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ESG Performance, Busy Directors, Dividend Payout Policy And Moderating Role Of Ownership Concentration: Indonesian Evidence

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ABSTRACT

This study examines the relationship between ESG performance, busy directors, and corporate dividend policies, moderated by cash flow rights and control rights. Using panel data regression analysis, the research focuses on non-financial firms listed on the Indonesia Stock Exchange from 2017 to 2022. As Indonesia's capital market grows, companies face pressure to create stakeholder value while remaining competitive. Investors push firms to balance ESG investments with shareholder rewards. The presence of busy directors, serving on multiple boards, raises questions about their impact on dividend policies. Given Indonesia's concentrated market, this study introduces ownership concentration as a moderating factor, addressing a gap in the literature. The results show that ESG performance and busy directors positively impact dividend policies. Firms with strong ESG practices maintain consistent dividend payments, reflecting their commitment to stakeholders and shareholders. Busy directors improve dividend policies, aligning with the perception of high-caliber boards reducing agency costs. Cash flow rights moderate the impact of ESG performance on dividend policies, while control rights weaken this influence. However, neither variable significantly affects the relationship between busy directors and dividend policies. This research provides insights into the interplay between ESG practices, director commitments, and dividend policies in Indonesia's dynamic business environment.

INTRODUCTION

The Indonesian capital market has experienced significant growth in investor participation over the past five years, reaching 10.3 million investors by the end of 2022, according to PT Kustodian Sentral Efek Indonesia (KSEI). This phenomenon not only reflects Indonesia's potential economic growth but also the increasing awareness of investment in the capital market among the public. In this context, companies are under pressure to create value for stakeholders and maintain competitiveness in a dynamic market. Investors, primarily seeking returns, aim to achieve them through dividends (dividend yield) or income from the difference in share prices (capital gain).

Dividend distribution represents one form of profit distribution from companies to shareholders, usually done at the end of a period after the Annual General Meeting. These profits can be distributed to shareholders in the form of dividends or retained by the company as retained earnings. According to Khan et al. (2019), companies that offer high dividends are generally attractive to investors who prioritize income certainty over the potential for significant stock value appreciation. Conversely, based on signaling theory, companies with dividend policies can influence investor perceptions and provide signals regarding the company's future prospects.

Based on previous research (Booth & Zhou, 2017; Denis & Osobov, 2008), dividends are considered the ultimate goal of business investment, and many studies have focused on the motivations, determinants, and dividend policies of companies influenced by financial factors and governance. However, The increasing global attention towards environmental and social concerns has had a profound influence on company operations, leading to a considerable change in how companies are managed. The implementation of environmentally friendly, socially responsible, and well-governed (ESG) policies, which are valued by investors and the general public, introduces novel obstacles and conflicts for both management and investors. A financial conflict arises when a company's ability to invest in ESG efforts clashes with its capability to provide dividend payments to investors.

Several recent studies have shown conflicting results regarding how Environmental, Social, and Governance (ESG) performance affects corporate dividend payment policies in various countries. Research conducted in Western Europe (Zahid et al., 2023) and the European Union (Bilyay-Erdogan et al., 2023; Matos et al., 2020) This illustrates that in European Union countries, dividend payments are given priority, and involvement in ESG activities does not reduce shareholder compensation. Instead, it helps to prevent disputes between the agency and the shareholders, decreases the imbalance of information, and decreases the cost of capital. This, in turn, motivates managers to distribute dividends and convey positive messages to the financial markets. Conversely, research conducted in China (Niccolo et al., 2020) shows a negative impact of ESG scores on corporate dividend policies.

This study suggests that companies inherently have limited resources, and investing in social and environmental aspects can reduce the liquidity available for shareholder returns. Due to these differing research results (research gap) in various countries, researchers are interested in studying the influence of ESG performance on dividend policies in Indonesia. Indonesia presents a unique case for study as it is characterized by concentrated ownership (Claessens et al., 2000).

