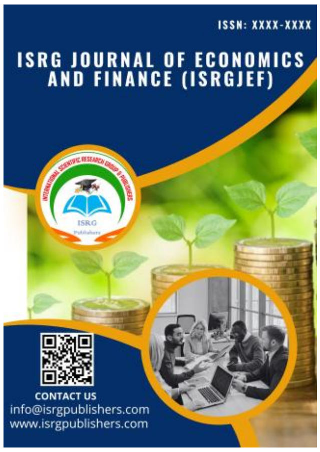
ISRG JOURNAL OF ECONOMICS AND FINANCE (ISRGJEF)



ISRG PUBLISHERS
Abbreviated Key Title: ISRG J Econ Fin.
ISSN: 3048-6998 (Online)
Journal homepage: https://isrgpublishers.com/isrgjef-2/
Volume – 2 Issue -2 (March – April) 2025
Frequency: Bimonthly

ESG, Dividend Policy and Stock Prices: Examing the Moderating Role of Profitability

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| **Received:** 15.02.2025 | **Accepted:** 25.03.2025 | **Published:** 01.04.2025

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Abstract

This study offers a new contribution by exploring the impact of environmental, social governance and dividend policy on stock prices and the moderating effect of profitability. All companies listed in the ESG Quality 45 Index IDX KEHATI for 2021–2023 made up the study's population. This study tests the hypothesis using the SPSS 25 software for moderated regression analysis. The findings show that stock values regarding environmental and social governance (ESG) factors have significantly decreased. In the meantime, stock prices are unaffected by the dividend policy. On the other hand, profitability has proven to affect stock prices significantly. In addition, profitability plays a role in strengthening the relationship between environmental and social governance and stock prices. However, profitability does not have a moderating role in the relationship between dividend policy and stock prices.

Key Words: ESG; Dividend Policy; Profitability; and Stock Price

1. INTRODUCTION

Significant effects of the COVID-19 pandemic have been seen in financial markets and the actual economy, which raises extensive concerns about the link between environmental, social and governance (ESG) responsibility and shareholder well-being (Xu et al., 2023). The widespread uncertainty has resulted in sharp volatility in stock price movements, lowered investor confidence, and eroded shareholder wealth. However, various governments' monetary policy interventions and fiscal stimulus have contributed to economic recovery, especially in the technology and healthcare sectors. Research on stock prices is significant because it illustrates a company's financial health and is a reference for investors when making investment decisions. One indicator of a company's success can be seen in its stock price (Saputra., 2022). The decline in stock prices has a major impact on investor confidence and financial market stability, providing important insights for companies and policymakers in designing strategies to increase resilience to future external shocks (Huang & Liu., 2021). In this context, applying *Environmental, Social, and Governance* (ESG) principles is increasingly considered an essential strategy for increasing corporate credibility, managing risk, and attracting investment. Adopting ESG principles in corporate strategy can help reduce risk and improve stock performance during a crisis (Chen et al., 2022). ESG principles also reflect a business's dedication to social responsibility and sustainability, ultimately becoming key indicators in assessing corporate health and financial market stability amid global uncertainty. Disclosure of ESG-related information is important because most organizational stakeholders believe this step can improve corporate performance in the future, help manage risk, and strengthen the company's reputation. In addition, ESG disclosure also contributes to increasing corporate credibility (El_Deeb et al., 2023).

A corporate standard for investment practices, Environmental, Social, and Governance (ESG) integrates and applies policies to conform to environmental, social, and governance principles. Factors related to environmental aspects : (Noviarianti., 2020) Focus on how companies manage and minimize negative impacts on the surrounding environment, like cutting out on waste management and carbon emissions and sustainable use of natural resources. Social Aspects involve how companies interact with employees, vendors, clients, and the communities in which they operate, including human rights, working conditions, and contributions to society. Governance includes the systems and procedures companies implement to guarantee compliance with laws and ethics, transparency, and shareholder responsibility (Zarkasih et al., 2024). In the capital market realm, in addition to considering the Environmental, Social, and Governance (ESG) aspects, dividend policy, represented by the Dividend Payout Ratio (DPR), acts as a primary indicator in assessing a company's ability to distribute profits to shareholders and reflects the company's financial health. For investors, dividend policy signals the company's financial health and the company's decision to distribute dividends often affects the market perception of the company's stock value (Siswanti, 2024). Various studies have been conducted on dividend policy, but the results show mixed findings. The differences in research results have given rise to deep debates about the role and effectiveness of dividend policy as an indicator of market value. Therefore, further studies are needed to understand the dynamics of the connection between stock prices and dividend policy more comprehensively.

