

# THE EFFECT OF DIVIDEND POLICY, FINANCIAL PERFORMANCE AND ENVIRONMENTAL PERFORMANCE ON INVESTOR REACTIONS

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## ABSTRACT

Investors pay attention to the future business prospects of the investments they choose, although in investing the conditions of the investments they choose cannot be known with certainty. Investor's reaction is the response of the investor itself to the information provided by the company and can be positive or negative. The purpose of this study was to examine the effect of Dividend Policy, Financial Performance and Environmental Performance on Investor Reaction in manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 Period and rarely discussed investor reaction. The method used in this research is to use panel data regression processing. The Findings of the analysis after going through the Chow test and the Hausman test show that the coefficient factors namely the Dividend Policy (0.126), Financial Performance (2.232) and Environmental Performance (0.293) have a significant influence on the Investor Reaction in the manufacturing company group. This research discussing more intense to the effect of Dividend Policy, Financial Performance and Environmental Performance on Investor Reaction in 24 companies listed on the Indonesia Stock Exchange (IDX) and participating in the PROPER program implementation for 5 years. The following conclusions were obtained: Dividend Policy, Financial Performance, Environmental Performance included in this research model have a positive effect on Investor Reactions proxied with Abnormal Returns. Managerial implication that can be made into future policies are regulations requiring companies to be more active in expressing social and environmental responsibilities.

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## INTRODUCTION

The investor made an investment to divert the funds he currently has. By making investments, investors certainly have hopes of getting profits in the future. Investment decisions and investment behavior can be investigated from two perspectives: experimentally and conceptually. The empirical and theoretical approaches to investment behavior have few similarities (Virlics, 2013). There are various kinds of purposes for investors to buy shares, the

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purpose of investors to obtain profits from the ups and downs (fluctuations) of stock prices by buying the shares when they fall and selling them when the stock price rises, and there are also those who aim to obtain a share of profits on the number of shares they own, or it can be called dividends that will later be paid by an entity in each year. Investors who will invest their shares will later see several things before buying shares, some of them are in the form of a rate of return on investment (return) where in getting it investors are important to know information from the company so that later investors decide when to sell, buy or hold a security, the next thing investors will consider before investing their shares is the distribution of their share profit (dividends).

Basically, investment can be in the form of several types that can be invested in forms such as investment in projects, bonds, investments in the form of foreign exchange trading or stock investments. The reaction of investors is the response of the investor himself to the information provided by the company and can be both positive and negative (Maristi, 2013). A company's success can be reflected through the share price issued by the company, the increase in stock price that occurs in the company makes investors have an assessment that the company can manage its business well. One of the good news that the company hopes is that when investors have confidence in the company, because with this condition, it will make many people believe in the future of the company, the investor's desire to invest in it will increase. Abnormal Returns that occur can describe changes in stock prices in the form of capital market efficiency. Abnormal Return which is an advantage of the return that actually occurs against the normal return, which is a change in the rate of return that investors expect (Ayuni, 2016). The difference in positive returns occurs if the return in can be greater than the expected return or the return calculated as the estimate. Meanwhile, a negative return occurs if the return obtained is smaller than the expected return or the return is calculated as an estimate. According to Yulia (2013) Abnormal Returns can occur due to certain events, for example the beginning of the month, the beginning of the year, national holidays, stock splits, unstable political atmospheres, initial public offerings, extraordinary events and others.

The reaction of a capital market that is observed using a sequence of events sometime in the future, which contains an announcement of profits, it can be concluded that this information is the cause of the reaction of investors (Maristi, 2013). The information obtained by the management in the form of non-financial information and financial information will be a signal about the company's financial performance in the future (Dewantara, 2018). When company information is disclosed, investors will have a positive or negative reaction (Maristi, 2013). If investors' confidence in investment changes, which can be seen from the correlation between return events, then the information will be useful. Investor reaction will result in changes in stock prices and also stock trading volumes (Prabandari & Ketut, 2014). Investor is defined as an individual or business group who invests in an entity with the aim of obtaining profits through company profits due to fluctuations in stock prices which later aims to get the return paid by an entity (Prabandari & Ketut, 2014).