This concentrated ownership structure can lead to different corporate governance dynamics and shareholder priorities compared to other countries. Amidst the complexity of Indonesia's business dynamics, this research aims to fill this knowledge gap and provide a deeper understanding of the relationship between ESG practices and dividend policies in Indonesia. This interest is particularly relevant given that the Indonesia Stock Exchange (IDX) has mandated all listed companies to submit sustainability reports since 2020.

Additionally, this research highlights another important aspect that may affect corporate dividend payment policies in Indonesia, namely the role of busy directors on the board of commissioners. In the context of governance, the presence of "busy directors" can influence the effectiveness of corporate governance. Busy directors are considered to play a special role in supervising dividend payment policies due to their experience and extensive connections. However, along with the potential benefits provided by busy directors, there are also risks of excessive busyness. Excessive busyness can reduce the focus and involvement of board members, including in determining corporate dividend policies. This study also enrich previous studies by adding ownership concentration as a moderating variable. This is because ownership structure is a crucial basis for assessing company accounting behavior, especially in terms of profit and wealth management.

Regarding busy directors, some findings in the literature indicate that the presence of busy directors can affect corporate dividend policies. Research conducted by Benson et al. (2022) on American companies from 1997 to 2013, it was found that busy directors positively influence dividend policy.

This research explains that companies with busy directors tend to distribute higher profits to shareholders to reduce agency conflicts and maximize shareholder benefits. However, a study by Sun & Yu (2022) on American companies from 2000 to 2017 found a negative effect of the proportion of busy independent directors on dividend payments. This is because, despite the potential benefits provided by busy directors, there is also the risk of excessive busyness. Excessive busyness can reduce the focus and involvement of board members, including in determining the company's dividend policy. Previous studies have only been conducted in countries with a one-tier board system, such as the United States. In contrast, Indonesia adopts a two-tier system where board functions are separated between supervision and management. This distinction makes Indonesia an intriguing research sample to study.

This study also adds ownership concentration as a moderating variable. This is because ownership structure is a crucial basis for assessing company accounting behavior, especially in terms of profit and wealth management. Indonesia is characterized by a concentrated ownership structure (Claessens et al., 2000), making it a particularly relevant context for this research.

Ownership concentration in this study is measured using cash flow rights and control rights, where cash flow rights reflect shareholders' rights to receive cash and control rights reflect shareholders' ability to control the company. When a firm possesses a significant degree of control rights, the likelihood of agency difficulties arising between controlling owners and minority shareholders is heightened.

This can result in motives for expropriation or entrenchment effect on minority shareholders. Nevertheless, when dominant shareholders possess a substantial amount of cash flow rights, it gives rise to an alignment effect, where the increased ownership of shares by controlling shareholders is expected to reduce the risk of expropriation and increase the alignment of interests between shareholders and company management (Utama et al., 2022).

Previous studies have proven the alignment effect on controlling shareholders that can influence company dividends. Controlling shareholders with significant cash flow rights are motivated to ensure higher cash dividends (Jensen and Meckling, 1976 in Utama et al., 2022), while regarding the entrenchment effect on controlling shareholders with high control rights, it is evidenced by the research conducted by Wang (2014), which found that the higher the difference between control rights and cash flow rights, the higher the ratio of total bonuses to total dividends.

This study supports the research conducted by Bradford et al. (2013), which found that the longer the control chain in the pyramid ownership structure, the lower the dividend payment rate. Additionally, several advanced studies related to the entrenchment effect on controlling shareholders with high control rights have been conducted by Gonzalez et al. (2017), who examined how the entrenchment effect on companies with different investor protections affects dividend payment policies and research conducted by Ngo et al. (2020) which has proven the entrenchment effect on companies with financing deficits but still pay dividends.