Earnings Per Share (EPS) as an indicator of profitability reflects management's ability to generate earnings per share and acts as a moderating variable that affects how Environmental, Social, and Governance (ESG) performance is related to dividend policy and stock prices. Companies with high EPS effectively optimise resource use to achieve economic sustainability and increase stock market value, ultimately strengthening investor confidence. Higher EPS indicates that management can generate enough revenue to give shareholders appropriate returns. In contrast, lower EPS implies that the company pays shareholders less for their shares based on the company's profitability (Arhinful & Radmehr., 2023). However, various studies indicate that the role of EPS in moderating the influence of ESG and dividend policy on stock prices still depends heavily on the specific characteristics of each company. Therefore, a deep understanding of the role of EPS is crucial to uncovering the mechanism of financial and non-financial factors that influence company performance and value assessment. Considering the previously given background, this study formulates several main problems: Environmental Social Governance (ESG) affects stock prices, dividend policy affects stock prices, and profitability affects stock prices. In addition, the study also examines whether profitability can increase or decrease the correlation between stock prices and ESG and whether profitability plays a moderating role in the relationship between dividend policy and stock prices. In line with the problem formulation, this investigation aims to test and acquire empirical data about the influence of ESG, dividend policy, and profitability on stock prices. In addition, this study also seeks to evaluate the role of profitability in regulating the connection between ESG and stock prices and moderating the connection between stock prices and dividend policies. The findings of this study are expected to provide theoretical and practical contributions to understanding the dynamics of the relationship between ESG, dividend policy, profitability, and stock prices, as well as delivering implications for investment decision-making and corporate policies.

2. LITERATURE REVIEW

2.1 Stock Price

The price of stocks is a value that reflects the market conditions of a company's or issuer's shares at a certain time. This value is formed through the interaction between market dynamics and the company's performance in the secondary market (Hermawan & Fajrina, 2017). The share price is the price set by a company against another entity that wants to have share ownership rights to the company (Wardani & Budiwitjaksono, 2021). The market value of a company's shares is referred to as the stock price. In simple terms, stock price is the price set by the market to buy or sell shares of a particular company. Stock return volatility refers to the upward movement of stock prices. Financial experts have conducted numerous studies on this phenomenon, and one of the theories often used to explain it is the stochastic volatility model. This theory explains that stock price fluctuations are impacted by random factors that are not always directly visible and have a significant role in determining how much the stock price changes (Sari & Zaitul, 2024).

2.2 Environmental, Social and Governance (ESG)

The importance of environmental, social, and governance (ESG) factors has recently become an increasingly important trend in the investment world. ESG refers to the standards that companies apply in their investment practices by integrating and implementing policies that align with principles of corporate governance, social responsibility, and environmental sustainability (Noviarianti, 2020). Companies that want their company value to increase must be capable of enhancing the performance management of environmental, social, and governance disclosure. Investors who see ESG disclosure as a positive signal can take it as a sign that the company has a sustainable business strategy, good risk management, and concern for social and environmental impacts. As a result, investors who value ESG practices tend to have a greater desire to invest in the business, which might raise demand and stock prices. Numerous research has demonstrated the connection between stock prices and ESG, including Mauliddin & Subardjo (2024), which claims that ESG impacts stock prices. A similar thing was also stated by Kovacs et al. (2024) that businesses with better governance ratings typically encounter more significant positive abnormal stock returns, showing that investors

DOI: 10.5281/zenodo.15117715

highly value well-managed companies, especially amid uncertainty and challenges. Research conducted by Xu et al. (2023) found that the ESG score of a company had a significant and positive impact on stock returns during the COVID-19 crisis. According to Murata & Hamor (2021), ESG disclosure can reduce the risk of future stock price declines. Ha et al. (2024) show that ES positively impacts stock prices.

H1: ESG affects stock prices.