With the information, the fundamental needs of investors in investing become a complete, accurate, relevant and timely dose that allows investors to make rational decisions so that the results obtained are as estimated. There is some information that affects the reaction of investors in making decisions, some of which is information about the distribution of the company's dividend, information in the disclosure of the company's relationship with its environment and also the company's participation in preserving its environment. Information regarding the dividend policy submitted by the company is important for investors to know the future prospects of the shares invested in the company. The increase in dividends shared is an investor's view that the company is experiencing a promising performance improvement for the

company to continue (going concern). [Ayuni \(2016\)](#) stated that when asymmetric information occurs managers will use a dividend policy strategy. This condition is based on the allegation that the announcement of the cash dividend contains information that can encourage investors' reactions to changes in stock prices. The dividend policy is used later to consider whether all profits will be divided into shareholders or held for investment spending in the future.

The rapid development of the business today makes investors more observant in investing their shares. Investors view early investing by looking at how good the company's image is. Information that is currently one of the important considerations for potential investors is information that contains social and environmental. [Prabandari and Ketut \(2014\)](#) stated that the company's management must have a vision in preserving the environment, which should have been the entity's responsibility to society and the environment for its operational performance. Environmental Performance is an important source of information so that companies can achieve an efficient level of production, have good productivity in accordance with established safety standards, cost efficiency caused by environmental damage and the opportunity to obtain new markets ([Prabandari & Ketut, 2014](#)).

Environmental Performance Measurement in Indonesia uses the PROPER Assessment Program held by the Ministry of Environment in building corporate responsibility or obligations to the company's environment. The ranking set by the Ministry of Environment will later be in the form of a color order, the value for the gold color will be given a score of 5, for the green color the score is 4, then the score is 3 for blue, the red color score is 2 and 1 will be given for black. Companies with a black rating will be sanctioned in accordance with the regulations set, companies that get black means that the company does not think about the impact of environmental damage that has been made as a result of its operations and endangering the surrounding environment ([Prabandari & Ketut, 2014](#); [Hastuti, 2022](#)).

The main gap usually start when management are in a dilemma about whether to pay of their investor earnings as dividends or to retain them for future investments. This has come about as a result of the need for management to satisfy the various needs of investor reactions. For instance, investor or shareholders who need money now for profitable investment opportunities would like to receive high dividends now. On the other hand, shareholders who would like to invest in the future will prefer dividends to be retained by the company and be reinvested. This makes capital gains on paying shares low for social-environmental and financial performance, thus, some shareholders prefer low dividends to high dividends in order to take the benefits accruing on capital gains. From the other side, Management are always dealing with competing interests of various shareholders, the kind of dividend policy they adopt by them may have either positive or negative effects on the company value. They are therefore unable to forecast with certainty to what extent the policy will affect their future values of their firms. The questions therefore to be asked are: Should the firm pay out money to its shareholders, or should the firm take that money and invest it for its shareholders? If a firm decides to pay a dividend, of what percentage of its earnings? Given the above, will this affect the share price of the firm? Would the company lose some shareholders if they adopt a particular dividend policy?

In this study, modifications were made that were different from previous studies regarding the relationship between dividend policy variables and environmental performance to investor reactions. Research goals need to be set in advance so as not to lose direction, so that research success can be achieved in accordance with the expectations of researchers. Based on the formulation of the problem above, the objectives of this study are testing and obtaining empirical evidence on the effect of those factors with investor reaction on manufacturing companies listed on the Indonesia Stock Exchange period 2017-2021. Thus, researchers are

interested in conducting research with the issue of The Influence of Dividend Policy, Return on Assets and Environmental Performance on Investor Reactions.

