, 2022), is characterized by the influence of socioemotional wealth (SEW) and non-monetary advantages such dynastic continuity, family influence, and identity (Calabrò et al., 2025; Gómez-Mejía et al., 2025; Rodrigues et al., 2025). Although SEW makes the family more devoted to the company, it also makes agency conflicts more likely since dominating families could put their own interests ahead of those of minority shareholders. Regarding dividend policy, family-controlled firms often prefer conservative payouts, retaining earnings to preserve family wealth and reinvest in the business rather than distributing them to shareholders. Although good ESG performance generally enhances stakeholder trust and encourages stable dividend policies, this positive effect may be weakened in family firms where controlling owners prioritize socioemotional goals over external stakeholder expectations.

Prior research supports the view that family ownership negatively affects dividend policy. Attig et al. (2021) found that family firms pay lower dividends than non-family enterprises, with the effect intensifying during the 2008–2009 financial crisis. Similarly, Jansen et al. (2023) reported that families often retain earnings to maintain control over resources in the company. There is consistent evidence from several research such as Badru and Qasem (2024) and Laksana et al. (2024) showing dividend distribution is significantly harmed by family control. Moreover, family ownership has been previously used as a moderating variable in related contexts, such as moderating the relationship between gender diversity and dividend payout (Kalia, 2025) or between CEO effect and R&D investment decisions (Delgado-García et al., 2023). In line with this reasoning, this study proposes that family ownership weakens the positive effect of ESG performance on dividend policy, as controlling families may favor internal wealth preservation and strategic investments over shareholder payouts.

H_2: Family ownership weakens the positive relationship between ESG performance and dividend policy.

Research Method

This study uses a quantitative technique to investigate the link between dividend policy and ESG, taking family ownership into account as a moderating factor. The analysis relies on secondary data collected from financial statements, sustainability disclosures, and databases such as OSIRIS and Bloomberg. A purposive sampling method was applied to select non-financial firms listed on IDX during the 2019–2023 period, with the dataset drawn from IDX records (Table 1). IBM SPSS Statistics 26 was used to analyze the data using multiple linear regression (MLR) and moderated regression analysis (MRA).

Dividend Payout Ratio (DPR) serves as a proxy for dividend policy. ESG performance assessed using Bloomberg ESG scores that are derived from publicly available information regarding firms' ESG practices. Higher scores represent stronger sustainability performance. A firm is classified as family-owned when more than 50% of its shares are held by the family. Since family-controlled businesses may place a higher priority on long-term continuity and reinvestment than on the immediate payment of dividends, this variable is used to assess its moderating influence on the relationship between ESG performance and dividend policy. In addition, several control variables are incorporated to account for external factors that could influence dividend policy, ensuring a clearer estimation of the effect of ESG performance. These control variables include retained earnings (RE), cash holdings, firm size, and ROA (Sheikh et al., 2022).

Dependent variable

The dependent variable is dividend policy, measured using the Dividend Payout Ratio (DPR). DPR reflects the proportion of net income distributed to shareholders and is calculated as total dividends paid divided by total earnings available to common shareholders (Gitman & Zutter, 2012). DPR data for 2019–2023 are obtained from OSIRIS.

Independent variable

The independent variable is the ESG Performance Score. ESG scores provide an objective assessment of a firm's environmental, social, and governance performance, widely used by managers and investors (Lusk & Wells, 2021; Miller, n.d.). This study uses Bloomberg ESG Scores, which emphasize disclosure transparency. Scores range from 0–100 based on firm-reported ESG information across annual reports, sustainability reports, and public sources.

Moderating variable

The moderating variable is family ownership (FAMOWN), measured using the cash-flow rights approach, which captures the actual proportion of economic benefits obtained by shareholders (La Porta et al., 1999). A firm is classified as family-owned if at least 50% of its shares are held by a family (Sindhuja, 2010). A dummy variable is used: 1 (family ownership ≥ 50%) and 0 (otherwise). Ownership data are sourced from OSIRIS.

