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The Impact of Sustainable Financing, Dividend Policy, and Capital Structure on Firm Value: An Empirical Study of Banks Listed on the Indonesia Stock Exchange

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Abstract

This study aims to analyze the impact of sustainable financing, dividend policy, and capital structure on firm value, with a particular focus on the banking subsector listed on the Indonesia Stock Exchange (IDX). A quantitative analysis approach is employed to ascertain the relationship between the independent variables namely, the sustainable financing ratio, the dividend payout ratio (DPR), and the debt to equity ratio (DER) and the dependent variable, firm value, which is measured by the price to earnings ratio (PER). The study employs panel data regression analysis using the R-4.4.2 software packages. The sample comprises seven banking companies, selected using purposive sampling, with a total of 21 observations derived from annual financial statements and sustainability reports covering the period 2021-2023. The findings demonstrate that sustainable financing exerts a substantial negative influence on firm value, indicating that an augmentation in sustainable financing can actually diminish the market value of the company. Similarly, dividend policy has also been found to have a negative effect on firm value, while capital structure has been observed to have a positive but statistically insignificant effect. It is anticipated that this study will provide insights for management and investors, emphasizing the importance of balancing these financial variables in decision-making in order to enhance company performance and investment strategies.

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INTRODUCTION

The Sustainable Development Goals (SDGs) represent a global initiative designed to address the major challenges currently facing the world, including poverty, inequality, climate change, and environmental degradation. The Sustainable Development Goals (SDGs) were established by United Nations member states in 2015 and encompass 17 interconnected goals, with a total of 169 targets to be achieved by 2030. Each goal is designed to enhance the quality of human life while ensuring the sustainability of the planet. For example, the SDGs place particular emphasis on the eradication of poverty, the provision of quality education, gender equality, and efforts to mitigate climate change. The

realization of these objectives necessitates a collaborative effort between governmental entities, the private sector, civil society, and individual actors. The approach espoused by the SDGs is holistic, emphasizing the integration of social, economic, and environmental aspects.

The Indonesian government has implemented a series of policies with the objective of facilitating the attainment of the Sustainable Development Goals (SDGs). One of the principal policies integrating the Sustainable Development Goals (SDGs) into national planning is the National Medium-Term Development Plan (RPJMN), which serves as the foundation for formulating five-year development priorities. The RPJMN places particular emphasis on the reduction of poverty, the improvement of educational quality, and the development of sustainable infrastructure. Furthermore, "Peraturan Presiden" No. 59 of 2017 on the Achievement of Sustainable Development Goals provides the legal framework for implementing SDGs at the national level, including monitoring and evaluation mechanisms. The National SDG Action Plan (RAN SDGs), which was formulated in 2017, provides guidance for various sector programs with the objective of contributing to the achievement of these goals.

In accordance with Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Financing for Financial Services Institutions, Issuers, and Public Companies, banks are obliged to integrate sustainability principles into their operational procedures and investment decisions. Additionally, the regulation underscores the significance of evaluating environmental and social risks in all financing decisions and encourages banks to support initiatives that contribute to the achievement of the Sustainable Development Goals (SDGs). Moreover, several prominent Indonesian banks, including Bank Negara Indonesia (BBNI), Bank Mandiri (BMRI), Bank Rakyat Indonesia (BBRI), Bank Central Asia (BBCA), Bank CIMB Niaga (BNGA), Bank Danamon Indonesia (BDMN), and Bank OCBC NISP (NISP), which are listed on the Indonesia Stock Exchange (IDX), have implemented sustainable financing practices to support environmentally and socially responsible projects. This is anticipated to enhance the reputation of the bank and the companies financed, which will ultimately increase firm value in the eyes of investors and the market.

However, in addition to sustainable financing, dividend policy and capital structure also play a pivotal role in determining firm value. The dividend policies applied by banks reflect financial stability and decisions related to profit distribution to shareholders, which can influence market perceptions of the company's value. Additionally, capital structure, which involves the relationship between debt and equity, plays a role in risk management and enhancing operational efficiency.

