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Corporate Social Responsibility and Dividend Policy in Indonesia : Advent of Firm Size as a Moderator

Kisti Nurfitri[1], Riski Abadi[2], Rizky Prastya Udipta[3], Farah Margaretha Leon[4]

[1,2,3,4]Faculty of Economics and Business Universitas Trisakti, Jakarta

ABSTRACT : This research aims to analyze the determinants of dividend policy. The independent variable in this study is corporate social responsibility which will be moderated by variable firm size. While the dependent variable is dividend policy, and the control variables are leverage, growth opportunity, and firm's age. The sample of this study uses 35 companies listed on the LQ45 Index for the period of 2019-2021. The sampling technique uses purposive sampling and the analysis method uses panel data regression. The results explained that corporate social responsibility, the moderating variable firm size, and growth opportunity do not affect dividend policy. Firm's age has a significant negative effect on dividend policy. Leverage has a significant positive effect on dividend policy. The implication of the research that has been done is to provide direction for financial managers to consider the benefit of increasing leverage to a strategic investment for a productive assets and business expansion which lead to generate more profit for company which means a positive impact on dividend paid to shareholder. As for investors, investors should pay attention with the maturity of the business and significant amount of CSR cost since these will affects negatively to the company's dividend policy.

KEYWORDS: Corporate Social Responsibility, Dividend Policy, Firm Age, Firm Size, Growth Opportunities, Leverage

I. INTRODUCTION

Corporate social responsibility (CSR) has emerged as a global trend and encouraged companies to build sustainable businesses, the concept of CSR has been introduced worldwide and applied in many countries through various ways (Trihermanto & Nainggolan, 2020). In Indonesia, CSR is mandatory for all registered companies and has been regulated through Law No. 40 of 2007 concerning Limited Liability Companies (article 74 paragraph 1) requiring companies whose business is in the field of and/or related to natural resources to carry out social and environmental responsibility , and Law No.32 of 2009 concerning Environmental Protection and Management which states that every individual who carries out business activities has an obligation to provide information related to environmental protection and management in a true, accurate, open and timely manner and maintain the sustainability of environmental functions. In recent years, CSR has received a lot of attention from academics and business professionals.

CSR has been approached as a new strategic option to improve the image, gain a competitive advantage and ultimately increase the value of the company (Sheikh et al., 2022). Companies with high CSR can lower the cost of capital, which in turn can increase incentives for cash holdings or active investments, leading to a decrease in cash dividend payments. In addition, companies with high CSR can reduce risk and increase profitability by reducing transaction costs or strengthening their competitive advantage. Dividend decision-making is not mandatory, but it remains a basic and traditional way for investors to generate a return on investment. Therefore, dividend policy can be a social responsibility attitude towards investors (Oh & Park, 2021).

The size of the company as a strong determinant of the company's dividend payment decision because larger companies often have easier and better access, so they can raise funds faster to increase their social responsibility activities in the hope of encouraging a positive image and company reputation so that it can make it easier for companies to enter the capital market and will attract many investors (Abu Siam et al., 2021). Despite the fact that paying dividends is not mandatory in Indonesia, there are standard policies or ways of controlling dividend payments, most of which still depend on the general meeting of shareholders. As a result, companies are free to decide when and how much and how often to pay dividends for a given fiscal year (Abu Siam et al., 2021).

For investors, the LQ45 stock index is often used as a reference in determining the direction of investment. However, in the current year the LQ45 index corrected to experience the worst decline reaching 43.01% in March 2020. Therefore, the dividend policy of these companies is also affected. The purpose of this study is to look at the effect of CSR on dividend policy moderated by company size. The novelty of this study is to add the firm age variable as one of the control variables that is considered to be related to dividend policy.