The direct influence of cash flow rights and control rights on dividend payment policies has been demonstrated in previous studies, as explained above, but no study has yet examined the indirect effects of cash flow rights and control rights on corporate dividend payment policies. Therefore, researchers are interested in exploring the indirect effects of cash flow rights and control rights on corporate dividend payment policies through other factors, namely ESG and the presence of busy directors.

Although the direct influence of cash flow rights and control rights on dividend payment policies has been widely studied, this research will fill the literature gap by examining their indirect impacts through these additional factors. Additionally, several control variables, such as firm size, return on asset, board size, board independence, financial leverage, and COVID year, will be included in the analysis according to previous research to control factors that could potentially impact the relationship between variables.

LITERATURE REVIEW

Signalling Theory

Brigham & Houston (2019) explain that signaling involves actions taken by a company's management to convey their perspective on the company's future prospects to investors. Signaling theory is based on the assumption that different parties receive different information. Signals are considered as a means of communication between parties with more information (the company) and parties with less information (investors) (Spence, 2002). Signaling theory also outlines the reasons behind companies' tendency to communicate information through financial reports to external parties, namely to reduce information asymmetry costs, optimize financing costs, and enhance company value (Zahid et al., 2023).

Generally, internal company parties (managers) have more information about the company's condition and future prospects compared to external parties (investors, governments, and creditors). This creates information asymmetry, where one party has more information than the other. This information asymmetry makes it difficult for investors to objectively distinguish between low-quality firms and high-quality firms. This information asymmetry can be a barrier for investors in making intelligent and rational decisions. Therefore, companies use signaling theory as a means to reduce uncertainty and provide clarity about their condition and prospects.

The steps taken by company management to signal to investors can involve various aspects. One aspect that can be used as a signal is dividend policy. According to signaling theory, a high or low dividend policy can be an important signal about management's expectations for the company's future prospects (Brigham & Houston, 2019). For example, a stable or increasing dividend policy may reflect management's confidence in the health and performance of the company. In addition, signaling theory can also provide a basis for understanding how a company's actions in ESG aspects and the presence of busy directors can be interpreted as signals to stakeholders, especially investors.

For example, companies that actively integrate ESG practices into their operations or have commitments to corporate social responsibility can use this as a positive signal related to sustainability and corporate integrity. As for the context of busy directors, there are two theoretical views: the reputation hypothesis and the busyness hypothesis. Where the presence of commissioners who hold concurrent positions can be a positive signal according to the reputation hypothesis because they are considered to have recognized abilities and experience. However, if based on the busyness hypothesis, it can be a negative signal because busy commissioners are considered to have time limitations and conflicts of activities, thus being inefficient in supervising and advising management.

Agency Theory

Agency theory as proposed by Jensen & Meckling (1976) serves as the foundation for research on corporate governance (Utama et al., 2022). This theory is based on the contractual relationship between principals and agents. Principals, as entities with resources, delegate authority to agents to act on their behalf. On the other hand, agents are responsible for carrying out tasks delegated by principals and have decision-making authority that can impact the welfare of principals. The theory emphasizes the concept of agency costs related to the challenges of information separation and control. Agency challenges arise both in the relationship between internal management and external shareholders and among the shareholders of the company itself (Utama et al., 2022).

Corporate ownership structures can be categorized into dispersed ownership and concentrated ownership. Companies with dispersed ownership tend to face agency problems of type I, especially in the relationship between owners and management. Conversely, in centralized ownership structures, such as those seen in East Asia with controlling shareholders, agency problems arise between majority and minority shareholders (Claessens et al., 2000; La Porta et al., 1999).

Rozeff (1982) cited in Arora & Srivastava (2021) states that dividends serve as a form of management oversight by shareholders. When ownership is dispersed and oversight is low, dividends tend to be higher. Jensen (1986) adds that companies increase dividends to reduce agency costs of excess cash, which could otherwise incentivize managers to invest in unprofitable projects.