Retained earnings ratio

Retained earnings represent the portion of profits reinvested into the firm rather than distributed as dividends. Expressed as a ratio to total equity, this measure reflects the firm's reinvestment strategy and influences dividend policy, as firms with higher retained earnings possess greater flexibility in balancing reinvestment and shareholder payouts (DeAngelo et al., 2006; La Porta et al., 2000). The ratio is calculated as retained earnings divided by total equity (Yusra et al., 2019).

Cash holding ratio

Cash holdings capture the firm's liquidity position and its capacity to meet short-term obligations or pursue investment opportunities (Opler et al., 1999). Firms with larger cash reserves are typically more able to distribute dividends. To control for liquidity effects, cash holdings are measured as cash and cash equivalents divided by total assets (Amess et al., 2015; Gill & Shah, 2011; Margaretha, 2020).

Firm size

Firm size, commonly measured using the natural logarithm of total assets, reflects the scale of operations and affects access to external financing and dividend-paying capacity (Brigham & Houston, 2011). Larger firms generally benefit from better financing opportunities and cost efficiencies, which can increase dividend payments. The measure follows prior studies (Ionita & Dinu, 2021).

Return on Assets (ROA)

ROA indicates how effectively a firm uses its assets to generate profit (Brigham & Ehrhardt, 2016). As profitability strongly shapes dividend decisions, ROA is included as a control variable and is computed as net income divided by total assets.

Regression Equation

$$DIVit = \alpha + \beta 1ESGit + \beta 2REit + \beta 3CASHit + \beta 4\, SIZEit + \beta 5\, ROAit + \varepsilon it \quad (1)$$

$$DIVit = \alpha + \beta 1\, ESGit + \beta 2\, FAMOWNit + \beta 3\, REit + \beta 4\, CASHit + \beta 5\, SIZEit + \beta 6\, ROAit + \varepsilon it \quad (2)$$

$$DIVit = \alpha + \beta 1\, ESGit + \beta 2\, FAMOWNit + \beta 3\, (ESGit \times FAMOWNit) + \beta 4\, REit + \beta 5\, CASHit + \beta 6\, SIZEit + \beta 7\, ROAit + \varepsilon it \quad (3)$$

Where:

α	: Constant
DIV	: Dividend Payout Ratio (DPR)
FAMOWN	: Family Ownership, proxied by a dummy variable (1;0)
ESG	: ESG Performance
RE	: Retained Earnings Ratio
CASH	: Cash Holding Ratio
SIZE	: Firm Size
ROA	: Return on Assets
i	: Firm
t	: Year
ε	: Error Term

Sample of research:

Table 1. Calculation of the Number of Research Samples.

Description	2019	2020	2021	2022	2023	Total
Non-financial companies on the IDX in the 2019-2023 time period.	553	590	634	682	747	3206
Companies that did not receive an ESG Performance score from Bloomberg.	-519	-553	-578	-623	-695	-2968
Companies that do not disclose complete data in their financial reports and sustainability reports	-3	-5	-6	-8	-8	-30
Total	31	32	50	51	44	208

Table 2 presents the variable measurements employed in this study. Dividend payout ratio (DPR) serves as the dependent variable measuring dividend policy, while ESG performance, measured using Bloomberg ESG performance scores, functions as the independent variable. Family ownership (FAMOWN) acts as the moderating variable, operationalized as a dummy variable (1 = family ownership ≥ 50%, 0 = otherwise). The study incorporates several control variables to account for firm-specific characteristics: retained earnings ratio, cash holding ratio, firm size (natural logarithm of total assets), and return on assets (ROA). As indicated in Table 2, data are primarily sourced from OSIRIS, with ESG performance data obtained from Bloomberg.

