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The Effect of Corporate Social Responsibility on Dividend Policy: The Role of Financial Reporting Quality As A Mediating Variable in Manufacturing Companies on The Indonesia Stock Exchange In 2024

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Abstract

This study aims to analyze the effect of Corporate Social Responsibility (CSR) on dividend policy, with Financial Reporting Quality (FRQ) as a mediating variable, in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2024. This study employs a quantitative approach using secondary data in the form of annual reports, sustainability reports, and financial statements. The sample was determined using a purposive sampling technique, resulting in 100 manufacturing companies. CSR is measured using a disclosure index based on the Global Reporting Initiative (GRI) guidelines, FRQ is measured using an accrual quality proxy, and dividend policy is proxied by the Dividend Payout Ratio (DPR). Data were analyzed using multiple linear regression across three equations along with the Sobel mediation test. The results show that CSR has a positive and significant effect on FRQ, CSR has a positive and significant effect on DPR, and FRQ has a positive and significant effect on DPR. The Sobel test results (Z = 7.2684; p = 0.000) prove that FRQ partially mediates the effect of CSR on DPR. The coefficient of determination (R^2) of 0.678 indicates that CSR and FRQ jointly explain 67.8% of the variation in dividend policy. This study contributes theoretically to the development of CSR and financial policy literature, as well as providing practical implications for corporate management, investors, and regulators in encouraging financial reporting transparency to support optimal dividend decisions.

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1. Introduction

Indonesia's capital market, through the Indonesia Stock Exchange (IDX), has shown significant growth, marked by an increase in the number of listed companies from 500 in 2018 to 943 in 2024, along with the number of retail investors surpassing 13 million (www.idx.id). Data from PT Kustodian Sentral Efek Indonesia (KSEI) for 2024 recorded that the energy and mining sector distributed dividends of IDR 76.60 trillion, the financial sector IDR 60.53 trillion, while the manufacturing sector distributed only IDR 9.41 trillion. This considerable gap indicates that the manufacturing sector still faces challenges in generating optimal and sustainable financial performance, making it worthwhile to further examine the factors that influence its dividend policy.

Corporate Social Responsibility (CSR) is a corporate commitment to conducting business ethically while contributing to sustainable development (Sheehy & Farneti, 2021). Reaffirm that the economic, legal, ethical, and philanthropic dimensions of CSR remain relevant but must be understood within the context of contemporary business (Ernst et al., 2025). While the antother studied shows a shift in the priorities of the CSR pyramid toward ethical and legal aspects as the primary foundation of corporate legitimacy (Baden, 2016). The Triple Bottom Line framework needs to be recalled to its original purpose, namely driving systemic transformation toward long-term sustainability, rather than merely serving as a reporting tool (Juliano & Rofiaty, 2023). The Indonesian government mandates CSR disclosure through Articles 66 and 74 of Law No. 40 of 2007 on Limited Liability Companies, particularly for companies whose

business activities relate to natural resources.

Dividend policy reflects the balance between shareholders' interests and the firm's internal funding needs (Pahi & Yadav, 2019; Febrianti & Widhiastuti, 2025). While also serving as a mechanism for controlling agency conflicts by limiting managerial misuse of free cash flow (Pahi & Yadav, 2019). Research on the relationship between CSR and dividend policy remains mixed: firms with high CSR activity tend to distribute larger dividends because CSR is perceived as a signal of stability (Yenti & Patrisia, 2025). Whereas financial ratios remain a more dominant factor (Marjohan, 2020). And this relationship can change once mediating variables are taken into account (Nurfitri et al., 2023; Gharbi & Jarboui, 2023),

Financial Reporting Quality (FRQ) is thought to be a mechanism that bridges the relationship between CSR and dividend policy. The previous studied show that high FRQ strengthens the relationship between CSR and dividend policy because credible financial statements make a firm's social activities more trustworthy as a signal of financial stability (Farooq et al., 2025). Consistent with the another studied, who emphasize the role of financial reporting quality in enhancing investor confidence (Hastuti et al., 2025; Sampurno et al., 2024; Sulawati et al., 2025). Based on the above, this study aims to analyze the effect of CSR on dividend policy, the effect of CSR on FRQ, the effect of FRQ on dividend policy, and the mediating role of FRQ in the relationship between CSR and dividend policy in manufacturing companies listed on the IDX in 2024. This study is expected to make an academic contribution by clarifying the mechanism through which CSR affects dividends, while also providing practical implications for management, investors, and regulators in formulating financial strategies that balance economic objectives with social accountability.