II. LITERATURE REVIEW

A. Corporate Social Responsibility

Based on the theory of legitimacy there is a "social contract" on which the relationship of the company with the society in which the company operates and uses economic resources to carry out its operations. The company considers legitimacy important because the legitimacy of the community to the company is a strategic factor for the company's future development (Arjana & Suputra, 2017). Agency theory predicts a negative relationship between CSR performance and corporate payments because it considers CSR a waste of company resources. Stakeholder theory predicts that CSR companies are more likely to pay dividends and increase current dividend rates to signal long-term profitability, lower cost of capital, and fair distribution of corporate resources (Sheikh et al., 2022).

B. Dividend Policy

The theory of dividend signaling postulates that dividends are paid from permanent income and any change in dividend policy sends a signal to the market about the future profitability of an enterprise. When CSR companies commit to higher dividends, they send positive signals to the market about their long-term performance. A higher payout ratio of a CSR company indicates that CSR is a value-increasing investment and CSR companies can generate higher cash flow higher payments can also signal the fairness of CSR companies to financial shareholders by ethically distributing the company's resources to all contributors of the company (Sheikh et al., 2022). High dividend payments reduce resources under the control of managers and limit overinvestment. The disciplinary mechanism of dividend policy predicts a positive relationship between CSR and dividend payments, as it restricts managers from disposing of cash in high social expenditures (Benlemlih, 2019).

C. Firm Size

Company size and retained earnings show that large companies with high retained earnings pay more dividends (Trihermanto & Nainggolan, 2020). Company size is one of the factors that can affect dividend policy, company size is a large-scale measure of the size of a company (Arjana & Suputra, 2017).

D. Growth Opportunity

Sales growth is one variable that is the material for investors' analysis in looking at financial statements from a company. The year-over-year increase in sales assumes that the company is doing well and can generate growth (Abu Siam et al., 2021).

E. Leverage

Companies will tend to hold back their profits if debt is high and use the profits to pay off debts first, so companies with high debt levels tend to distribute dividends in small amounts (Arjana & Suputra, 2017). Corporate leverage shows that companies with a high debt-to-total asset ratio have a low ability to pay dividends (Trihermanto & Nainggolan, 2020).

F. Firm Age

Some studies have found that adult companies are older and more stable with high profitability compared to growth stage companies (Trihermanto & Nainggolan, 2020).

CONCEPTUAL FRAMEWORK

Companies with high CSR can lower the cost of capital, which in turn can increase incentives for cash holdings or active investments, leading to a decrease in cash dividend payments. In addition, companies with high CSR can reduce risk and increase profitability by reducing transaction costs or strengthening their competitive advantage. Dividend decision-making is not mandatory, but it remains a basic and traditional way for investors to generate a return on investment. Therefore, dividend policy can be a social responsibility attitude towards investors (Oh & Park, 2021).

The size of the company as a strong determinant of the company's dividend payment decision because larger companies often have easier and better access, so they can raise funds faster to increase their social responsibility activities in the hope of encouraging a positive image and company reputation so that it can make it easier for companies to enter the capital market and will attract many investors (Abu Siam et al., 2021).

The practice of CSR disclosure is also associated with life cycle theory, that mature companies with high management experience and skills are more likely to invest strategically in CSR activities than younger companies. Thus, with the experience they have and access to more free cash flow, the study expects Indonesian companies with high CSR costs to adopt a high dividend payment strategy.

Therefore, based on the explanation above, the conceptual framework in this study is described as follows:

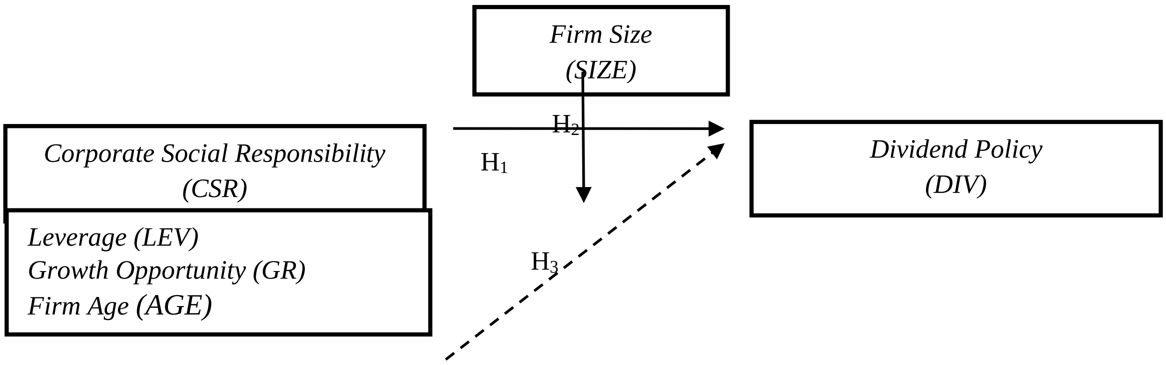

Figure 1. Conceptual Framework

HYPOTHESIS DEVELOPMENT

The research results of Benlemlih (2019) showed that the companies which has more social cost allocated paid more dividend in the study of companies in United States. Same results with the researches done by Sheikh et al., (2022) , Arjana & Suputra (2017) and Trihermanto & Nainggolan (2020) show that greater is the number of CSR activities, larger becomes the tendency to pay out dividends. A contradictive result showed by the research done by Abu Siam et al., (2021) that find out the negative impact of CSR to dividend amount paid to shareholder in Jordan companies. Based on this, the first hypothesis is formulated as follows:

H_1: There is an influence between corporate social responsibility on dividend policy.

The researches done by Arjana & Suputra (2017) and Trihermanto & Nainggolan (2020) showed the bigger company size reflected by its total assets then the bigger dividend will be paid to the shareholder. A different result was found by the research of Lee et al., (2022) which find negative impact between company size and dividend policy on case study in Vietnam. Based on research done Abu Siam et al., (2021) size of the company weaken the relationship between CSR and dividend policy. Based on this, the second hypothesis is formulated as follows:

H_2: There is an influence between corporate social responsibility strengthened by the size of the company on dividend policy.

The year on year increase in sales assumes that the company is doing well and can generate growth Abu Siam et al., (2021). The research results of Oh & Park (2021) showed a negative impact between growth and dividend policy, the higher sales increased year on year impacting the lower dividend paid by the company.

Debt ratio is also a major concern for investors in investing because short-term and long-term liabilities will more or less affect the cash flow of the company and the dividend policy that will be implemented Abu Siam et al., (2021). Arjana & Suputra (2017) and Trihermanto & Nainggolan (2020) find out that leverage has a negative impact on dividend policy. Different result was found by the research of Khan et al., (2022) which found positive impact between leverage on dividend policy based on the research in Korean companies.

The research results of Trihermanto & Nainggolan (2020) showed that firm age has a significant impact on dividend policy, once the company enters the stage of maturity in its life cycle and it will has positive impact on the dividend paid to the shareholder. Based on this, the third hypothesis is formulated as follows:

H_3: There are influences between leverage, growth opportunity, and firm age on dividend policy.

III. METHODS

A. Variable and Variable Measurement

The variables and measurements used in this study intend to determine the relationship between the independent variable and the dependent variable including moderating variable and control variables , each of which is measured as follows:

Table 1. Identification and Measurement of Variables

	Variable	Measurement	Reference
Dependent Variable	Dividend Policy	Dividends paid divided by number of shares	Abu Siam et al. (2021)
Independent Variable	Corporate Social Responsibility	Social costs divided by profit/loss	Abu Siam et al. (2021)
Moderating Variable	Firm Size	Ln total assets	Yakubu et al. (2021)

Control Variable	Growth Opportunity	Logarithm of sales growth over the previous year	Abu Siam et al. (2021)
	Leverage	Total debt divided by total assets	Abu Siam et al. (2021)
	Firm Age	Company's firm age	Trihermanto & Nainggolan (2020)