Table 2. Variabel Measurements

Variables	*Measurement*	Source
Dependent Dividend policy (DIV)	Dividend Payout Ratio (DPR)	OSIRIS
Independent ESG Performance	Bloomberg ESG performance score	Bloomberg
Moderate FAMOWN	Dummy variable; 1 = family ownership ≥ 50%, 0 = otherwise.	OSIRIS.
Control		
Retained Earnings Ratio	Retained Earnings/Total Equity	OSIRIS.
Cash Holding Ratio	Cash and cash equivalents/Total assets	OSIRIS.
Firm Size	Firm Size$(SIZE) = Ln\ (Total\ Aset)$	OSIRIS.
Return on Assets	Net profit/Total Assets	OSIRIS

Results and Discussion

Descriptive Statistic

Table 3 shows the result of descriptive statistic analysis on research variable. Based on 208 firm observations that met the sampling criteria, the descriptive statistics reveal substantial variation across the study variables. ESG performance exhibits a relatively homogeneous distribution with a mean of 46.43, indicating that most firms fall around a moderate level of ESG engagement. In contrast, the retained earnings ratio displays high variability including extreme negative values reflecting significant differences in firms' capacity to accumulate internal funds. Both the cash holding ratio and firm size show more homogeneous patterns, suggesting consistent liquidity positions and asset scales among companies. ROA, however, demonstrates wide dispersion, capturing firms that experienced severe losses as well as sharp recoveries within a year. Dividend payout ratios also vary considerably, ranging from firms that distributed no dividends to those paying amounts exceeding their net income. Regarding ownership structure, only 14.4% of firms exhibit family ownership, indicating that the sample is largely dominated by non-family-owned companies.

Table 3. Descriptive Statistic

Varaiable	N	Minimum	Maximum	Mean	Std. Deviation
ESG	208	16.447000	75.757000	46.426875	13.076066
RE	208	-23.036045	2.671187	-0.149726	2.695642
CASH	208	0.004703	0.704613	0.148367	0.133543
SIZE	208	6.085480	16.132950	14.127675	1.493234
ROA	208	-57.830000	59.950000	4.857067	9.446368
DPR	208	0.000000	147.752000	8.485615	24.238630
FAMOWN	208	0.000000	1.000000	0.144230	0.352171

Table 4. Descriptive Statistics of Dummy Variable Frequency (FAMOWN)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.000000	178	85.6	85.6	85.6
	1.000000	30	14.4	14.4	100.0
	Total	208	100.0	100.0	

MLR is used in this study to examine the result of hypothesis 1. Table 4 presents results of the MLR.

Table 5. MLR Test Results

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	-18.400	15.786		-1.166	0.245
ESG	0.445	0.138	0.240	3.213	0.002*
RE	0.926	0.646	0.103	1.432	0.154
CASH	16.408	13.524	0.090	1.213	0.226
SIZE	0.200	1.189	0.012	0.169	0.866
ROA	0.229	0.186	0.089	1.232	0.219

*: has a significant effect

The regression analysis shows that ESG performance (β = 0.445; p = 0.002) has a significant positive impact on dividend policy, while the control variables are insignificant. This finding provides support for Hypothesis 1 (H1). This study affirms stakeholder theory, which posits that organizations must strive to create value for a wide range of stakeholder's individuals or groups who can influence or are affected by organizational activities such as civil society, customers, and shareholders. In its instrumental form, as articulated by Donaldson and Preston (1995), stakeholder theory views stakeholder-oriented practices as mechanisms for achieving organizational goals, particularly improved financial performance. Meeting stakeholder needs through stronger ESG performance enhances firms' financial outcomes, thereby enabling them to distribute dividends and adopt more stable, shareholder-friendly dividend policies. The theory further emphasizes that firms must demonstrate a strong commitment to fulfilling stakeholder interests. High ESG performance reflects such commitment and signals sound governance in addressing stakeholder expectations. Consequently, firms with strong ESG performance are more likely to uphold shareholders' rights specifically through dividend distribution as part of their broader stakeholder responsibilities. This study substantiates this theoretical perspective by showing that firms with superior ESG performance exhibit higher commitment and governance capability in meeting stakeholder needs, including the dividend-related interests of shareholders.