2. Literature Review

2.1 Stakeholder Theory

Stakeholder Theory, first introduced by the previous studied, states that companies are responsible not only to shareholders but also to all stakeholders who can influence or be influenced by the company's activities (Freeman, 1984). The previous studied found that internal stakeholder pressure encourages improved governance and information accuracy (Hanifah & Widyaningsih, 2025). While external pressure drives companies to meet market expectations. Emphasizes that the integration of CSR and stakeholder theory provides both an ethical and strategic framework for modern companies, making this theory relevant for explaining the relationship among CSR, FRQ, and dividend policy (Kalra, 2024).

From the perspective of Stakeholder Theory, CSR can be understood as a corporate response to the expectations of various stakeholder groups, including shareholders, employees, customers, regulators, and the wider community. The implementation and disclosure of CSR activities demonstrate the company's commitment to balancing economic objectives with social and environmental responsibilities. Greater transparency in communicating these activities can strengthen stakeholder trust because it reduces uncertainty regarding the company's commitment and accountability. This transparency becomes increasingly important when stakeholders evaluate corporate financial decisions, including dividend distribution. When CSR activities are supported by credible and transparent financial reporting, stakeholders are more likely to perceive the company as financially responsible and capable of maintaining sustainable returns. Therefore, Stakeholder Theory provides a relevant foundation for explaining how CSR and financial reporting quality may jointly influence dividend policy by strengthening trust, reducing information gaps, and aligning corporate decisions with stakeholder expectations (Freeman, 1984; Hanifah & Widyaningsih, 2025; Kalra, 2024).

2.2 Agency Theory

Agency Theory, proposed by previous studied, explains the potential conflict of interest between principals and agents arising from differing objectives (Jensen & Meckling, 1976). High-quality financial reporting plays a role in reducing information asymmetry and the potential for managerial opportunistic behavior. The previous studied found that low financial reporting quality reflects weak monitoring mechanisms over management, making FRQ an important indicator for assessing corporate transparency and accountability, including in the determination of dividend policy (Alharbi et al., 2023).

In the context of this study, Agency Theory is particularly relevant because dividend policy involves the allocation of

corporate earnings between shareholders and internal financing needs. Managers generally possess more information about the firm's actual financial condition than shareholders, creating information asymmetry that may affect investors' evaluation of corporate decisions. High-quality financial reporting can reduce this gap by providing more reliable and transparent information regarding earnings, cash flows, and the company's financial capacity. As information quality improves, shareholders are better able to evaluate whether dividend decisions reflect the firm's actual performance rather than managerial discretion. Accordingly, FRQ can function as an important governance mechanism that limits opportunistic behavior, strengthens monitoring, and increases the credibility of management's financial decisions (Jensen & Meckling, 1976; Alharbi et al., 2023).

2.3 Legitimacy Theory and Signaling Theory

Legitimacy theory explains that companies seek to obtain and maintain social legitimacy through activities consistent with societal values and norms, one of which is CSR disclosure (Suchman, 1995). Meanwhile, Signaling Theory (Spence, 1973) explains that companies use CSR and dividend policy as positive signals to investors regarding the company's current condition and future prospects. For such signals to be trusted, companies need to present high-quality financial statements so that CSR activities are not perceived as greenwashing.