2.3 Dividend Policy

Dividend policy is a company's decision about the dividends that stockholders receive from profits. Dividend policy is important for investors to pay attention to. The company's management choice about the proportion of profit to be distributed as dividends to shareholders at the end of the year is a crucial aspect of the company's financial management. Dividends serve as a return for shareholders on their investments, where shareholders tend to expect a high rate of return to maximize their wealth. The dividend policy requires management to be careful in determining the allocation of profits distributed as dividends to maintain shareholder trust while ensuring the sustainability of financing for company development (Bataineh, 2021). Based on studies done by Syofyan et al. (2020 and Koleosho et al. (2022), dividend policy has a favorable impact on stock values. According to their research, Camilleri et al. (2019), management and market shareholders have found that the connection between stock movements and dividend policy helps them make decisions. Lotto. (2021) also said management's devotion is shown in the dividend distribution to optimise shareholder investment. In addition, dividends also contain information that can serve as signals for the market, potentially affecting stock price movements and their volatility levels.

H2: Dividend policy affects stock price

2.4 Profitability

Profitability can be understood as a measure to analyze the degree to which a company can create profits from its operational activities. The company conveys information about this level of profitability to draw investors' attention and increase their interest in investing. The high level of profitability in companies generally encourages more capital investments from investors, which may eventually raise the value of the company's stock (Bon & Hartoko, 2022). The profitability variable positively affects stock prices (Putri & Ramadhan, 2023). The same finding was also made by Wahyuni and Bakri (2023) and Candra (2021): eearnings per Share positively and significantly impact stock prices. If the worth of the earnings coefficient for each share is high, it indicates that the business can increase its share price and be profitable for investors. This is good news for investors when making their investment decisions. Sholichah et al. (2021) outcome research shows that profitability affects changes in stock prices.

H3: The stock price is positively impacted by profitability

2.5 Profitability Moderates the Connection Between Environmental Social Governance and Stock Prices

Profitability plays a moderating variable in the connection between stock prices and Environmental Social Governance (ESG) because the level of profitability can strengthen or weaken the impact of ESG on a company's value in the market. Businesses that perform well in ESG tend to draw investors, especially those aware of sustainable investment. However, ESG's beneficial effects on stock prices can be more significant if the company also has high profitability, as it shows that the business can effectively handle its resources efficiently while implementing responsible business practices. While ESG can reduce risk, its effect on stock prices can be negative if the cost of implementation is high and is not offset by increased profitability (Albuquerque et al., 2019). This study backs up research by Purnomo et al. (2024) that earning per Share moderates the influence of environmental social governance on stock prices. Companies with higher ESG performance tend to have greater corporate value than companies with low ESG performance (El Deeb et al., 2023)

H4: Profitability moderates the connection between environmental, social governance and stock price

2.6 Profitability Moderates the Connection Between Dividend Policy and Stock Price

A high DPR indicates the company's dedication to paying dividends. In contrast, the ability of the business to turn a profit is marked by a high EPS that supports the dividend payment. This combination increases investor confidence and reinforces positive signals about the performance of the business and prospects. The company can provide stable and sustainable returns, pushing the stock price up. According to research conducted by Siswanti. (2024), which states that earnings per share mitigate the impact of the dividend payout ratio on stock prices. The same thing was also put forward by Yusuf and Jefriyanto (2021) that the EPS variable is the EPS variable ability to moderate the relationship of the DPR variable to the Sharia stock price, and the form of moderation is to strengthen.

H5: Profitability strengthens the relationship between dividend policy and stock price

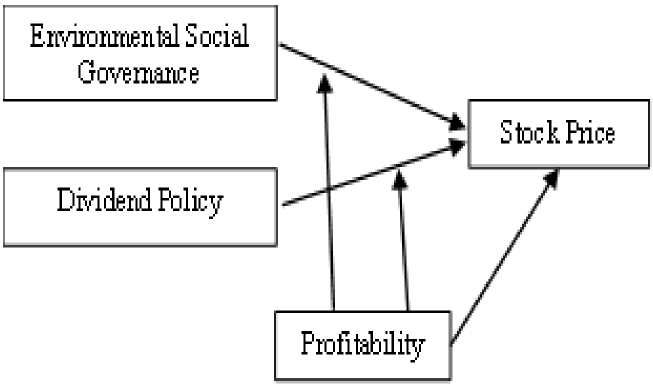

Figure 1: Theoretical Framework

3. RESEARCH METHOD

This study uses a quantitative methodology. The objects of the survey are companies included in the ESG Quality 45 Index IDX KEHATI. This study's population comprises every business included in the index between 2021 and 2023. The sample was determined using a saturated sampling technique, part of non-probability sampling. The secondary sources of information used in this investigation were gathered from multiple sources, including annual reports *and* sustainability reports. The data was acquired on the Indonesia Stock Exchange's official website (www.idx.co.id) and the KEHATI Foundation (https://kehati.or.id/indeks-sri-kehati/). Moderating regression analysis is applied to accept or reject hypotheses.