These findings are consistent with prior research. Matos et al. (2020) show that firms with higher ESG pay larger and stable dividends, with governance and environmental aspects driving greater dividend stability. Ellili (2022) further demonstrates that transparency in ESG disclosure enhances payout ratios by fostering investor trust. Recent studies (Almulhim et al., 2024; Buertey et al., 2020; Sheikh et al., 2022) similarly conclude that sound governance mechanisms improve dividend capacity. However, this study diverges from Zahid et al. (2023) and Chen et al. (2024), who find a negative relationship between ESG and dividend payouts. These differences may stem from methodological variations, such as data sources (Refinitiv vs. Bloomberg) and ESG assessment criteria, where Refinitiv includes controversy scores that lower ESG ratings, while Bloomberg emphasizes transparency and disclosure.

Additionally, this study evaluates the moderating effect of family ownership using MRA. Two models were employed: Model 2 tested the direct effect of family ownership on dividend policy when considered as an

independent variable, while Model 3 evaluated its moderating influence on the relationship between ESG performance and dividend policy. Table 5 reports the results of the model 2 and table 6 reports the results of the model 3. Table 5 and table 6 yields the regression model equation that follows:
Model 2:

$$DIV_{it} = -16.478 + 0.415ESG_{it} - 7.118FAMOWN_{it} + 1.007RE_{it} + 17.298CASH_{it} + 0.222SIZE_{it} + 0.236ROA_{it} + \varepsilon$$

Model 3:

$$DIV_{it} = -24.462 + 0.545ESG_{it} + 21.085FAMOWN_{it} - 0.652ESG_{it} * FAMOWN_{it} + 0.992RE_{it} + 15.442CASH_{it} + 0.374SIZE_{it} + 0.232ROA_{it} + \varepsilon$$

Table 6. Results of the Direct Influence Test of Family Ownership

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	-16.478	15.783		-1.044	0.298
ESG	0.415	0.139	0.224	2.984	0.003*
RE	1.007	0.646	0.112	1.558	0.121
CASH	17.298	13.491	0.095	1.282	0.201
SIZE	0.222	1.185	0.014	.188	0.851
ROA	0.236	0.185	0.092	1.274	0.204
FAMOWN	-7.118	4.638	-.103	-1.535	0.126

*: has a significant effect

Table 7. Results of the Moderated Effect of Family Ownership.

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	-24.462	16.097		-1.520	0.130
ESG	0.545	0.151	0.294	3.610	0.000*
RE	0.992	0.641	0.110	1.547	0.123
CASH	15.442	13.405	0.085	1.152	0.251
SIZE	0.374	1.177	0.023	0.318	0.751
ROA	0.232	0.184	0.090	1.264	0.208
FAMOWN	21.085	14.102	0.306	1.495	0.136
ESG.FAMOWN	-0.652	0.308	-0.429	-2.116	0.036*

*: has a significant effect

The MRA findings show that family ownership has no direct impact on dividend policy. Table 5 report a coefficient of −7.118 with a significance value of 0.126. On the other hand, Table 6 shows that family ownership moderates the association between ESG and dividend policy, with a coefficient of −0.652 at a significance level of 0.036. This means that dividend policy is decreases by 0.652 for every unit increase in the interplay between ESG and family ownership. Hence, the evidence supports Hypothesis 2 (H2), confirming that family ownership substantially diminishes the positive association between ESG and dividend policy.