Higher dividends reduce free cash flow, bring financial discipline, and substitute for shareholder oversight. Furthermore, according to Arora & Srivastava (2021), the inclination towards dividends differs among various categories of investors. Large dividends are typically favored by institutional investors and minority shareholders. However, the presence of a significant concentration of ownership increases the susceptibility of minority shareholders to the possibility of expropriation by dominating shareholders. This expropriation results in lower dividends thus causing conflicts.

Within the framework of agency theory, dividend payment decisions and ESG performance have the same objective; reducing agency conflict. Both aim to mitigate conflicts of interest between management and shareholders, as well as between majority and minority shareholders.

Increased transparency through detailed information disclosure and good governance practices associated with strong ESG performance can help achieve this. Ultimately, these efforts enhance investor confidence and contribute to long-term company stability.
Regarding busy boards, through effective monitoring and advisory, the board of directors can play a role in reducing agency conflicts between company managers and shareholders. Research indicates that high-quality boards can effectively minimize agency costs in various situations (Benson et al., 2022).

METHODS

Indonesia was selected as the research environment for several strategic reasons. Firstly, new regulations since 2020 require all public companies to disclose sustainability reports, highlighting the government's commitment to sustainable business practices and providing a basis to explore the impact of ESG practices on corporate dividend policies. Additionally, Indonesia's unique ownership structure and corporate governance, including its two-tier system and regulations on board positions, offer an interesting context for analysis. The sampling method used is purposive sampling, selected to ensure the representativeness and relevance of the sample to the research objectives.

Specific criteria applied for sample selection include companies with actively traded stocks during the period of 2017-2022, exclusion of banks and financial services companies due to different accounting systems, publicly listed companies (Tbk) with consistent ESG scores, and the availability of required data. The research time.

Table 1 Variable Operational Definitions

Variable	Indicator	Types of Variables
Dividend Payout Policy	DPR= (dividend) / (net profit) x 100%	Dependent Variable
ESG performance	ESG Score from Revinitif Eikon	Independent Variable
Busy directors	(Number of directors holding 2 or more positions) / (Total number of directors) x 100%	Independent Variable
Cash flow right	The product of the ownership percentage of each ownership in one ownership chain	Moderating Variable
Control right	The smallest ownership percentage in the ownership chain	Moderating Variable
Firm Size	Natural logarithm (ln) of total asset	Control Variable
Return on asset	(Net income) / (Total assets)	Control Variable
Leverage	(Total debt) / (Total assets)	Control Variable
Board size	the total number of commissioners on the company's board	Control Variable
Board independence	the percentage of independent commissioners as reported by the company	Control Variable
Covid year	assigning a value of 1 for the years after the occurrence of covid (2020 - 2022) and a value of 0 for the years before the covid-19 pandemic (2017 - 2019)	Control Variable

Source: Processed Data (2024)

Frame spans from 2017 to 2022. The data used in this study are secondary data from various sources such as company annual reports, the Refinitiv Eikon database, as well as relevant journals and books. This research employs panel data regression method to analyze the influence of ESG and busy directors on dividend payout policy with ownership concentration as a moderating variable. This method allows observations across various time periods and multiple companies, focusing on unbalanced panels to account for variations in the number of observations across time units and individuals. The research model first applies to hypotheses one and two to examine the relationship between ESG performance (ESG) and busy directors (BD) on dividend policy (DPR) with several control variables to prevent bias in the study.
The second research model employs linear regression to test hypotheses three, four, five, and six, by including ownership concentration variables (CFR and CR) as moderating variables.
Model 1:

$$DPR_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 BD_{i,t} + \beta_3 Size_{i,t} + \beta_4 ROA_{it} + \beta_6 BSIZE_{it} + \beta_7 BINDE_{it} + \beta_7 FL_{it} + \sum \beta_8 CY_{it} + \varepsilon_{it}$$