Based on the discussion, it is expected that banks in Indonesia implementing sustainable financing will demonstrate how effective management of environmentally friendly financing, dividend policy, and capital structure can collectively increase the overall value of a company. The objective of this study is to examine the influence of three key factors, sustainable financing, dividend policy, and capital structure on firm value. Additionally, the study aims to elucidate the manner in which these

factors interact to foster the emergence of more sustainable and high-value firms within the market.

Firm Value

Firm value, also known as enterprise value (EV), reflects the total worth of a business and is defined as the sum of the market value of the firm's equity, debt, and any other financial claims. According to Fabozzi and Drake (2010), firm value is intrinsically linked to the present value of expected future cash flows, which are typically estimated using methods such as the discounted cash flow (DCF) technique. The valuation process involves forecasting these future cash flows, determining the appropriate discount rate, and calculating their present value. The firm's capital structure, including the balance between debt and equity, and its financing decisions, play a significant role in determining the overall value of the company. Risman (2021) argues that the firm's value can be defined as the present value of its future cash flows, which are subject to fluctuations due to inherent risks such as changes in revenues, expenses, and macroeconomic factors like exchange rates. These cash flows, largely influenced by managerial decisions regarding investments and financing, shape the firm's value. Brigham and Houston (2001) further discuss various ratio-based methodologies for assessing market value, such as the price-earnings ratio (PER), price-to-book value ratio (PBVR), market-book ratio (MBR), dividend yield ratio, and dividend payout ratio (DPR). In this study, firm value is proxied using the price-to-earnings ratio (PER), a widely used metric for market valuation. It can be defined by the following formula:

$$\text{PER} = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

Sustainable Financing

In accordance with the UN Consensus, sustainable financing is a crucial element in the attainment of Sustainable Development Goals (SDGs). The financial sector is therefore called upon to provide support for the transition towards a more environmentally friendly, just, and inclusive economy (United Nations, 2021). From the perspective of the World Bank, the importance of financing is twofold: it must consider not only the economic potential of a given project, but also the long-term sustainability of that project, including the mitigation of climate risk and the prudent management of debt (World Bank, 2021). In the view of the Financial Services Authority (OJK), sustainable financing signifies the incorporation of environmental, social, and governance (ESG) elements into the processes of financing and investment. In accordance with OJK Regulation No. 51/POJK.03/2017, financial institutions, public companies, and issuers are obliged to prepare sustainability reports that reflect their commitment to the principles (OJK, 2017). A notable advancement is the formulation of Indonesia's Green Taxonomy, a classification system that identifies economic activities that advance environmental conservation and climate change mitigation (LPPI, 2021). Moreover, the OJK endorses the issuance of green bonds as a financing instrument for environmentally friendly projects (LPPI, 2021). In its 2021-2025 sustainable financing roadmap, the OJK underscores the necessity of developing green economy

reporting standards and fostering awareness within the financial industry regarding climate change risk management (OJK, 2021). In this study, sustainable financing is proxied using the sustainable financing ratio (SFR). It can be defined by the following formula:

$$SFR = \frac{\text{Total Sustainable Financing}}{\text{Total Loan}}$$

The stakeholder theory (Freeman, 1984) posits that companies that implement sustainable financing are perceived to enhance long-term performance and company value through more constructive relationships with stakeholders, including investors, consumers, and regulators. The findings of Susilowati et al. (2020) indicate that organisations which integrate sustainable financing practices into their policies tend to have a reduced cost of capital and are therefore able to attract greater investment. Similar findings were also reported by Yulianto et al. (2021), who observed that companies that prioritise sustainable financing are better equipped to manage risk and reputation, which in turn contributes to an increase in the company's market value. The findings of Sutrisno et al. (2020) suggest that companies that implement sustainable financing are more likely to have a higher market value, due to positive perceptions from investors regarding their management of social and environmental risks. In conclusion, the results indicate that sustainable financing can positively impact firm value in Indonesia, either through enhanced risk management, a stronger reputation, or a reduction in the cost of capital. Based on existing theories and prior research, the first hypothesis of this study is stated as follows:

H1: Sustainable financing has a positive impact on firm value

Dividend Policy

The concept of dividend policy is grounded in the principles of the Dividend Irrelevance Theory, first articulated by Modigliani and Miller (1961). This theory asserts that a firm's dividend policy does not affect its intrinsic value, as investors can achieve the same return through capital gains or dividends. In contrast, the Bird-in-Hand Theory, proposed by Gordon (1963), suggests that investors prefer current dividends over uncertain future earnings, as dividends provide a greater sense of security. Another relevant theory, the Tax Preference Theory, emphasizes the role of taxation, proposing that investors tend to favor companies that retain earnings to avoid the higher taxes imposed on dividends, compared to those levied on capital gains (Eugene & Houston, 2004). Furthermore, the Dividend Smoothing Theory highlights the importance of maintaining a consistent dividend payment schedule, regardless of fluctuations in a company's profits. This suggests that managers typically avoid sudden changes in dividend rates, a strategy supported by empirical observations (Lintner, 1956; Guttman et al., 2008). Dividend policy can be assessed using several key ratios, including the dividend payout ratio, dividend yield, dividend coverage, retained earnings ratio, and dividend growth rate. In this study, dividend policy is proxied using the dividend payout ratio (DPR), which can be defined by the following formula:

$$DPR = \frac{\text{Dividen Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

According to the Bird in the Hand Theory (Gordon, 1963), investors prefer the certainty of dividends over the potential for future capital gains, making dividend-paying firms more attractive and, consequently, increasing their market value. In line with Signaling Theory (Spence, 1973), companies that pay dividends may signal their strong financial health and future profitability to the market, positively influencing investor perception and, ultimately, firm value. However, the precise impact of dividend policy may vary depending on various factors. Some theoretical frameworks suggest that dividend policy can serve as an indicator of a company's financial well-being, potentially influencing the investment decisions of stakeholders. Research conducted by Silitonga (2021) indicates that dividend policy positively impacts the value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2016-2020. Similarly, a study by Sari and Hidayat (2020) on companies in the LQ45 index found that dividend payments have a significant positive effect on firm value, with investors perceiving dividends as a signal of a company's stability and future profitability. Furthermore, Sitorus (2022) observed that, in the context of state-owned enterprises in Indonesia, dividend payouts are associated with higher market valuations due to the trust they instill in investors. Consequently, although dividend policy is frequently regarded as a significant factor, its direct impact on firm value is contingent upon various external and internal company-specific variables, as noted by Risna (2024). Based on existing theories and prior research, the second hypothesis of this study is stated as follows:

H2: Dividend policy has a positive impact on firm value

Capital Structure

In accordance with the theory of Modigliani and Miller (1958), the capital structure of a firm is not a determining factor in its value in a hypothetical market devoid of factors such as taxes, bankruptcy costs, and information asymmetry. However, subsequent incorporation of corporate taxes led to the proposition that elevated debt levels could enhance firm value on account of the tax shield benefits (Modigliani & Miller, 1963). Moreover, the Trade-off Theory, as postulated by Kraus and Litzenberger (1973), maintains that firms select an optimal capital structure by weighing the tax advantages of debt against the costs associated with bankruptcy. It is anticipated that companies will utilize debt to the extent that it optimizes firm value, but only up to the point where the costs of bankruptcy or other financial losses exceed the tax benefits associated with debt. In contrast, the pecking order theory, as proposed by Myers and Majluf (1984), suggests that companies will prefer internal financing as a first resort before using debt and only issue equity when both are unavailable. This is due to the information asymmetry that exists between management and investors. In contrast, the Market Timing Theory, as proposed by Baker and Wurgler (2002), asserts that a company's financing decisions are primarily influenced by prevailing market conditions. Managers are purported to strategically exploit high or low

stock prices, contingent on the market cycle. Furthermore, capital structure can be assessed using several key ratios, including the Debt-to-Equity Ratio (DER), Leverage Ratio (L/R), and Weighted Average Cost of Capital (WACC). In this study, capital structure is proxied using the Debt-to-Equity Ratio (DER). It can be defined by the following formula:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