B. Sampling Method

The sampling method used for this research is purposive sampling. The data collection method used is the secondary data collection method, obtained from sources that have published the data. The data sources for this study were obtained from the LQ45 Index website (https://www.idx.co.id/id/data-pasar/data-saham/indeks-saham/), the Indonesia Stock Exchange (https://www.idx.co.id) and each company's website was sampled. Observational data was taken from 35 companies listed on the LQ45 Index with the 2019-2021 observation period, so the total number of observations was 105.

a. Chow Test

The results of the chow test have two options that must be determined, namely, the common effect or the fixed effect. In this study, the chow test is helpful to determine which model is better and more appropriate. The chow test is based on the null hypothesis, where there is no individual heterogeneity, and the alternative hypothesis, where heterogeneity exists in the cross-section.

b. Hausman Test

The results of the Hausman test have two options that must be determined, namely, the random effect or the fixed effect. In this study, the Hausman test is helpful in determining which model is better and more appropriate.

Based on table 2, the chow test and Hausman test, the results show that the profitability value of the Chi-square cross section in the two models is 0.0000 < 0.05, so the decision obtained is that H0 is rejected, so the model used is the fixed effect. If the selected model is a fixed effect model, further testing is required using the Hausman test to test whether to use a fixed effect or random effect model. The results of both models show that the random cross-section probability values are 0.0092 < 0.05 and 0.0090 < 0.05, so the decision that can be taken is that H0 is rejected, so the model used is the fixed effect model.

Table 2. Chow Test and Hausman Test Results

	Test Summary	**Statistic**	**Prob**	**Decision**
Model 1	Cross-section Chi-square	234.381762	0.0000	Fixed Effect
	Cross-section random	15.284642	0.0092	Fixed Effect
Model 2 (with moderating)	Cross-section Chi-square	233.892034	0.0000	Fixed Effect
	Cross-section random	17.074188	0.0090	Fixed Effect

Source: Output Panel Data Regression E-views

c. Goodness of Fit (R^2)

This test aims to see how much influence the independent variables have in explaining the dependent variable. This analysis test uses the adjusted R^2 value because the number of independent variables is more than one. If the adjusted R^2 value shows a value close to 1, the independent variable can explain the dependent variable.

Based on the goodness of fit test results, the adjusted r-square value is 0.851086. This means that the independent variables, namely corporate social responsibility, moderating variable namely firm size and control variables namely growth opportunity, leverage, and firm age, can explain variations in the dividend policy of 85.1086% and the remaining 14.8914% explain that dividend policy can be influenced by other factors that are not found in this model.

Table 3. Goodness of Fit Test

	Test Summary	**Coefficient**
Model 1	Adjusted R-squared	0.851086
Model 2 (with moderating)	Adjusted R-squared	0.852938

Source: Output Panel Data Regression E-views

d. F-test

This test was conducted to test whether the independent variables simultaneously significantly influence the dependent variable. Based on the simultaneous test results, the probability of the F-statistic yields a value of 0.000000 < 0.05. Thus the results of the analysis in this study show that there is at least one variable either from independent variable, namely corporate social responsibility, or moderating variable namely firm size or control variables namely growth opportunity, leverage, and firm age which influence dividend policy so that the regression model is feasible to use in this study.

IV. RESULTS

A. Descriptive Statistic

Dividend policy (DIV) has an average value of 102.2640, a median of 44.02000, and a standard deviation of 148.4051. The maximum value of DIV is 805, which PT United Tractor Tbk owns, and the minimum value is 1.97000, which PT Bank Tabungan Negara Tbk owns.

Corporate Social Responsibility (CSR) has an average value of 0.047330, a median of 0.016700, and a standard deviation of 0.089999. The maximum value of CSR is 0.731100, which PT Aneka Tambang Tbk owns, and the minimum value is 0.000600, which PT Telkom Indonesia Tbk owns.

Firm size (SIZE) has an average value of 206574241, a median of 38709314, and a standard deviation of 3.99E+08. The maximum value of SIZE is 1725611128, which PT Bank Mandiri Tbk owns, and the minimum value is 5576085, which PT Mitra Keluarga Tbk owns.