### **Stakeholder Theory**

Stakeholder Theory is a theory that states that an entity is not just a company that operates for the benefit of its own entity, but an entity must be able to balance between its interests and the prosperity of its stakeholders. Investors who are part of one of the stakeholders also need to pay attention to their wishes, by knowing these things, managers will easily formulate what strategies the company will do. A strategy that not only meets the needs of investors and other stakeholders but also a strategy that can later also help entities achieve the ultimate goal. Managers can find stakeholder theory relationships that can increase company value due to company activities and can minimize losses for stakeholders. The increase in the value of the company will also result in an increase in the company's image which will become a benchmark and investor's interest in the company they will invest in. Based on stakeholder theory, management is expected to be able to do what stakeholders consider important and report it back to stakeholders. In this case, management is also expected to be able to report what the company has done, such as the disclosure of corporate social responsibility which is an added value for investors in their confidence in investing in a company. Stakeholders have the right to know the disclosure of the dividend policy that the company issues to be an investor's prediction in the future whether the investor will buy, sell or retain his shares. The company's attention in indicators that allude to the sustainability of its environment can also make investors confident that the company will continue, in this case the application of the stakeholder theory is enforced ([Astuti & Nugrahanti, 2015](#); [Prabandari & Ketut, 2014](#); [Yudha & Nasir, 2012](#)).

### **Signaling Theory**

Signaling Theory is a theory that explains the information signals needed by investors to consider and determine whether investors will invest their shares in the company in question. This theory explains that the information signal about the dividend paid by an entity is proof that the company gives signals to investors about the company's future prospects financially. The increase in dividends will provide information for investors in the form of signals that the company is experiencing an increase in performance, while a decrease in dividends will signal that the company will experience a decrease in the company's future profit (loss). Signal Theory emphasizes the importance of information issued by the company as information before decisions are made by outside the company. The importance of information for investors as an illustration of whether the company can have continuity in the future, how it will affect the market. The manager has the obligation to disclose signals of the condition of his company as a form of responsibility for the management of the company. In order to maximize their profits, the scarf can be in the form of promotions or information in the form of a statement that the company has better prospects than other companies. In addition, signal theory also provides a view that positive information from the company will make good feedback from investors in making their investment decisions. If the company can provide information about environmental performance, it is considered that the company will not only pay attention to the financial prospects or profits of its company's activities, but non-financial matters are also considered as the company's balance in maintaining good relations between the company, stakeholders and the surrounding environment ([Astuti & Nugrahanti, 2015](#); [Ayuni, 2016](#)).

### **Investor Reaction**

Investor reaction is an investor's action that occurs due to stock returns. Investor reaction is a response from investors to the information provided by the company which is in the form of positive or negative things (Astuti & Nugrahanti, 2015). Investors are individuals, groups, or legal entities that invest in a particular business unit. The existence of stock returns can also be interpreted as the profit obtained from the ownership of investment shares made by investors consisting of dividends and capital gains (losses). Shares that are proof of taking part or participation in a Limited Liability Company (PT). Investors invest their shares with the aim of getting a rate of return according to the initial prediction. There are two types of shares including preferred shares and ordinary shares. Preferred stock is a stock that contains securities with the characteristics of ordinary shares and bonds. There are several projections that can be used in researching reactions from investors, including through abnormal returns. Abnormal return (abnormal return) is the difference between the actual rate of return that occurs and the expected return (Astuti & Nugrahanti, 2015; Ayuni, 2016).

### **Dividend Policy**

Dividend policy is a decision on whether the profit earned by the company at the end of the year will be divided into shareholders in the form of dividends or will be held to increase capital for investment financing in the future (Ayuni, 2016). This makes the company's funding decision unable to move far from the dividend policy issued by the company to attract investors.

Companies that are able to distribute dividends are companies that have a high level of profit achievement and have a continuous future. Nowadays, there are many companies that claim to have prospective futures but are in the zone of financial difficulties to pay dividends. According to Ayuni (2016) there are several factors that affect dividend policy, namely, restrictions on dividend payments, investment opportunities, the influence of dividend policy on the cost of own capital and alternative sources of capital. There are theories related to dividend policy. In this regard, Modigliani and Miller (MM) argue that the value of the company is determined through the company's ability to make a profit from the risks of its business, in which case the company will depend on the profit generated through its assets, not retained earnings or profits to be divided into dividends. In understanding the theory that MM describes, MM shows that dividend policy is something that is relevant for every shareholder to make their own dividend policy. There are 4 dividend distribution procedures that must be carried out with the criteria of having an important date, namely:

1. Announcement Date

The emergence of management's obligation to pay dividends to shareholders is on the date on which dividends are announced by the board of directors.