Regarding the role of family ownership, the findings show that dividend policy is directly impacted negatively but negligibly by family ownership (coefficient = -7.118, p = 0.126). However, when interacting with ESG performance, family ownership significantly weakens the positive relationship between ESG and dividend policy (coefficient = -0.652, p = 0.036). Thus, Hypothesis 2 (H2) is supported. This finding supports agency theory specifically the second type of agency conflict, which concerns the divergence of interests between majority and minority shareholders. The dispute between majority and minority shareholders, is explained by the results of agency theory (Cappellieri et al., 2025; Truong, 2025). Agency theory posits that majority shareholders may leverage their disproportionate control to shape corporate strategies in ways that primarily benefit themselves. In this study, family-owned firms are classified as majority shareholders, defined as those holding at least 50% of total shares. Such second-type agency conflicts are particularly prevalent in family-controlled firms due to the influence of socioemotional wealth (SEW). SEW creates a strong emotional and identity-based bond between the family and the firm, ultimately shaping strategic priorities. As a result, family firms tend to adopt more conservative dividend policies, driven by the desire to preserve family wealth and maintain long-term control. They prefer to retain earnings and reinvest internally to strengthen financial stability, thereby safeguarding the continuity of the business across generations. In family-controlled firms, socioemotional wealth (SEW) considerations (Gómez-Mejía et al., 2025; Rodrigues et al., 2025), often lead controlling families to prioritize long-term wealth preservation and generational continuity over shareholder payouts. The otherwise beneficial impact of ESG performance on dividend policy is therefore lessened by family businesses' propensity to implement conservative dividend policies, preferring to reinvest earnings rather than distribute them.

In summary, this study highlights that while ESG performance strengthens dividend policy through enhanced stakeholder trust and governance, family ownership weakens this effect due to agency conflicts and the pursuit of socioemotional wealth.

Additional Test

In the additional analysis, this study compares the influence of ESG performance on dividend policy, as well as the moderating role of family ownership, between firms in the energy sector and those in non-energy sectors. According to OJK (2023), the energy sector's strong linkage to environmental regulations and long-term investment commitments makes it a relevant baseline for such comparison. Using the energy sector as a reference point, this analysis examines how ESG management and its impact on dividend policy may differ across industries.

The Impact of ESG Performance on Dividend Policy in Energy vs. Non-Energy Sectors

Table 8. Result of Multiple Linear Regression in the Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sector Energy					
(Constant)	18.734	62.113		0.302	0.764
ESG	0.728	0.351	0.407	2.071	0.044*
RE	0.196	1.107	0.025	0.177	0.860
CASH	17.203	34.633	0.085	0.497	0.622
SIZE	-3.682	5.199	-0.141	-.708	0.482
ROA	0.370	0.455	0.141	0.813	0.420
R-Squared	0.192				
Adjusted R-Squared	0.110				
F-Statistic	2.336				0.056[b]

*: has a significant effect

Table 9. Result of Multiple Linear Regression in the Non-Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sector Non-Energy					
(Constant)	-14.998	17.607		-0.852	0.396
ESG	0.375	0.171	0.195	2.187	0.030*
RE	1.344	0.960	0.140	1.400	0.164
CASH	20.040	18.012	0.113	1.113	0.268
SIZE	0.211	1.275	0.014	0.166	0.869
ROA	0.116	0.225	0.044	0.517	0.606
R-Squared	0.071				
Adjusted R-Squared	0.038				
F-Statistic	2.168				0.061[b]

*: has a significant effect

Additional multiple regression analyses reveal that ESG performance positively affects dividend policy in both the energy and non-energy sectors. However, the level of significance differs: in the energy sector, the p-value is 0.044, while in the non-energy sector it is 0.030. Both are below the conventional 0.05 threshold, but the lower p-value in non-energy firms suggests that ESG performance has a stronger and more robust effect on dividend policy outside the energy sector.