The combination of Legitimacy Theory and Signaling Theory also provides an important explanation for the relationships examined in this study. CSR disclosure can be used by companies to demonstrate conformity with social expectations and to maintain legitimacy in the eyes of stakeholders. At the same time, dividend distribution can serve as a financial signal regarding management's confidence in the company's performance and future prospects. However, the effectiveness of these signals depends on the credibility of the information provided by the company. When financial reporting is transparent and of high quality, stakeholders are more likely to interpret CSR activities and dividend decisions as credible reflections of corporate performance rather than symbolic actions. Thus, FRQ strengthens the informational value of CSR and dividend policy by helping stakeholders assess whether corporate social commitments are supported by reliable financial conditions (Spence, 1973).

2.4 Corporate Social Responsibility, Financial Reporting Quality, and Dividend Policy

In this study, Corporate Social Responsibility is measured using a disclosure index based on the Global Reporting Initiative (GRI) guidelines, the most widely used international standard for measuring and evaluating corporate sustainability practices. Financial Reporting Quality is measured using the accrual model introduced by previous studied, while dividend policy is proxied by the Dividend Payout Ratio (DPR), which reflects the percentage of net income distributed to shareholders (Farooq et al., 2025).

Conceptually, CSR, FRQ, and dividend policy represent interrelated dimensions of corporate accountability and financial decision-making. CSR reflects a company's commitment to broader stakeholder interests, whereas FRQ represents the credibility and transparency of the financial information used by stakeholders to evaluate corporate performance. Dividend policy, meanwhile, reflects management's decision regarding the allocation of earnings to shareholders. The relationship among these variables suggests that CSR may influence dividend decisions not only through reputation and stakeholder trust but also through the quality of information available to investors. When CSR activities are accompanied by reliable financial reporting, stakeholders may have greater confidence in the sustainability of corporate performance and in the company's capacity to distribute dividends. This perspective supports the inclusion of FRQ as a mediating variable in examining the relationship between CSR and dividend policy (Farooq et al., 2025; Hoang, 2021; Sampurno et al., 2024).

2.5 Hypothesis Development

Based on Stakeholder Theory and Legitimacy Theory, the higher the level of CSR disclosure, the greater the stakeholder trust and social legitimacy a company obtains, thereby reducing corporate risk and increasing financial stability, which in turn encourages larger dividend distributions. This argument is supported by previous studied, who found that companies with strong CSR practices tend to pay higher dividends (Farooq et al., 2025).

H1: Corporate Social Responsibility (CSR) has a significant effect on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange in 2024.

Based on Agency Theory, high-quality financial reporting reduces information asymmetry between management and shareholders, thereby increasing investor confidence in the company's ability to generate sufficient earnings and cash flow to be distributed as dividends.

H2: Financial Reporting Quality (FRQ) has a significant effect on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange in 2024.

Based on Signaling Theory, for CSR signals to be accepted and trusted by stakeholders, companies are driven to present high-quality financial statements as evidence that their CSR activities genuinely create impact, as found by (Farooq et al., 2025; Nguyen, 2025).

H3: Corporate Social Responsibility (CSR) has a significant effect on Financial Reporting Quality (FRQ) in manufacturing companies listed on the Indonesia Stock Exchange in 2024.

Based on Agency Theory and Legitimacy Theory, FRQ acts as a mechanism bridging CSR activities and corporate financial decisions. CSR supported by high-quality financial reporting will strengthen investor confidence in firm performance, whereas low FRQ raises investor skepticism and weakens the relationship between CSR and dividend policy (Farooq et al., 2025).

H4: Financial Reporting Quality (FRQ) mediates the effect of Corporate Social Responsibility (CSR) on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange in 2024.

2.6 Conceptual Framework

Based on Stakeholder Theory, Agency Theory, Legitimacy Theory, and Signaling Theory, this study proposes that Corporate Social Responsibility influences dividend policy both directly and indirectly through Financial Reporting Quality. CSR reflects the company's commitment to meeting stakeholder expectations and maintaining social legitimacy, while FRQ enhances the credibility of financial information and reduces information asymmetry between management and shareholders. Dividend policy represents a corporate financial decision that can be interpreted by investors as a signal of financial strength and management confidence. Therefore, the relationship between CSR and dividend policy is expected to become more comprehensive when FRQ is considered as a mediating mechanism.