2. Date of Record

Shareholder dividend receipts are required to be registered as owners or shareholders. Where the announcement date is usually accompanied by the listing date and is recorded about two or three weeks after the dividend is announced.

3. Ex-Dividend Date

This date is the date on which the investor is entitled to receive or not receive dividends. This date plays an important role for investors of companies whose shares are traded on the stock market. In general, this date is set at 3 working days. For investors who sell their shares before the ex-dividend date and buy after the ex-dividend date, the investor is not entitled to a share.

#### 4. Payment Date

The payment date is the announcement date that is always followed by the distribution of dividends. These dates are generally two or three weeks after the recording date.

In addition, there is a theory of tax differences proposed by Litzenger and Ramaswamy, namely, investors prefer capital gains over dividends because although there is a tax between capital gains and dividends, capital gains can delay tax payments (Astuti & Nugrahanti, 2015; Ayuni, 2016; Hastuti, 2022).

#### **Financial Performance**

Financial Performance (FP) is a form of profitability ratio that measures a company's ability to invest all funds in its assets that are used for the company's operations to generate profits. The increase in Financial Performance indicates the company's performance in managing its assets into effectively managed company profits, this ability will later attract investors, the better the company's ability to manage its assets, the more it will react investors to believe in investing in the company. The purpose and benefits of this ratio are not only for the business owner or management, but also for parties outside the company, especially investors who have an interest in the company. The higher the Financial Performance, the profit that will be distributed to investors will also be higher, this is because FP which is a rate of return resulting from the management of assets owned by the company, assets obtained from the company or assets obtained from investors (Astuti & Nugrahanti, 2015; Ayuni, 2016; Diaz, 2014; Hastuti, 2022).

#### **Environmental Performance**

Environmental Performance is a management effort in harmonizing the company's environment by building a good image in the eyes of stakeholders. Environmental quality can be defined as the achievement of sustainable development in maintaining a favorable relationship with the community and arranging the efficiency and effectiveness of environmental conservation activities. The allocation of economic resources to the company's role in protecting the environment provides good news for investors and potential investors. Measuring the quality of environmental performance in Indonesia using the Company Performance Rating Assessment Program in Environmental Management (PROPER). The rating is determined by the Ministry of Environment with color represented as an indicator of its rating assessment. The highest value is 5 for gold, 4 for green, 3 for blue, 2 for red and 1 for black. Companies that achieve a Black rating will later be given legal sanctions in accordance with applicable regulations. This is intended so that companies that do not think about the long impacts arising from their operating activities will bear the impact that will occur on the survival of their company. The purpose of implementing the Environmental Rules for companies that Go Public is to assess the costs sacrificed for environmental conservation activities whether they are effective or not and be able to become a communication chain for the community and company management (Astuti & Nugrahanti, 2015; Ayuni, 2016; Hastuti, 2022; Naukoko, 2014; Prabandari & Ketut, 2014).

#### **Firm Size**

The size of the company is a scale where the size of the company can be classified according to various ways, namely by the size of income, total assets, and total capital (Astuti & Nugrahanti, 2015). Larger companies are usually in demand by analyst brokers, because they publish financial statement information clearly and usually the state and also the performance position is more stable. In addition, larger companies usually have growth that is more clearly



visible significant changes than small companies, so the level of return that the company promises to investors is more attractive. Therefore, investors will be more interested in large companies in accordance with the prediction of high expectations of profits on their rate of return (Astuti & Nugrahanti, 2015; Ayuni, 2016; Naukoko, 2014; Prabandari & Ketut, 2014).

### **Leverage Ratio (the Debt-to-Equity Ratio/DER)**

Leverage is a ratio that describes the relationship of a company's debt to capital, this ratio shows how far the company is financed by debt or other parties to the capabilities of the company described with capital (Kurniasih et al., 2013). The existence of leverage illustrates that all company assets will become a burden on the company in the future which will later affect the rate of return on shares. The high debt structure of the company will make the assumption that its investment is considered to have risks (Army, 2013).