Model 2

$$DPR_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 BD_{it} + \beta_3 CFR_{it} + \beta_4 CR_{it} + \beta_5 ESG_{it} {*}\ CFR_{it} + \beta_6 BD_{it} {*}\ CFR_{it} + \beta_7 ESG_{it} {*}\ CR_{it} + \beta_8 BD_{it} {*}\ CR_{it} + \beta_9 Size_{it} + \beta_{10} ROA_{it} + \beta_{12} BSIZE_{it} + \beta_{13} BINDE_{it} + \beta_{13} FL_{it} + \sum \beta_{14} CY_{it} + \varepsilon_{it}$$

where:
DPR = Dividend payout ratio
ESG = ESG total score
BD = Busy directors
CFR = Cash flow right
CR = Control right
Size = Size

ROA = Return on asset
FL = Financial leverage
BSIZE = Board size
BINDE = Board independence
CY = Covid year
α dan β= constant.
ε = error

RESULTS

The results of descriptive statistics for all variables in this study can be seen in Table 1. This study was conducted on non-financial companies during the period of 2017-2022 using the unbalanced panel data method, with a total of 272 observations. To mitigate the impact of outliers, the researcher applied the winsorization method to the dependent variable by setting percentiles at 5% and 95%. The average DPR value for companies during the study period was 0.377, with a median of 0.350. This indicates that, overall, companies tend to pay dividends around 37.7% of their net income. The range of DPR values varied from a minimum of 0, indicating some companies did not distribute dividends in certain years, to a maximum of 1.012.

Moving on to the independent variable, ESG performance of companies was measured using the ESG Score, with an average of 47.226 and a median of 44.910. The range of ESG values ranged from 9.990 to 85.251, with a standard deviation of 18.847, indicating significant variation in ESG performance among the sampled companies. The study also revealed that busy directors (BD) had an average proportion of 0.623, with a median of 0.742, indicating that most companies had directors involved in more than one company. However, there was significant variation in director involvement among the sampled companies, with a minimum value of 0 indicating no directors held multiple positions, and a maximum value of 1 indicating all directors held multiple positions.

Next, the moderation variable, Cash Flow Right (CFR), had an average of 0.443, with a median of 0.501. For CFR, more companies had values below 50%, primarily due to the presence of companies with long ownership chains (pyramidal ownership). The range of CFR values varied from a minimum of 4% to a maximum value of 92.5%. Furthermore, Control Right (CR) had an average of 0.498, with a median of 0.510, indicating that not all companies in the sample had controlling shareholders (>50%). The range of CR values varied from 10.2% to 92%

Tabel 2 Descriptive statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
Dividend Payout	0,377	0,350	1,012	0,000	0,341
ESG	47,226	44,910	85,251	9,990	18,847
Busy Directors	0,623	0,742	1,000	0,000	0,329
Cash Flow Right	0,443	0,501	0,925	0,040	0,234
Control Right	0,498	0,510	0,925	0,102	0,195
Size	31,231	31,190	33,655	26,687	1,066
Return on Asset	0,087	0,065	0,722	-0,251	0,108
Board Size	5,923	6,000	21,000	3,000	2,344
Board independent	0,445	0,404	0,990	0,000	0,273
Leverage	0,365	0,331	0,994	0,112	0,186
Covid Year	0,588	1,000	1,000	0,000	0,493

Source: Authors Estimation Using Eviews13

Regression Analysis

After doing the Chow test, Hausman test and Langrange-Multiplier test, it was determined that the Fixed Effect Model (FEM) is the most suitable model. The findings of the classical assumption test indicate the presence of heteroscedasticity, so the authors utilized the Fixed Effect method with General Least Square calculations (Cross Section Weight with White Estimation Coefficients), rendering the model resistant or robust against violations of the heteroscedasticity assumption. The preliminary findings from the partial tests conducted for both Model 1 and Model 2, as presented in Table 3, indicate that:

1. ESG performance (ESG) has a probability value of 0,0032 (<0,01) and a positive coefficient value of 0.00159, indicating a significant positive effect on dividend payout ratio at the 1% significance level. Therefore, we reject H0 and accept H1.
2. Busy directors have a probability value of 0.0084 (<0.01) and a positive coefficient value of 0.03470, suggesting a significant positive influence on dividend payout ratio at the 1% significance level. Hence, we reject H0 and accept H2.
3. The interaction between cash flow right (CFR) and ESG Performance has a probability value of 0.0000 (<0.01) and a positive coefficient value of 0.04179, indicating that CFR can moderate the relationship between ESG and dividend payout ratio at the 1% significance level. Thus, we reject H0 and accept H3.
4. The interaction between cash flow right (CFR) and busy directors has a probability value of 0.1858 (>0.10) and a positive coefficient value of 0.57893, suggesting that CFR cannot moderate the relationship between busy directors and dividend payout ratio. Therefore, we do not accept H0 and reject H4.
5. The interaction between control right (CR) and ESG Performance has a probability value of 0.0000 (<0.01) and a negative coefficient value of -0.04088, indicating that CR weakens the relationship between ESG and dividend payout ratio at the 1% significance level. Thus, we reject H0 and accept H5.
6. The interaction between control right (CR) and busy directors has a probability value of 0.4376 (>0.10) and a negative coefficient value of -0.11935, suggesting that CR cannot moderate the relationship between busy directors and dividend payout ratio. Therefore, we do not accept H0 and reject H6.

Tabel 3 Hypothesis Testing Results

Variabel	Hipotesis	Model 1			Model 2		
		Coefficient	T-Statistic	Prob. (1-tailed)	Coefficient	T-Statistic	Prob. (1-tailed)
ESG	H1 (+) Tolak H0	**0.00159*** **	2.752893	0.0032	**0.00229***	1.928670	0.0276
BD	H1 (+) Tolak H0	**0.03470*** **	2.409772	0.0084	-0.14275	-1.271419	0.1026
CFR					-1.60964	-2.881664	0.0022
CR					1.12811	1.900444	0.0294
ESG*CFR	H3 (+) Tolak H0				**0.04179*** **	4.639724	0.0000
BD*CFR	H4 (+) Tidak Tolak H0				0.57893	0.895595	0.1858

Variabel	Hipotesis	Model 1			Model 2		
		Coefficient	T-Statistic	Prob. (1-tailed)	Coefficient	T-Statistic	Prob. (1-tailed)
ESG*CR	H5 (-) Tolak H0				**-0.04088*****	-4.260206	0.0000
BD*CR	H6 (-) Tidak Tolak H0				-0.11935	-0.157301	0.4376
Size		**-0.04965*****	-4.938354	0.0000	**-0.05687*****	-8.657475	0.0000
ROA		**-0.163079****	-1.910434	0.0288	-0.03333	-0.362086	0.3589
BSize		**0.00550****	1.792746	0.0373	0.00514	1.256947	0.1051
BInde		**0.05619*****	-3.519703	0.0003	**-0.06728*****	-3.672251	0.0002
FL		**-0.04812*****	-5.875549	0.0000	**-0.07416*****	-3.675775	0.0002
CY		**-0.010322***	-1.344521	0.0902	-0.00012	-0.015274	0.4939

Total Observasi : 272
*Signifikan pada α = 10% atau 0,1
**Signifikan pada α = 5% atau 0,05
***Signifikan pada α = 1% atau 0,01
Source. Authors Estimation Using Eviews13

DISCUSSION

ESG Performance (ESG) And Dividend Payout Ratio

The panel data regression analysis of the first regression model confirms that ESG Performance, as measured by the ESG Score, has a statistically significant and positive impact on the dividend payout ratio, with a significance level of 1%. Companies that prioritize sustainable practices and achieve high Environmental, Social, and Governance (ESG) scores are more likely to distribute greater dividends.