DOI: 10.5281/zenodo.15117715

Table 1: Variable Measurement

Variables	Code	Formula	Source
Stock price	HS	Closing price	(Purnomo et al, 2024)
Environmental, social governance	ESG	$\frac{\text{Jumlah item yang dipublikasikan}}{\text{Total keseluruhan item indikator GRI Standar}}$	(Ananda et al., 2023)
Dividend Policy	DPR	$\frac{\text{Dividend per saham}}{\text{Laba per saham}}$	(Sefti, 2021)
Profitability	EPS	$\frac{\text{Laba bersih}}{\text{Jumlah saham beredar}}$	(Sari & Indriani, 2022)
Firm Size	Firm Size	Total assets	(Ha et al, 2024)
Firm Age	Firm Age	Year of research – year of company establishment	(Ha et al., 2024)

4. RESULT DAN DISCUSSION

The test result table presents descriptive statistics from 72 data samples of ESG, DPR, Company Size, Company Age, Stock Price and EPS variables. ESG ranges from a minimum of 0.14 to a maximum of 0.96 with an average of 0.58 and a standard deviation of 0.19, indicating that companies in the sample have varying levels of ESG with a concentration of around 0.58. The Dividend Payout Ratio (DPR) ranges from 0.00 to 121.00 with an average of 48.36 and a standard deviation of 30.37, indicating that there are companies that do not distribute dividends and significant differences in dividend policies between companies.

Table 2: Results of Descriptive Tests

	N	Minimum	Maximum	Mean	Std. Deviation
ESG (Index)	72	0.14	0.96	0.58	0.19
DPR (Ratio)	72	0.00	121.00	48.36	30.37
Firm Size (Trillion Rp)	72	3.89	2174.22	346.50	574.57
Firm Age (Year)	72	3.00	41.00	22.83	9.71
Stock Price (Rp)	72	240.00	26075.00	5127.57	4931.62
EPS (Rp)	72	-794.68	5679.00	480.96	970.87
Valid N (listwise)	72				

Company size ranges from IDR 3.89 trillion to IDR 2,174.22 trillion, with an average of IDR 346.50 trillion and a standard deviation of 574.57, indicating significant differences in company size in the sample. Company age ranges from 3 to 41 years, with an average of 22.83 years and a standard deviation of 9.71, reflecting variations in the companies studied. Stock Price has a minimum value of Rp240,- and a maximum of Rp26,075,- with an average of Rp5,127.57 and a standard deviation of 4,931.62, indicating a large disparity in stock prices between companies. Earnings Per Share has a negative value of the lowest Rp-794.68 to the highest Rp5,679.00 with an average of Rp480.96 and a standard deviation of 970.87, indicating the existence of companies with negative earnings per Share and differences in financial performance between companies. Overall, the data shows large company size, dividend policy, stock price, and profitability variations in the sample of companies analyzed. The classical assumption test in this study used the SPSS 25 program. According to the classical assumption test, the Best Linear Unbiased Estimator (BLUE) regression equation is the predicted regression equation.

Table 3: Normality Test

Model	Asymp.Sig	Conclusion
1	0.200	Normal
2	0.200	Normal
3	0.080	Normal

Table 3 shows the normality test results obtained from data processing with One Sample Kolmogorov-Smirnov using SPSS. After removing outliers, all the normalcy assumptions are met by the models in this study. These results indicate that all models analyzed have met the normality assumption, which is one of the important requirements in statistical analysis.

Table 4: Multicollinearity Test

Variables	Model 1		Model 2		Model 3		Conclusion
	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF	

ESG	0.849	1.178	0.843	1.186	0.463	2.159	no multicollinearity
DPR	0.932	1.072	0.921	1.085	0.443	2.256	
EPS	-	-	0.833	1.200	0.196	5.056	
ESG*EPS	-	-	-	-	0.132	7.580	
DPR*EPS	-	-	-	-	0.188	5.324	
Firm Size	0.954	1.049	0.842	1.187	0.736	1.358	
Firm Age	0.834	1.199	0.783	1.277	0.743	1.346	

In Table 4, the results of the multicollinearity test above show that the tolerance value of all independent variables is > 0.10, and the Variance Inflation Factor (VIF) value is < 10, so there is no multicollinearity problem in the regression model.