In the leverage ratio used is the debt-to-equity ratio or DER which is the ratio of the ratio of the company's total debt to shareholders' capital. The increase in DER indicates an increasing use of total debt compared to the company's own total capital. As a result, investors tend to like companies that have a low DER. The profits obtained by the company will be smaller if the use of large company debts, this is because the company has to pay interest expenses from company debts (Astuti & Nugrahanti, 2015; Ayuni, 2016; Hastuti, 2022; Naukoko, 2014; Prabandari & Ketut, 2014).

### **Price to Book Value (PBV)**

PBV is an indicator used to assess the performance of an entity. Price to Book Value (PBV) is a calculation or comparison between market value and book value in a security (stock), so with this ratio investors can find out directly how many times the market value of a stock is valued from its book value (Ramadhani, 2016). In this ratio the investor can find out the capacity per share of the value of the shares. There is a picture of the movement of a stock in this ratio which indirectly affects the stock price (Astuti & Nugrahanti, 2015; Ayuni, 2016; Diaz, 2014)

### **Conceptual Design**

Based on the description of the research theory, it can be concluded that the variables related to this research produce a conceptual framework (See Figure 1).

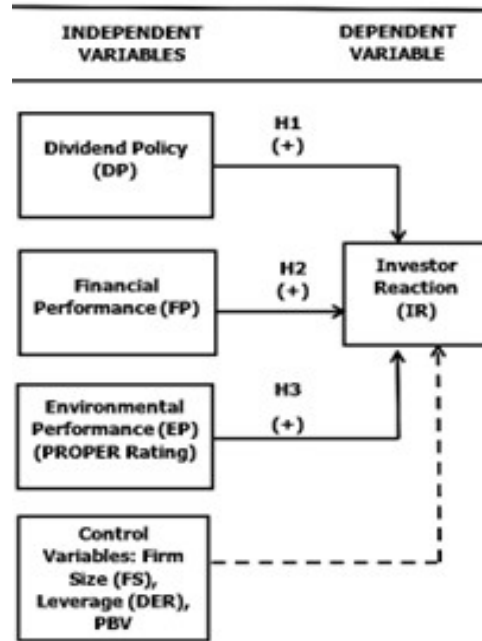


Figure 1. Research Conceptual Design

## METHOD

### A. Object of Study

The object of research used is a manufacturing company listed on the Indonesia Stock Exchange in 2017-2021. The data used in this study is secondary data obtained from proper results reports and annual financial statements listed on the Indonesia Stock Exchange with the period 2017 to 2021. The research design is a record that explains all procedures from the purpose of the study to the analysis of data. The creation of a research design is intended so that researchers can run research smoothly. This study uses a quantitative hypothesis testing method to determine the effect of dividend policy and environmental performance on investor reactions.

### B. Population and Samples

The population in the study is all publicly listed companies that have been listed on the Indonesia Stock Exchange. The sample selection method uses the purposive sampling method, which is the selection of samples based on goals with special considerations. The criteria in sampling are:

1. Companies that have consistency are classified as manufacturing sectors consecutively during the period 2017-2021
2. Companies listed on the Indonesia Stock Exchange successively during the period 2017-2021
3. Companies that publish annual financial statements on the company's website or IDX website during the period 2017-2021 which are stated in rupiah
4. Companies participating in the PROPER program during the period 2017-2021
5. Companies that experienced profit during the observation period
6. Companies whose shares are still actively traded during the observation period
7. Companies that disclose data related to research variables and are fully available
8. Companies that are not delisted during the observation period.



### C. Types and Data Sources

The type of data used in this study is secondary data, namely companies that issue reports in the period 2017 to 2021. The data is obtained from the IDX website. Data collection in this study is through literature studies and documentation studies. Literature studies are the collection of data from several literatures that relate to the problem under study. Literature studies include the collection of journals and scientific articles. Documentation studies are secondary data collection related to research. Documentation on this study includes the collection of reports related to the problem under study.