According to Modigliani and Miller's theory (1958), the capital structure of a firm, comprising debt and equity, does not affect its value in a perfect market. However, when considering corporate taxes, their 1963 proposition suggests that debt can enhance firm value due to the tax shield benefits. The appropriate use of debt can optimize the capital structure and increase firm value, but this must be carefully balanced against the costs associated with potential bankruptcy. As Risman (2021) asserts, the capital structure, specifically the debt-to-equity ratio (DER), significantly influences firm value. A higher DER indicates greater financial leverage, which increases interest expenses and financial risk, while a lower DER may signal underutilization of debt to fuel growth. The theory of optimal capital structure, as discussed by Brigham and Houston (2019), aligns with the view that a well-balanced capital structure can mitigate bankruptcy risks and enhance financial flexibility, ultimately improving firm value. This logic is supported by previous research, such as Supriyadi and Subiakto's (2020) findings, which indicate that a proportional capital structure can enhance investor confidence and the stability of the firm. Effective financial management and strategic debt usage can drive profitability without overly burdening the company's operations. Similarly, Hikmah et al. (2023) highlight that an optimal capital structure provides direct benefits to shareholders by balancing risk and return, maximizing both asset value and market value. The ideal capital structure is one that achieves a balance between risk and return, thereby maximizing firm value (Aslindar & Lestari, 2020). Based on existing theories and prior research, the third hypothesis of this study is stated as follows:

H3: Capital Structure has a positive impact on firm value

Conceptual Framework

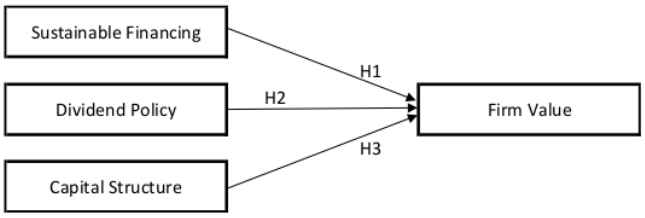

Figure 1. Conceptual Model

METHOD

Research Method

This study employs a quantitative analysis approach to evaluate the interrelationships between the examined variables (Sugiyono, 2016). The objective of this study is to examine the influence of independent variables (X) on the dependent variable (Y). The independent variables in this study include the sustainable financing ratio, dividend payout ratio (DPR), and debt to equity ratio (DER), while the dependent variable is the firm value, proxied by the price-to-earnings ratio (PER).

Measurement

The statistical analysis conducted in this study includes descriptive analysis, model selection and suitability tests, classical assumption tests, and hypothesis testing. The general panel data regression model is as follows:

$$Yit = \alpha + \beta 1X1it + \beta 2X2it + \beta 3X3\text{it} + \text{e it}$$

Where:

Y = PER, $X1$ = PB, $X2$ = DPR, $X3$ = DER, β = The coefficients for the independent variables, α = The intercept term, $e$it= error term for unit i at time t

This paper presents an analysis of the applications of statistical data processing using the R-4.4.2 software.

Population & Sample

The population under consideration in this study is constituted by banking companies listed on the Indonesia Stock Exchange (IDX). A purposive sampling method was employed to select a sample of seven banking companies, based on the following criteria: companies that are committed to sustainable financing, distribute dividends annually, and have a large market capitalization. Secondary data were obtained from annual financial reports and sustainability reports available on the official website of the Indonesia Stock Exchange for the period 2021-2023, resulting in a total of 21 observations.

RESULTS AND DISCUSSION

RESULTS

Classical Assumption Tests

Table 1. Classical Assumption Test Results

Test	Method	Probability	Hipothesis Result	Conclusion
Normalitas	Shapiro-Wilk	0.9901 > 0.05	H_0 accepted	Berdistribusi Normal
Multikolienaritas	Variance Inflation Factor	X1-2.031382, X2-2.052822, X3-1.034992	1 < p-value > 10	Tidak Terjadi Multikolinearitas
Heteroskedastisitas	studentized Breusch-Pagan	0.6463 > 0.05	H_0 accepted	Tidak Terjadi Heteroskedastisitas
Auto Korelasi	Breusch-Godfrey/Wooldridge	0.08034 > 0.05	H_0 accepted	Tidak Terjadi Autokorelasi

Source: R_Studio (4.4.2)

Normality Test

Based on table 1 above, a normality test was conducted to ascertain the distribution of the data. The Shapiro-Wilk test yielded a p-value of 0.9901, which exceeds the 0.05 significance threshold (0.9901 > 0.05). This result indicates that the data do not deviate from a normal distribution, and thus the null hypothesis of normality cannot be rejected.