In this context, this can be interpreted as companies supporting sustainability and social responsibility being more likely to share profits with their shareholders. This finding is consistent with stakeholder theory, which highlights the significance of organizations taking into account the concerns of stakeholders, such as shareholders, when making decisions.

Additionally, dividend distribution also plays a role in reducing the risk of agency problems between management and shareholders, whereby companies with high ESG scores tend to have better abilities to maintain their dividend policies. This indicates that companies focusing on good governance, including ESG aspects, tend to manage agency relationships more effectively through consistent dividend policies.

Furthermore, by disclosing ESG-related information, companies can minimize information asymmetry and affirm their commitment to social issues, thereby building stakeholder trust in the company's actions, in line with signaling theory principles. The results of this study also support several previous studies, such as Zahid et al. (2023) with a sample in Western Europe from 2010 to 2019, as well as studies by Bilyay-Erdogan et al. (2023) and Matos et al. (2020) in the European Union, which show that sustainability practices, measured through ESG scores, have a positive impact on earnings stability and income risk, ultimately resulting in higher dividend payments.

Busy Directors And Dividend Payout Ratio

The results of the panel data regression analysis in the first regression model, which tests the second hypothesis, indicate that busy directors have a statistically significant and beneficial impact on the dividend payout ratio at a significance level of 5%. Thus, the second hypothesis of this investigation is confirmed.

The results of this study support the reputation hypothesis, where directors holding multiple positions on several boards can signal high-quality directorship. Fama and Jensen (1983) argue that a director's reputation becomes more apparent when they serve on multiple boards of listed companies. In this context, busy directors can be considered to have extensive competence and experience, recognized by many companies. According to the reputation hypothesis, organizations with boards that have a high level of activity are more inclined to allocate earnings to shareholders in a manner that is relatively higher to reduce agency conflicts and maximize shareholder profits.

The results of this study also align with the research by Benson et al. (2022) conducted on companies in America from 1997 to 2013. This study found that companies with independent directors holding multiple positions tend to provide higher dividends.

Moderation Effect OF Cash Flow Right ON THE Relationship BETWEEN Esg Performance (Esg) AND Dividend Payout Ratio

Based on the results of the panel data regression analysis in the second regression model testing the third hypothesis, it is shown that cash flow right can moderate the relationship between ESG and dividend payout ratio at the 1% significance level. Therefore, the third hypothesis of this study is supported.

The results of this study are consistent with the alignment effect theory, which states that higher cash flow rights can increase financial incentives for controlling shareholders, allowing them greater incentive to align their interests with those of the company or non-controlling shareholders. Additionally, with greater financial incentives, controlling shareholders become less motivated to engage in expropriation actions that may cause company losses.

In the context of ESG performance, high ESG scores reflect better long-term balance with shareholders and other stakeholders. Thus, the moderation effect of cash flow right can strengthen the influence of ESG performance on dividend payments. Companies with high cash flow rights may have greater incentives to improve ESG performance to enhance company value and obtain higher dividend payments.

Moderation Effect Of Cash Flow Right On The Relationship Between Busy Directors And Dividend Payout Ratio

Based on the results of the partial T-Statistic test in the second regression model, which tested the fourth hypothesis, it is shown that cash flow rights cannot moderate the relationship between busy directors and the dividend payout ratio. Therefore, the fourth hypothesis in this study is not supported.

This means that the study's results cannot confirm that the alignment effect on controlling shareholders, who desire the company to perform well and generate high returns for shareholders, aligns with the reputation theory of busy directors. Busy directors, with their extensive competence and experience recognized by many companies, are expected to add value to the company.

These findings are in line with good corporate governance principles, as outlined in Point VI B of the G20/OECD CG Principles. The principle states that when board decisions affect various groups of shareholders, the board should treat all shareholders fairly. Even if there are board members nominated by specific shareholders, such as majority shareholders, the board should act fairly in the interests of all shareholders. This principle also aligns with the Indonesian Company Law (UU PT), which, while not explicitly stating that the board of directors and commissioners must treat all shareholders fairly, emphasizes that the Board of Commissioners and the Board of Directors must perform their duties in the best interests of the company (Utama et al., 2022).