### D. Data Analysis Methods

The companies selected ranged from old to newly established ones, and some companies were de-listed during the study period of Indonesia Stock Exchange. Therefore the number of observation for each company is different. In order to gain the maximum possible observations, pooled panel crossed-section regression data are used. Panel data involve the pooling of observations on a cross-section of units over several time periods and facilitate identification of effects that are simply not detectable in pure cross-sections or pure time-series studies. The panel regression equation differs from a regular time-series or cross section regression by the double subscript attached to each variable. The general form of the panel data model can be specified more compactly as:  $Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it}$  and  $\varepsilon_{it}$ , the subscript  $i$  representing the cross-sectional dimension and  $t$  denoting the time-series dimension. The left-hand variable  $Y_{it}$ , represents the dependent variable in the model, which is the firm's value.  $X_{it}$  contains the set of independent variables in the estimation model,  $\alpha$  is taken to be constant over time  $t$  and specific to the individual cross-sectional unit  $i$ . If  $\alpha$  is taken to be the same across units, Ordinary Least Squares (OLS) provides a consistent and efficient estimate of  $\alpha$  and  $\beta$ . The model takes the following form:

$$IR = \alpha + \beta_1 EP + \beta_2 DP + \beta_3 FP + \beta_4 DER + \beta_5 FS + \beta_6 PBV$$

Where as

IR = Investor Reactions

DP= Dividend Policy

FP= Financial Performance

DER= Debt to Equity Rasio

FS= Firm Size

PBV= Price to Book Value

There are three types of approaches taken in choosing a panel data regression estimation model, namely the Common Effect, Fixed Effect and Random Effect. In the Chow Test in establishing the model to be used between the Common Effect or the Fixed Effect. If it is proven that the probability value of the chi-square cross section  $> 0.05$ , then this study use the Common Effect Model. However, if the chi-square cross section  $< 0.05$  then the study use the Fixed Effect Model and continue the Hausman Test. Furthermore, in the Hausman Test in determining the model to be used between Fixed Effect or Random Effect. If it is proven that the probability value of the chi-square cross section  $\geq 0.05$ , then this study will use the Random Effect. However, if the chi-square cross section  $\leq 0.05$  then the study will use the Fixed Effect Model (Murguia & Lence, 2015; Winarno, 2015).

## RESULTS AND DISCUSSION

### A. The Chow Test Analysis

The Chow test was carried out on the results of the regression of the equation with the fixed effect. The results of the Chow Test are presented in table 1.

**Table 1**  
**Chow Test Results**

Equation			
Effect Test	Statistic	d.f	Prob.
Cross-section F	23.733	(24.117)	0.000
Cross-section Chi-square	265.434	24.000	0.000

Based on table 1, it is known in the Chi-square cross-section probability equation resulting from the regression of the equation with a fixed effect model of 0.000. The value is less than a significant level of 0.050. Thus, the  $H_a$  was accepted and continued to conduct the Hausman Test

### B. Test Hausman Test Analysis

The Hausman test was carried out on the results of the regression of the equation with the Random effect. The results of the Hausman test are presented in table 2.

**Table 2**  
**Hausman Test Results**

Equation			
Test Summary	Chi-sq. Statistic	Chi-sq.d.f	Prob.
Cross-section F	22.479	8.000	0.004

Source: Processed data, 2022

Based on table 2, it is known in the probability equation 0.004. The value is smaller than the significant value of 0.050, it can be explained that this study accept the  $H_a$  and use a fixed effect model.

### C. Panel Data Regression Analysis

The results of the regression of panel data in this study with a sample of manufacturing companies listed on the Indonesia Stock Exchange for the period 2017-2021, as follows:

**Table 3**  
**T-Test Results on Multiple Regression Models**

Variable	Coefficient	t-Statistic	Prob.
C	-0.404980	0.030650	0.0000
Environmental Performance	0.293552	0.001955	0.0053
Dividend Policy	0.126393	0.000227	0.0000
Firm Size	0.008308	0.0000105	0.0202
DER	0.050442	0.000235	0.0324
Financial Performance	2.232894	0.000122	0.0466
PBV	-0.011004	0.000026	0.0480
		Adjusted R-Squares	
R-Square	0.986441		0.982732
F-Statistic	265.9889	DW-Stat	1.7369
Prob (F-Statistic)	0		