This divergence may be explained by industry-specific characteristics. Energy companies, particularly those engaged in fossil fuel exploration and production, face more stringent environmental challenges due to the high environmental impact of their operations. Regulatory requirements and stakeholder expectations related to the environmental component of ESG are more complex in this sector than in non-energy industries. As a result, energy firms may achieve higher ESG scores, but these scores often reflect compliance rather than a genuine, long-term commitment to stakeholder interests. Consequently, high ESG performance in energy firms does not necessarily translate into stronger shareholder trust or significantly better financial performance, limiting its effect on dividend policy.

In contrast, non-energy companies may be better positioned to convert ESG performance into financial gains. The cost burden of ESG compliance tends to be lower in non-energy industries, and ESG investments may more directly enhance trust, profitability, and ultimately dividend payouts. Indeed, prior research by Veltri et al. (2023) suggests that in energy firms, the environmental dimension of ESG can even negatively affect profitability further dampening the dividend-enhancing effect of ESG in that sector.

Family Ownership as a Moderator of the ESG–Dividend Nexus Across Energy and Non-Energy Industries

Tabel 10. Results of the Test on the Direct Influence of Family Ownership in the Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sector Energy					
(Constant)	-6.518	61.468		-0.106	0.916
ESG	0.584	0.348	0.327	1.681	0.099*
RE	0.590	1.090	0.074	0.541	0.591
CASH	23.592	33.715	0.116	0.700	0.487
SIZE	-1.114	5.195	-0.043	-0.214	0.831
ROA	0.396	0.441	0.151	0.898	0.374
FAMOWN	-15.329	7.521	-0.267	-2.038	0.047*
R-Squared	0.257				
Adjusted R-Squared	0.164				
F-Statistic	2.764				0.022[b]

*: has a significant effect

Tabel 11. Moderation Test Results in the Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sektor Energi					
(Constant)	-25.352	64.398		-0.394	0.696
ESG	0.779	0.400	0.436	1.947	0.058*
RE	0.918	1.140	0.115	0.805	0.425
CASH	5.130	38.594	0.025	0.133	0.895
SIZE	-0.225	5.274	-0.009	-0.043	0.966
ROA	0.338	0.445	0.129	0.760	0.451
FAMOWN	16.262	32.976	0.283	0.493	0.624
ESG*FAMOWN	-0.625	0.635	-0.579	-0.984	0.330
R-Squared	0.272				
Adjusted R-Squared	0.163				
F-Statistic	2.506				0.028[b]

*: has a significant effect

Tabel 12. Results of the Test on the Direct Influence of Family Ownership in the Non-Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sektor Non Energi					
(Constant)	-14.127	17.941		-0.787	0.432
ESG	0.361	0.179	0.188	2.020	0.045*
RE	1.364	0.966	0.142	1.413	0.160
CASH	20.157	18.076	0.113	1.115	0.267
SIZE	0.206	1.279	0.014	0.161	0.872
ROA	0.115	0.225	0.044	0.508	0.612
FAMOWN	-1.788	6.442	-0.024	-0.278	0.782
R-Squared	0.071				
Adjusted R-Squared	0.032				
F-Statistic	1.807				0.102[b]

Tabel 13. Moderation Test Results in the Non-Energy Sector

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
Sektor Non Energi					
(Constant)	-19.684	18.404		-1.070	0.287
ESG	0.417	0.184	0.216	2.270	0.025*
RE	1.392	0.964	0.145	1.445	0.151
CASH	23.001	18.165	0.129	1.266	0.208
SIZE	0.378	1.283	0.026	0.295	0.769
ROA	0.157	0.227	0.060	0.692	0.490
FAMOWN	26.136	22.468	0.346	1.163	0.247
ESG*FAMOWN	-0.779	0.600	-0.376	-1.297	0.197
R-Squared	0.082				
Adjusted R-Squared	0.037				
F-Statistic	1.797				0.092[b]

The additional test results for the direct effect of family ownership show that family ownership has a negative effect, but with varying levels of significance, on dividend policy in the energy and non-energy sectors. In the energy sector, family ownership has a negative and significant effect on dividend policy, with a significance value of 0.047, whereas in the non-energy sector, the effect is not significant, with a significance value of 0.782. This difference indicates that in the energy sector, the presence of families as majority shareholders tends to restrain dividend distribution and allocate earnings for internal corporate purposes. This can be explained by the characteristics of the energy sector, which is capital-intensive, high-risk, and subject to regulatory pressures and high costs associated with ESG implementation (S&P Global, 2020). These conditions lead family owners to prefer conservative financial policies to safeguard long-term business continuity and sustainability.