Growth opportunity (GR) has an average value of 0.052695, a median of 0.049300, and a standard deviation of 0.169968. The maximum value of GR is 0.689000, which PT Bukit Asam Tbk owns, and the minimum value is -0.392300, which PT Wijaya Karya Tbk owns.

Leverage (LEV) has an average value of 0.565200, a median of 0.536500, and a standard deviation of 0.226312. The maximum value of LEV is 0.944660, which PT Bank Tabungan Negara Tbk owns, and the minimum value is 0.134200, owned by PT Mitra Keluarga Tbk.

Firm age (AGE) has an average value of 48.45714, a median of 48.00000, and a standard deviation of 19.90121. The maximum value of AGE is 108.0000, which PT HM Sampoerna Tbk owns, and the minimum value is 11, owned by PT Tower Bersama Tbk.

Table 4. Descriptive Statistic

Variable	Mean	Median	Maximum	Minimum	Std. Dev
DIV	102.2640	44.02000	805.0000	1.970000	148.4051
CSR	0.047330	0.016700	0.731100	0.000600	0.089999
SIZE	2.07E+08	38709314	1.73E+09	5576085.	3.99E+08
GR	0.052695	0.049300	0.689000	-0.392300	0.169968
LEV	0.565200	0.536500	0.944660	0.134200	0.226312
AGE	48.45714	48.00000	108.0000	11.00000	19.90121

Source: Output Panel Data Regression E-views

B. T-test

H_1: There is an influence between corporate social responsibility on dividend policy.

CSR has a probability value of 0.7037 > 0.05 which shows an insignificant influence. The results of this study concluded that there was no significant influence between CSR on dividend policy. The results of this study are in line with (Abu Siam et al., 2021) which states that CSR negatively affects dividend policy in manufacturing industry companies in Jordan. With the allocation of CSR costs in the company's routine expenses every year, this results in a small amount of dividends paid by the company to shareholders. The reduced amount of dividends paid as a result of the company's CSR activities indicates that the company is more cautious in cashflow out in anticipation of future investments (Sheikh et al., 2022). In the case of this Indonesian company, it shows that the company has not stabilized in anticipating the relationship between social responsibility to the community and responsibility to investors in the form of dividend payments.

H_2: There is an influence between corporate social responsibility strengthened by the size of the company on dividend policy.

The influence of the firm size moderation variable on CSR has a probability of 0.1822 > 0.05 which shows an insignificant influence. The results of this study concluded that there was no significant influence between CSR moderated by firm size on dividend policy. The influence of the moderation variable (CSR*SIZE) produces a positive although not significant coefficient that indicates a difference from the first model without moderation which indicates a negative coefficient. This indicates that the larger the assets owned by the company, the dividend payment to shareholders will not be affected by the CSR activities carried out by the company. These findings are contradictory to the research conducted (Abu Siam et al., 2021) which stated that there was a negative influence in the moderation model (CSR*SIZE) on dividend policy. In this case, it proves that company assets are often a determining factor in the financial performance of a company (Sheikh et al., 2022) In Indonesia itself, especially in companies that are the research sample which is the company with the largest number of assets in Indonesia, a large number of assets will affect the amount of CSR costs incurred by the company and will have a positive impact on the amount of dividends paid to shareholders.

H_3: There are influences between leverage, growth opportunity, and firm age on dividend policy.

Firm age has a probability value of 0.0426 < 0.05 which shows a significant influence. The magnitude of the coefficient is -16.20175. The results of this study concluded that there is a negative and significant influence between firm age on dividend policy. The older the company is not a reflection of how the company will pay more dividends to shareholders, in Indonesia a newly established and relatively young company turns out to pay more dividends to shareholders. This shows that newly established companies pay more dividends with the aim of attracting investors to invest in the company. These results are contradictory to the research conducted (Trihermanto & Nainggolan, 2020) which states that the maturity stage of the company will be in line with the dividends paid to shareholders.