Table 5: Autocorrelation Test

Model	DW	Cut Off	Conclusion
1	1.80	1.73<1.80<2.27	No autocorrelation
2	1.81	1.77<1.81<2.23	No autocorrelation
3	1.88	1.84<1.88<2.16	No autocorrelation

Source: Data Processed (2025)

Based on the Durbin-Watson table for the total data of 65, it can be concluded that the data in this study has met the assumption of being free from autocorrelation because the DW value meets the criteria du<dw<4-du.

Table 6: Heteroscedasticity Test

Variables	Model 1		Model 2		Model 3		Conclusion
	Coef	Sig	Coef	Sig	Coef	Sig	
ESG	1476.27	0.25	1345.58	0.17	-1601.32	0.76	no heteroscedasticity
DPR	-0.00	1.00	-1.17	0.84	-41.87	0.08	
EPS	-	-	1.07	0.10	-277.46	0.65	
ESG*EPS	-	-	-	-	249,936	0.79	
DPR*EPS	-	-	-	-	8,988	0.06	
Firm Size	-0.53	0.32	-0.21	0.63	-0.405	0.26	
Firm Age	-1,702	0.95	-11.78	0.54	-28.32	0.74	

From the results of the heteroscedasticity test, the sig value for all variables in each model can be seen as a value above 0.05, which ranges from 0.06 to 1.00. Consequently, it may be said that there are no indicators of heteroscedasticity in the data.

Table 7: Test of Hypothesis 1 and Hypothesis 2

Coefficients [a]				
Model		B	T	Sig.
1	(Constant)	7,382	20.121	0.000
	ESG	-1.083	-1.998	0.050
	DPR	-.001	-.328	0.744
	Firm Size	.001	3.303	0.002
	Firm Age	.049	4,679	0.000
	F_{stat}			8.77
	R^2			0.37

The ESG factor possessed a coefficient of -1.083, a t-value of -1.998, and a p-value of 0.050. At a significance level of 5%, these findings demonstrate that ESG significantly lowers stock prices. In the meantime, the dividend payout ratio (DPR) has no discernible impact on the stock price, as indicated by its coefficient of -0.001, t-value of -0.328, and p of 0.744. The estimated F of 8.77, higher than the F table 2.53, yielded a significance value of 0.000 based on the F test. The regression model used in this investigation is genuine since the F calculation is greater than the F table, and the significance value (0.000) is less than 0.05. Furthermore, a R Square value of 0.37 indicates that the dividend policy (X2) and ESG variables (X1) can account for 37% of the change in stock price (Y), with additional variables not included in the study model that affect the remaining 63%.

Table 8: Hypothesis 3

Model		B	T	Sig.
1	(Constant)	7.023	26.090	0.000
	ESG	-.841	-2.142	0.036
	DPR	.001	.371	0.712
	EPS	.002	7.490	0.000
	Firm Size	.000	1.738	0.087
	Firm Age	.035	4.426	0.000
	F_{stat}			24.68
	R^2			0.68

The study's findings demonstrate that stock prices are positively and significantly impacted by profitability as determined by earnings per Share (EPS). A regression coefficient of $\beta = 0.002$ at a significance level of $p < 0.001$ suggests a correlation between rising stock prices and rising EPS. The F table had a value of 2.37, while the F test in this study yielded a significance value of 0.000, with F estimated as 24.68. The regression model used to examine the association between the variables under study is deemed acceptable since the significance value is less than 0.05 and the F calculation is more than the F table. Furthermore, an R Square value of 0.68 indicates that 68% of the variance in the stock price (Y) can be explained by the profitability variable, with the other 32% being influenced by variables beyond the scope of this study.