The conceptual framework illustrates four relationships examined in this study. First, CSR is expected to directly influence dividend policy. Second, FRQ is expected to influence dividend policy. Third, CSR is expected to influence FRQ. Finally, FRQ is expected to mediate the relationship between CSR and dividend policy. These relationships are consistent with the hypotheses developed in the previous section.

3. Method

3.1 Research Design

This study uses a quantitative approach with secondary data consisting of annual reports, sustainability reports, and financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2024, accessed through the official IDX website (www.idx.co.id) and each company's official website. The population of this study consists of 228 manufacturing companies listed on the IDX in 2024. The sample was determined using a purposive sampling technique with the following criteria: (1) listed on the IDX in 2024; (2) carried out CSR activities in 2023; (3) published financial statements for 2023; and (4) distributed dividends, resulting in 100 companies as the research sample.

The use of secondary data was considered appropriate because the variables examined in this study were derived from publicly available corporate disclosures and financial information. Annual reports, sustainability reports, and financial statements provide standardized information that allows comparisons across companies. The purposive sampling technique was employed to ensure that only companies with complete information related to CSR disclosure, financial reporting, and dividend distribution were included in the analysis. This approach also enables the study to focus on companies that provide sufficient information for measuring all variables consistently within the same observation period.

3.2 Variable Measurement

The Corporate Social Responsibility (CSR) variable is measured using a disclosure index based on the Global Reporting Initiative (GRI) guidelines. The Financial Reporting Quality (FRQ) variable is measured using the accrual

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quality proxy from the model of previous studied namely FRQ = |εit|, obtained from the absolute residual value of the regression of total accruals (TAit) on the change in revenue (ΔREVit) and property, plant, and equipment (PPEit) (Farooq et al., 2025). Dividend policy is proxied by the Dividend Payout Ratio (DPR), the ratio of dividends per share to earnings per share.

The operationalization of the variables was designed to reflect the conceptual relationships examined in the study. CSR represents the extent of corporate social responsibility disclosure, FRQ reflects the quality of the company's reported financial information, and DPR represents the proportion of earnings distributed to shareholders. The operational definitions and measurements of the variables are summarized in Table 1.

Table 1. Operational Definition of Variables

Variable	Operational Definition	Measurement	Scale
Corporate Social Responsibility (CSR)	The extent of corporate disclosure related to social and environmental responsibility	CSR disclosure index based on the Global Reporting Initiative (GRI) guidelines	Ratio
Financial Reporting Quality (FRQ)	The quality of financial reporting reflected through the accrual-quality approach	Absolute residual value generated from the accrual regression model, FRQ = |εit|	Ratio
Dividend Policy (DPR)	The proportion of earnings distributed to shareholders as dividends	Dividend per Share / Earnings per Share	Ratio

3.3 Data Analysis

Data analysis was carried out in several stages: (1) descriptive statistical analysis; (2) classical assumption tests, including the normality test (Kolmogorov-Smirnov), multicollinearity test (tolerance and VIF), heteroscedasticity test (Glejser test), and autocorrelation test (Durbin-Watson); (3) multiple linear regression analysis using three equations, namely the effect of CSR on FRQ, the effect of CSR on DPR, and the effect of CSR on DPR with FRQ included as a mediator; and (4) hypothesis testing through the t-test, F-test, coefficient of determination (R^2), calculation of direct and indirect effects, and the Sobel test to examine the significance of FRQ's mediating role.

The regression analysis was structured into three equations to identify the direct and indirect relationships among CSR, FRQ, and dividend policy. The first equation examines the effect of CSR on FRQ, the second equation examines the total effect of CSR on dividend policy, and the third equation incorporates FRQ into the relationship between CSR and dividend policy.

$$FRQ_i = \alpha + \beta_1 CSRi + \varepsilon_i$$
$$DPR_i = \alpha + \beta_1 CSRi + \varepsilon_i$$
$$DPR_i = \alpha + \beta_1 CSR_i + \beta_2 FRQ_i + \varepsilon_i$$

where FRQ_irepresents Financial Reporting Quality, CSR_irepresents Corporate Social Responsibility, DPR_irepresents Dividend Payout Ratio, $\alpha$is the constant, βrepresents the regression coefficient, and $\varepsilon_i$represents the error term. The mediation effect was evaluated by comparing the direct and indirect effects and subsequently examining the significance of the indirect effect using the Sobel test.