Leverage has a probability value of 0.0304 < 0.05 which shows a significant influence. The magnitude of the coefficient is 366.4786. The results of this study concluded that there is a positive and significant influence between leverage on dividend policy. This shows that the high level of debt of a company has an effect on the greater dividend paid to the company. In this case, it can be concluded that debt to finance the purchase of productive assets of the company can increase profits which affects the amount of dividends paid to investors. This shows that companies in Indonesia can properly manage liabilities to creditors by allocating these loan funds to productive assets and company development so as to generate greater profits and have a positive effect on the amount of dividends paid to the stockholder. These results are inversely proportional to the studies conducted (Arjana & Suputra, 2017) and (Trihermanto & Nainggolan, 2020) which found a negative influence of leverage levels on dividend policy.

Growth has a probability value of 0.2822 > 0.05 which indicates the absence of significant influence. Fluctuating sales growth, especially in the 2019-2021 research period amidst economic uncertainty caused by the Covid-19 pandemic, shows that there is a growth trend that is not always positive from year to year. This is in line with research conducted by (Khan et al., 2022) that there is no significant influence on dividends, and the results of research (Oh & Park, 2021) which found a negative influence of growth on dividend policy.

Table 5. T-test

Independent Variable	Dependent Variable					
	DIV					
	Model 1			Model 2		
	Coefficient	Probability	Decision	Coefficient	Probability	Decision
Konstanta	682.8509			748.797		
CSR	-36.94743	0.7037	Not Significant	-138.5522	0.2608	Not Significant
SIZE	6.62E-09	0.964	Not Significant	4.12E-09	0.9774	Not Significant
CSR*SIZE				2.81E-06	0.1822	Not Significant
LEV	366.4786	0.0304	Positive Significant	340.9668	0.0436	Positive Significant
GR	-42.69517	0.2822	Not Significant	-38.16659	0.3348	Not Significant
AGE	-16.20175	0.0426	Negative Significant	-17.3711	0.0301	Negative Significant

Source: Output Panel Data Regression E-views

CONCLUSIONS

Based on the results of the tests performed, the following conclusions were obtained :

1. Corporate social responsibility has no effect on dividend policy of companies listed in Indonesia
2. Firm size as a moderating variable to corporate social responsibility has no effect on dividend policy of companies listed in Indonesia
3. Leverage as a control variable has a positive and significant effect on dividend policy of companies listed in Indonesia
4. Growth opportunity as a control variable has no effect on dividend policy of companies listed in Indonesia
5. Firm age as a control variable has a negative and significant effect on dividend policy of companies listed in Indonesia

IMPLICATIONS

Based on the results of the research that has been done, there are benefits to be gained as implications for financial managers and investors which are taken into consideration in making decisions. Some of the implications obtained are as follows:

a. For Finance Managers

This research is expected to provide information for financial managers regarding dividend policy which can be seen from corporate social responsibility, firm size, leverage, growth and firm age. So by paying attention to these variables, financial managers can decide on dividend policies by looking at the how much the social cost must be spent by the companies in order to fulfill the responsibility to social and environment by also considering the factor which also important that is to pay dividend to shareholder. Financial managers should also considered the benefit of increasing leverage to a strategic investment for a productive assets and business expansion which lead to generate more profit for company. The increase of profit for sure will be a positive impact on how much dividend paid to shareholder.

b. For Investors

This research is expected to provide information for investors regarding a company's dividend policy as a consideration for investing their funds to obtain future profits. Therefore, investors needs to be careful with mature companies and significant amount of CSR cost since these will affects negatively to the company's dividend policy.

FURTHER RESEARCH

Based on the results of the research that has been done, there are several limitations that can be taken into consideration by related parties, including the existence of other variables not included in this study that can affect dividend policy. Therefore, this research is used as a consideration tool for decision making. For future researchers, if they are going to carry out the same research, it is advisable to research other sectors for a more extended period. It is expected to add other variables so that they can show other factors that can affect dividend policy. Variables that can be added include the board composition of Yakubu et al. (2022) and the cash flow volatility of Hussain et al. (2022).

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