Multicollinearity Test

Based on table 1 above, the variance inflation factor (VIF) values for all independent variables are below 10, indicating that multicollinearity is not a concern. In particular, the low VIF values demonstrate that the independent variables do not demonstrate a strong linear correlation with one another.

Heteroscedasticity Test

Based on table 1 above, the p-value for the heteroscedasticity test is greater than 0.05, indicating that there is no evidence to reject the null hypothesis of homoscedasticity. This suggests that the variance of the residuals remains constant across all levels of the independent variables.

Autocorrelation Test

Based on table 1 above, the p-value for the autocorrelation test is greater than 0.05, indicating that the residuals do not exhibit autocorrelation. Therefore, it can be concluded that the errors in the regression model are independent across observations.

Panel Data Model Selection Test

Table 2. Panel Data Model Selection

Test	Probability	Hipothesis Result	Conclusion
Chow Test	1.945e-07 < 0,05	H_0 Rejected	Fixed Effect Model
Hausman Test	4.319e-06 < 0,05	H_0 Rejected	Fixed Effect Model

Source: R-4.4.2

Based on table 2 above, the results of the model selection test indicate that the fixed effect model (FEM) is the most appropriate model for this study.

Panel Data Model Feasibility Test

Table 3. Model Statistics

Model Statistics:

Total Sum of Squares	67.495
Residual Sum of Squares	23.403
R-Squared	0.65326
Adjusted R-Squared	0.36957
F-statistic	6.90807
p-value F-statistic	0.0069976

Source: R-4.4.2

Coefficient of Determination

Based on table 3 above, The coefficient of determination is 0.65326, or 65.3%, which implies that the independent variables—sustainable financing, dividend policy, and capital structure—explain 65.3% of the variation in firm value (PER). The remaining 34.7% of the variation is attributed to other factors not included in the model, suggesting that the model provides a reasonably good fit.

F-test (Simultaneous Test)

Based on table 3 above, the F-test (simultaneous test) yielded an F-statistic of 6.90807 with a corresponding p-value of 0.0069976, which is less than the 0.05 significance level. This result implies that the independent variables (sustainable financing, dividend policy, and capital structure) collectively exert a significant influence on firm value (PER).

Multiple Linear Regression

Table 4. Coefficients

Coefficients:

Variable	Estimate	Standard Error	t-value	p-value	Significance
X1	-102.589571	25.236641	-4.0651	0.001867	**
X2	-18.749529	5.633938	-3.3280	0.006736	**
X3	0.092294	2.097029	0.0440	0.965684	

Source: R-4.4.2

Table 5. Fixed Effect Values

Company Name	Estimate	Standard Error	t-value	p-value
Bank Central Asia, Tbk (BBCA)	62,5268	11,874	5,2658	0,000266
Bank CIMB Niaga, Tbk (BNGA)	42,5436	13,3826	3,179	0,008776
PT Bank Danamon Indonesia, Tbk (BDMN)	36,5809	8,1289	4,5001	0,000901
PT Bank Mandiri (Persero), Tbk (BMRI)	46,9434	15,9934	2,9352	0,013565
PT Bank Negara Indonesia, Tbk (BBNI)	45,8435	14,0532	3,2621	0,00757
PT Bank OCBC NISP, Tbk (NISP)	36,3177	12,3697	2,936	0,013544
PT Bank Rakyat Indonesia, Tbk (BBRI)	99,8208	19,3829	5,15	0,000318

Source: R-4.4.2

The multiple regression analysis gives the following equation:

$$PERit = \beta 0 - 102.589571.PBit - 18,749529.DPRit + 0,092294.DERit + eit$$

Hypothesis Testing

T-Test (Partial Test)

Based on table 4 above, the p-value for sustainable financing is 0.001867, which is less than the 0.05 level of significance, indicating a significant negative relationship between sustainable financing and firm value. The p-value for dividend policy is 0.006736, which is also less than 0.05, indicating a significant negative impact of dividend payout ratio on firm value. The p-value for capital structure is 0.965684, which is greater than 0.05, indicating that capital structure does not have a significant impact on firm value.