The results of the indirect effect test, or the moderating role of family ownership in the additional analysis, show that family ownership does not have a moderating effect on the relationship between ESG performance and dividend policy in either sector. The interaction between ESG performance and family ownership does not significantly influence dividend policy in both the energy and non-energy sectors. These results differ from the main test, which examined the full sample without sectoral separation and found a significant negative moderating effect. This discrepancy arises because, in moderation analysis, sample size substantially influences the significance of observed effects (Aguinis & Stone-Romero, 1997). In the full-sample analysis, the moderating effect appears significant because it combines all firms across sectors, allowing general patterns to emerge more clearly at the aggregate level. Separating the sample into energy and non-energy sectors weakens the strength of this effect, as sector-specific characteristics and strategies differ, and the reduced sample size lowers statistical power within each sector. This indicates that the moderating effect of family ownership on the relationship between ESG and dividend policy is stronger across sectors overall, but not sufficiently significant when analyzed within individual sectoral contexts.

Conclusion

According to this study, dividend policy is significantly improved by ESG performance, supporting stakeholder theory. Strong ESG practices demonstrate a company's commitment to sustainable governance and responsible resource use, which enhances stakeholder trust, improves financial outcomes, and increases the company's ability to pay dividends. However, the results also reveal that family-controlled firms weaken the positive relationship between ESG performance and dividend policy, consistent with agency theory specifically the type II conflict between controlling and minority shareholders. From the socioemotional wealth (SEW) perspective, family firms often prioritize long-term control and the preservation of family wealth, leading to more conservative dividend distribution policies despite strong ESG performance. This study acknowledges several limitations, including a relatively small sample size due to incomplete financial and sustainability disclosures, the exclusion of financial institutions to maintain sample homogeneity, negative values in some control variables that may have influenced regression stability, and the measurement of family ownership being limited to direct shareholdings, thereby excluding indirect ownership structures common in Indonesian firms. Future research is recommended to expand the sample size, include financial sector firms with proper adjustments, adopt more robust methodologies or segmentations based on financial conditions, and broaden the measurement of family ownership to include indirect or affiliated structures to enhance the precision and generalizability of the findings.

Implications

1. Theoretical Implications
   This study provides theoretical contributions by reinforcing stakeholder theory, demonstrating that strong ESG performance helps firms meet the expectations of both shareholders and broader stakeholders including customers, employees, and communities. This alignment enhances stakeholder trust and ultimately supports firm value creation, which is reflected in profitability and dividend policy outcomes. Furthermore, the findings contribute to agency theory by suggesting that family ownership can reduce agency costs, although it may simultaneously introduce risks associated with socioemotional wealth priorities.
2. Practical Implications
   The results offer practical insights for corporate decision-makers, particularly regarding ESG management. By showing that ESG performance positively influences dividend policy, this study highlights the strategic importance of allocating resources effectively toward ESG initiatives. The study also provides useful guidance for understanding the role of family ownership in shaping accounting and dividend-related decisions an important consideration in the Indonesian context, where approximately 95% of firms exhibit family ownership structures (Daya Qarsa, 2022).
3. Academic Implications
   This research contributes to the academic literature by offering empirical evidence related to ESG performance, dividend policy, and family ownership structures. The findings can serve as a foundation for future studies exploring similar themes, while also providing additional insights to enrich scholarly discussions and serve as a reference for subsequent research.

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