Table 9: Hypothesis 4 and Hypothesis 5

Model		B	T	Sig.
1	(Constant)	-16.472	-2.751	0.008
	ESG	17.450	1.893	0.064
	DPR	-39.090	-.926	0.359
	LN_EPS	3.416	3.089	0.003
	ESG_LNEPS	-3.481	-2.050	0.045
	DPR_LNEPS	11.744	1.394	0.169
	Firm Size	-.339	-.532	0.597
	Firm Age	-13.152	-.471	0.640
	F_{count}			7.41
	R^2			0.49

The interaction between the Environmental Social Governance (ESG) and Earning Per Share (EPS) variables shows a significant negative influence on the stock price, with a coefficient of -3.48 and a significance value of 0.045 at a confidence level of 5%. Meanwhile, the interaction between the Dividend Payout Ratio (DPR) and EPS has a positive coefficient of 11.74, but it is statistically insignificant because the significance value is 0.17. The results of the F test show that the regression model used in this study is feasible and significant, with a significance value of 0.00, F calculation of 7.41, and F table of 2.18. Since the significance value is less than 0.05 and the F count is greater than the F of the table, it can be concluded that the model can be used to analyze the relationship between variables. In addition, an R Square value of 0.49 indicates that ESG variables and dividend policy, with profitability as a moderation variable, can explain 49% of the variation in stock prices. Meanwhile, the remaining 51% was impacted by additional variables not included in this study.

Environmental Social Governance and Stock Prices.

The regression analysis results demonstrate that **the Environmental Social Governance (ESG) variable** has a regression coefficient of **-1,083**, with a value of **t = -1.998** and a significance level **of 0.050**. This significance value is exactly at the 0.05 cutoff, indicating that ESG negatively and significantly affects the dependent variable. When a company increases its ESG score, its stock price volatility rises significantly. These results suggest that although ESG is considered an important factor in business sustainability, its implementation can have certain consequences in stock market dynamics. It can be explained by the cost mechanism inherent in ESG investment. When companies increase investment in environmental, social, and governance aspects, companies often face increased operating costs that can reduce short-term profitability. Investors focusing on short-term profits will consider increasing ESG as a negative factor because it can reduce dividends or net income available to shareholders. In developing countries, companies often face greater infrastructure and resource challenges. Therefore, resources are important for the company to increase stakeholders' satisfaction so that pressure from stakeholders who are not investors decreases and ultimately increases ESG (Zaitul, 2023). Performance In addition, markets may respond differently to ESG strategies depending on investors' expectations and their level of understanding of the long-term benefits of ESG.

The findings in this study support research conducted by Xaviera and Rahman (2023), also showing that at the **mature stage,** ESG performance significantly degrades, suggesting that ESG disclosure may only be done as a formality without providing added value. Other research findings indicate that while environmental, social, and governance factors do not significantly affect corporate value, they negatively and significantly impact return on equity (ROE) (Jeanice & Kim, 2023). The results of the study by Nugroho et al. (2024) indicate that environmental scores, social scores, and governance scores that reflect the disclosure of a company's performance in environmental, social, and governance aspects were determined to have a considerable negative impact on a company's stock price. Other studies also illustrate that ESG Disclosure significantly affects the company's value expressed in its stock price. However, a negative relationship exists(Ningwati et al., 2022). Research conducted by Zaitul et al. (2021) discovered that environmental disclosunegatively affects mark companies in companies listed on the LQ45 Index.

Dividend Policy and Stock Prices

According to the study's findings, dividend policy unaffected stock prices, which can be seen from the study results, namely sig 0.130 > 0.05. This finding is different from the traditional view of financial theory, which states that dividend policy can provide a signal to investors regarding the economic stability of the company. The lack of influence of dividend policy on stock prices can be explained through the tax differential *theory* proposed by Modigliani and Miller. The results of this study indicate that dividend policy is not a top priority for investors when determining a company's worth. Businesses must seek additional funds from outside sources to support their investment plans when distributing dividends. This means that dividend payments are offset by funds obtained from outside sources, so the value of the company's shares will fall after dividends are paid. Therefore, shareholders are not very interested in whether the company pays dividends or keeps its profits (Bello et al., 2020). Several studies have shown the same results, that share prices are unaffected by dividend policies, including Budagag (2020), which asserts that the market value of banks is not significantly impacted by dividend policy, and other studies also show that dividend policy does not affect share prices (Warouw et al., 2022; Rahayu & Yani., 2021; Magribi et al., 2023; Bon & Hartoko, 2022).