DISCUSSION

The impact of sustainable financing on firm value

The regression analysis shows that sustainable financing has a significant negative impact on firm value, with a coefficient of -102.589571. This means that for every unit increase in sustainable financing, the firm value decreases by 102.589571 units. This finding implies that although sustainable financing is expected to have positive long-term effects, investors may perceive it as a hindrance to short-term profitability. Previous studies, such as those by Zhou et al. (2020), have also found that companies that focus too much on sustainable financing often face challenges in increasing short-term profits, which in turn can reduce their market value. This is consistent with the findings of Hanifa (2024), who examined the impact of green financing, environmental performance and corporate social responsibility (CSR) disclosures on firm value through financial performance. Hanifa's study also found a negative impact of green financing on firm value. While sustainable financing aims to improve social and environmental impact, investors tend to view it as an obstacle to achieving short-term profits. This study reinforces the notion that overemphasis on sustainable finance can reduce a company's attractiveness to investors focused on immediate financial returns.

The Impact of Dividend Policy on Firm Value

The coefficient for dividend policy is -18.749529, indicating a significant negative relationship between dividend policy and firm value. Each unit increase in the payout ratio is associated with a decrease in firm value of 18.749529 units. This phenomenon can be explained by the assumption that companies that pay high dividends are often viewed negatively, as they prioritise paying dividends over reinvesting profits. This is in line with Gordon (2019), who argued that a high dividend policy may signal to the market that the company lacks investment projects that can generate returns higher than the dividends themselves, thus reducing the value of the company. Similarly, Puspitarini (2022) found that a high dividend payout ratio often signals a lack of profitable investment opportunities, as the company chooses to distribute earnings rather than allocate them to potentially more profitable projects. Zahro (2023) also supports these findings, finding a significant negative impact of the dividend payout ratio on firm value.

The Impact of Capital Structure on Firm Value

The capital structure variable shows a positive coefficient of 0.092294, indicating a possible positive relationship between capital structure and firm value. However, the t-test results suggest that this relationship is not statistically significant. This means that although increasing leverage or using debt for expansion may theoretically increase firm value, changes in the debt-equity ratio did not have a significant impact on firm value in the data analysed. This may be due to the influence of other more dominant factors or differences in debt management that affect this outcome. According to Modigliani and Miller (1958), under certain conditions, capital structure does not always have a direct impact on firm value, especially if factors such as risk and debt management are not carefully considered. Studies

by Susi (2023) also found that capital structure does not significantly affect firm value. Similarly, Harahap (2003) suggested that under certain conditions, the use of debt in the capital structure does not always result in a significant increase in firm value, as managerial factors and debt management strategies may vary and influence the effectiveness of leverage in increasing firm value.

CONCLUSION

This study shows that sustainable financing has a significant negative impact on firm value. Each increase in sustainable financing leads to a decrease in firm value of 102.59 units. This can be attributed to investors' focus on short-term profitability, as sustainable financing, despite its social and environmental benefits, does not always yield immediate financial returns. Previous research, such as that of Zhou et al. (2020) and Hanifa (2024), also supports the notion that green financing policies are often seen as barriers to achieving quick financial gains, leading to a reduction in market value.

Dividend policy was also found to have a negative impact on firm value, with an increase in the payout ratio actually reducing firm value. This suggests that high dividend payouts often signal to the market that the company lacks more profitable investment opportunities.

Meanwhile, the capital structure showed a positive relationship with firm value, although it was not statistically significant. While theory suggests that increased use of debt may increase firm value, this study did not find such a significant effect, consistent with Modigliani and Miller's (1958) proposition that capital structure may not always directly influence firm value if other factors, such as risk management and debt administration, are not adequately considered. This finding is consistent with the research of Susi (2023) and Harahap (2003), who also found that capital structure does not always have a significant impact on firm value.

Overall, the findings of this study provide valuable insights for both management and investors. For management, it is crucial to maintain a balance between sustainable financing, dividend policy and capital structure in the company's financial strategy, as their impact on firm value can vary. For investors, these findings highlight the importance of considering the factors examined when making investment decisions, particularly in the banking sector.

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