Moderation Effect Of Control Right On The Relationship Between ESG Performance (ESG) And Dividend Payout Ratio

Based on the results of the panel data regression analysis in the second regression model testing the fifth hypothesis, it is shown that control right weakens the relationship between ESG and dividend payout ratio. This result is indicated by the p-value of 0.07195 and the significance level of 10%.

Therefore, the fifth hypothesis of this study is supported. The results of this study can prove that the entrenchment effect that may arise due to the high control right held by controlling shareholders, a high level of control right can provide incentives for controlling shareholders to take expropriation actions, where they use their power for personal gain through the abuse of power against minority shareholders. In this context, when the controlling shareholders' control rights are higher, they may tend to prioritize their personal interests over the overall interests of the company.

This may result in a decreased motivation to oversee the company well and make the best decisions for all shareholders. Thus, when control rights are high, the relationship between ESG performance and dividend payout policy may become weak. This is because controlling shareholders may be more inclined to use their control rights for personal gain rather than considering ESG factors or the interests of minority shareholders in determining dividend policies.

Moderation Effect Of Control Right On The Relationship Between Busy Directors And Dividend Payout Ratio

Based on the results of the partial T-Statistic test in the second regression model, which tested the fifth hypothesis, it is shown that control rights cannot moderate the relationship between busy directors and the dividend payout ratio. Therefore, the sixth hypothesis in this study is not supported.

Consistent with the lack of evidence for the entrenchment effect of controlling shareholders with high control rights, the relationship between busy directors and the dividend payout ratio is also not weakened. Similar to cash flow rights, this is due to the board of commissioners operating effectively based on principles of fairness and independence, ensuring that their decisions regarding dividend payout policies are not solely influenced by ownership structure or the control rights of controlling shareholders. This indicates that good corporate governance can help maintain a balance of interests among all shareholders, including in the context of dividend payout decisions.

CONCLUSION

This study examines the relationship between ESG performance, the presence of busy directors, and corporate dividend payout policies has been analyzed, considering moderator variables in the form of cash flow rights and control rights. Based on the research conducted on public companies in Indonesia from 2017 to 2022, it is shown that ESG performance and the presence of busy directors have a positive and significant influence on corporate dividend payout policies. This indicates that sustainable practices and the presence of directors with multiple responsibilities can add value to the company and shareholders.

Furthermore, the moderating effect of cash flow rights indicates that shareholders with high cash flow rights can strengthen the relationship between ESG performance and dividend payout policies but have no impact on the influence between busy directors and dividend payout policy. Meanwhile, high control by shareholders can weaken the relationship between ESG performance and dividend payout policies but have no impact on the influence between busy directors and dividend payout policy.

These findings have important practical implications for stakeholders, including investors, management, analysts, and policymakers. Companies can utilize these findings to improve their ESG practices, manage the presence of busy directors, and design sustainable dividend policies. By considering the implications of these findings, companies can enhance their performance while addressing social and environmental responsibilities and the long-term interests of shareholders.

LIMITATION

This study has limitations that need to be considered when interpreting its results. Firstly, it only utilizes total ESG scores as a proxy for company ESG performance without considering each ESG pillar individually, namely Environmental, Social, and Governance pillars. Subsequent research aiming for a more focused analysis on ESG could include all three pillars to obtain a more comprehensive understanding.

Secondly, the study is restricted to companies with ESG scores, which are still scarce in Indonesia. Future research focusing on busy directors without considering ESG could benefit from a larger sample size. Lastly, the exclusion of the financial industry due to its high regulation and unique accounting practices suggests that separate investigations are warranted. Research involving the variables studied here within the financial sector could provide valuable insights for future studies.

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