Profitability and Stock Prices

The research results obtained sig 0.00 < 0.05, which profitability has proven to impact stock prices significantly. When EPS increases, the company's shares become more attractive to investors, ultimately increasing the stock price. A company's increased capacity to produce net income per Share indicates its strong financial success. Investors seek better earnings per share. While a lower EPS suggests that the company is paying shareholders less for their shares depending on its profitability, a higher EPS shows that management can make enough money to give shareholders reasonable returns (Arhinful & Radmehr., 2023). The test results are consistent with previous research conducted by Putri and Ramadhan., (2023), Wahyuni and Bakri (2023), and Salden et al. (2021); earnings per share positively and significantly impact stock prices. If the value of *the earning per share coefficient* is high, the business can increase its stock price, which will be profitable for investors. This is good news for investors when making investment decisions. It was found that the company's stock price and net profit margin have a positive linear relationship (Mirgen et al., 2017).

Profitability Moderates the Relationship between Environmental Social Governance and Stock Prices

The study's findings indicate that the interaction variable **of ESG on EPS** has a negative and significant coefficient at the 5% significance level (B = -3.481; p = 0.045). A negative coefficient indicates that EPS weakens the link between ESG and stock prices. This means that when EPS increases, the impact of ESG on stock prices decreases or even becomes insignificant. This shows that in the context of this study, investors tend to pay more attention to profitability (EPS) than ESG performance in determining investment choices. Therefore, great profitability can lessen the effect of ESG on stock prices. This shows that investors prioritise financial factors over sustainability aspects in investment decisions. Thus, companies with high ESG performance must still be mindful of their profitability to maintain their attractiveness in the stock market. These findings imply that while ESG is important in long-term business strategy, in certain investment environments, especially those more profitability-oriented, ESG may not always be the primary factor in driving share prices. Therefore, companies need to find a balance between sustainability and profitability to maximize shareholder value. Research conducted by Reboredo and Ugolini (2022) found that stocks of companies with lower climate transition risks tend to provide greater returns to investors, which means that share prices do not fully reflect climate transition risks. This study supports research conducted by Rahelliamelinda and Handoko (2024), which found that profitability weakens the effects of governance, social performance, and the environment on the value of businesses. Trianjani and Suwitho (2023) state that moderate variable earnings per share cannot moderate the influence of profitability on stock prices.

Profitability Moderates the Relationship Between Dividend Policy and Stock Prices

The study results indicate that profitability does not moderate the connection between stock prices and dividend policies, where sig 0.145 > 0.05 is obtained. The findings of this investigation offer important insights into comprehending the dynamics of the relationship between the three variables. Theoretically, this finding does not support the signaling theory, which states that high profitability can strengthen the relationship between dividend policy and stock prices. According to signaling theory, companies with high profitability tend to distribute dividends as a signal of confidence to investors regarding the stability of future financial performance. Under these conditions, a consistent or increasing dividend policy is expected to strengthen the positive impact on stock prices, especially when supported by good profitability. However, the results of this study do not show such a relationship, suggesting that the relationship between dividend policy and stock prices is not moderated by profitability. The study's findings corroborate this conclusion by showing that profitability has no discernible impact on moderating the link between firm valuation

DOI: 10.5281/zenodo.15117715

and dividend policy (Anjarsari & Ilmiddafiq, 2023). Profitability cannot strengthen the influence of capital structure on firm value (Budiharjo, 2020). The results of other studies also show that profitability cannot moderate the impact of leverage, sustainability reporting, institutional ownership, and management ownership on company value (Risqi et al., 2021).

5. CONCLUSION AND RECOMMENDATION

According to the study, dividend policy has little influence on stock prices, but environmental, social, and governance (ESG) significantly lowers them. Profitability, which has been demonstrated to influence stock prices significantly, moderates the association between ESG and stock prices. On the other hand, profitability does not moderate the connection between stock prices and dividend policies. This finding is important to developing financial theories, particularly considering how ESG, dividend policy, and profitability affect company values. The finding that profitability substantially impacts stock values provides a positive signal to the market, indicating that the business can effectively turn a profit, which increases investor confidence. With profitability as a moderating element, the study's theoretical implications advance finance theory, particularly in comprehending the relationship between dividend policy, stock prices, and environmental, social, and governance (ESG) factors. The signaling theory, which holds that information about the financial performance of a business, especially its profitability, can signal investors to evaluate the company's prospects, is strengthened by the discovery that profitability significantly affects stock prices. It is suggested that future researchers broaden the research sample by adding more organizations that are not only included in the ESG Quality 45 IDX KEHATI Index but also those that are not but have comparable traits or are pertinent to the study's subject. To raise the scope and improve the accuracy of the research findings, researchers should also consider extending or changing independent factors that might influence the dependent variable, specifically the stock price, as the R square for this study was 49%.

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