**Notes:**

Dependent Variable: Investor Reaction (IR)  
Independent Variables: Environmental Performance (EP)  
Dividend policy (DP)  
Firm Size (FS)

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Debt Equity Ratio (DER)  
Financial Performance (FP)  
Price to Book Value (PBV)

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Source: Processed data, 2022

Based on table 3 (AR) partial test results (t test) show the model or equation of multiple linear regression is as follows:

### **1) Dividend Policy Impact on Abnormal Returns Discussion**

For the Dividend Policy variable, it has a positive beta coefficient, which is 0.126 with a significance value of 0.0000 less than 0.05 to the reaction of investors proxied with Abnormal Return, so that the Dividend Policy has a positive and significant effect on Abnormal Return. The Dividend Policy Variable as measured by the Dividend Payout Ratio (DPR) shows that the Dividend Policy has a positive effect on the Abnormal Return (AR). The results of this study in accordance with research according to [Ayuni \(2016\)](#) support those policies have a significant positive influence on investor reactions. This is because the number of dividends is a good signal for investors, it results in investors having positive expectations for the company, so the stock price will increase. In general, dividend policy has a significant effect on investor reactions, this result is because the dividend policy information contained in the company's financial statements is the main thing that investors pay attention to in making their investment decisions, because not always the net profit obtained by the company is allocated as dividends, it can be used to expand its business ([Astuti & Nugrahanti, 2015](#); [Ayuni, 2016](#); [Maristi, 2013](#); [Naukoko, 2014](#); [Prabandari & Ketut, 2014](#)).

Meanwhile, research according to [Wiyanto \(2013\)](#) supports that dividend distribution information attracts investors' responses in investing. For investors, the information contained in the Dividend Payout Ratio will be used as a consideration for making investment decisions, whether investors want to invest their funds or not on a company in relation to its hopes of obtaining investment returns ([Wiyanto, 2013](#)). In determining the dividend distribution information, the dividend distribution is small in general because the company uses retained profits for its company activities, and vice versa if the company choosing to distribute profits as dividends, then the portion of retained earnings for internal funding will be small. This will be a benchmark criterion for investors in making decisions, resulting in investors having positive expectations for the company, so that the stock price will increase. The larger the dividend distributed, it can indicate that the company's profits are large, so that it will increase the stock price, on the contrary, if the dividend is small, it can indicate that the company's profits are large, so it will increase the stock price, on the other hand, if the dividend is small, it will be investors' expectations of the company are deteriorating and impacting labor on the decline in stock prices ([Astuti & Nugrahanti, 2015](#); [Ayuni, 2016](#); [Maristi, 2013](#); [Wiyanto, 2013](#)).

### **2) Effect of Financial Performance on Abnormal Returns Discussion**

The Financial Performance (FP) variable has a positive beta coefficient, which is 2,232 with a significance value of 0.0324 less than 0.05 to the reaction of investors proxied with Abnormal Return, so that FP has a positive and significant effect on Abnormal Return.

The regression results in this study using a sample of manufacturing companies for the period 2017-2021 showed that management ownership had an insignificant negative effect in moderating the relationship between financial performance (FP) and company value, in the sense that managerial ownership was not able to moderate

the relationship between financial performance and company value. This research is in line with research conducted by [Widyaningrum \(2017\)](#) and [Putri et al. \(2016\)](#), but contrary to research conducted by [Heder and Priyadi \(2017\)](#) and [Hardianti and Asyik \(2016\)](#). This research shows that with managerial ownership, it will make FP have an insignificant negative effect on the value of the company. This is because managerial ownership can incur costs that will be borne by principals and agents. These costs will charge the company and result in reducing profits which makes the FP negative. In addition, it can be caused by the still dominated ownership of the family in the managerial ownership of the manufacturing company for the period 2017-2021

### **3) Effect of Environmental Performance on Abnormal Returns Discussion**

The Environmental Performance variable has a positive beta coefficient, which is 0.293 with a significance value of 0.0053 less than 0.050 to the reaction of investors proxied with Abnormal Return, so that Environmental Performance has a positive and significant effect on Abnormal Return.

Environmental Performance Variables measured using PROPER ratings held by the Ministry of Environment show that Environmental Performance has a positive effect on Abnormal Returns. This result is in accordance with [Flammer's \(2013\)](#) research that companies that report environmental performance responsibly experience an increase in stock prices. In addition, announcements in developed countries also state that environmental performance ratings are able to make the market react which is indicated through changes in stock prices ([Murguia & Lence, 2015](#)). However, it is not in accordance with previous research according to [Wiyanto \(2013\)](#) that the quality of the company's environmental performance does not cause the appearance of reactions that can cause the appearance of abnormal returns.

Environmental performance quality has a positive effect on investor reactions. This is supported by the view that companies that report environmental performance responsibly experience an increase in stock prices. Good environmental performance has an impact on the response from investors to the company will also be good, investors consider that the information submitted by the management is in the form of non-information financial and financial information will be a signal about financial performance in the future ([Prabandari & Ketut, 2014](#); [Hastuti, 2022](#)).

### **D. Managerial Implications**

Based on the results of the analysis and discussion above, independent variables of financial performance (FP) calculated using return on assets (ROA) have a significant positive effect on the value of the company. These results show that the company successfully implemented the company's goal of increasing profits for the benefit of shareholders. One of the investors' assessments in investing is to look at the profit or profit obtained by the company, the higher the profit, the more interested the investor will be in investing in the company. For this reason, the company is expected to continue to manage its business so that it continues to develop and have good profits in the future, so that the smooth running of the company's business will be better.

Furthermore, the independent variable of leverage calculated by the Debt Equity Ratio (DER) has a significant negative effect on the value of the company. This result shows that the smaller the DER, the more the value of the company will increase. Companies are better off not using a lot of debt to manage their business, because if the use of debt is more dominant for business management compared to the use of capital, this will cause the

company to experience investment risks that will make investors think twice about investing in the company.

In addition, a high DER will affect the high and low profits of the company because the burden of debt costs must be paid before the profit is distributed to shareholders. So, it is advisable for companies to manage debt funding so as not to have investment risks that will later harm the company and shareholders.

Furthermore, the independent variable of environmental performance (EP) is insignificant to the value of the company. This result shows that investors already see EP as one of the determinations in investing that will increase the value of the company. The results of this study are also in line with the theory of legitimacy which states that the company has a social and environmental responsibility which will increase the value of the company. So, the company should pay more attention to social responsibility and the surrounding environment so that the company has added value that investors will see in investing which will save the carbon trade and also increase the value of the company.

Financial Performance variables (FP) have a positive effect on the value of the company. It is recommended that manufacturing companies that have managerial ownership be able to lower costs in order to maximize company profits. Leverage (DER) can be more efficient for those who manage debt well in the sense that the management does not want to harm the company and the shareholders by charging the company with debt.

## CONCLUSION

Based on the results of research that has been conducted to determine the effect of Dividend Policy, Financial Performance and Environmental Performance on Investor Reaction in 24 companies listed on the Indonesia Stock Exchange (IDX) and participating in the PROPER program for 5 years, namely from 2017 to 2021, then the following conclusions were obtained: Dividend Policy, Financial Performance, Environmental Performance included in this research model have a positive effect on Investor Reactions proxied with Abnormal Returns.

The implications for regulators are that it is expected that regulators will require companies to be more active in disclosing their corporate environmental responsibilities effectively and efficiently. In addition, it is expected to implement regulations that encourage companies to be able to continue to pay attention to their environmental performance.

The implication for the company is that for companies that have disclosed their dividend distribution, made disclosures of environmental responsibilities that have been carried out and have participated in the PROPER rating program, it is hoped that activities can be further enhanced which will add to the company's good reputation in the eyes of investors. Meanwhile, companies that have not conveyed these things can immediately make them, thereby increasing the confidence of shareholders and investors.

Based on the conclusions and limitations of the authors that have been described, the authors have several suggestions for further research, including using variables of different types of companies and using a wider scope of samples. Such as using samples from all companies listed on the Indonesia Stock Exchange, not only the manufacturing sector.

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