4. Result

4.1 Descriptive Statistics

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Dev
Dividend Policy (DPR)	100	0.0099	6.6667	0.4289	0.6733
Corporate Social Responsibility (CSR)	100	0.0002	3.6585	0.0824	0.3873
Financial Reporting Quality (FRQ)	100	0.0036	1.9781	0.1196	0.2255

Source: Secondary data processed, 2026.

The average DPR of 0.4289 with a standard deviation of 0.6733 indicates that the proportion of earnings distributed as dividends is moderate but varies considerably across companies. The average CSR value of 0.0824 indicates a relatively low level of CSR disclosure, while the average FRQ value of 0.1196 indicates financial reporting quality at a low-to-moderate level, with considerable variation across companies for both variables.

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4.2 Classical Assumption Tests

Table 3. Classical Assumption Test Results

Test	Indicator	Result	Conclusion
Normality	Kolmogorov–Smirnov Sig.	0.146	Normal
Multicollinearity	Tolerance	0.518	No multicollinearity
Multicollinearity	VIF	1.930	No multicollinearity
Heteroscedasticity	CSR Sig.	0.881	No heteroscedasticity
Heteroscedasticity	FRQ Sig.	0.258	No heteroscedasticity
Autocorrelation	Durbin–Watson	1.932	No autocorrelation

The Kolmogorov-Smirnov normality test produced a significance value of 0.146 (> 0.05), indicating that the model's residuals are normally distributed. The multicollinearity test showed a tolerance value of 0.518 and a VIF of 1.93 for both independent variables, indicating that the model is free from multicollinearity. The Glejser heteroscedasticity test produced significance values of 0.881 for CSR and 0.258 for FRQ (both > 0.05), indicating that the model is free from heteroscedasticity. The autocorrelation test produced a Durbin-Watson value of 1.932, which lies between dU (1.715) and 4-dU (2.285), indicating that the model is free from autocorrelation. With all classical assumptions satisfied, the regression model used in this study is appropriate for hypothesis testing.

4.3 Regression Analysis and Hypothesis Testing

The results of Regression Equation I show that CSR has a positive effect on FRQ, with the equation FRQ = 0.140 + 0.567 CSR (t = 9.547; sig. = 0.000). The results of Regression Equation II show that CSR has a positive effect on DPR, with the equation DPR = 0.297 + 2.111 CSR (t = 11.135; sig. = 0.000). The results of Regression Equation III, which includes FRQ as a mediator, yield the equation DPR = 0.065 + 1.169 CSR + 1.662 FRQ, with both CSR (t = 5.171; sig. = 0.000) and FRQ (t = 6.006; sig. = 0.000) remaining significant.

Table 4. t-Test Results

Equation	Path	t-value	Sig.
I	CSR -> FRQ	9.547	0.000
II	CSR -> DPR	11.135	0.000
III	CSR -> DPR	5.171	0.000
III	FRQ -> DPR	6.006	0.000

Source: Secondary data processed, 2026.

The F-test produced an F-value of 102.219 with a significance level of 0.000 (< 0.05), meaning that CSR and FRQ jointly (simultaneously) have a significant effect on DPR, confirming the model's goodness of fit. The coefficient of determination (R^2) of 0.678 indicates that 67.8% of the variation in DPR can be explained by CSR and FRQ, while the remaining 32.2% is explained by other factors outside the model.

The direct effect of CSR on DPR is 1.169, while the indirect effect through FRQ, calculated by multiplying the CSR -> FRQ and FRQ -> DPR coefficients (0.567 x 1.662), is 0.942, resulting in a total effect of CSR on DPR of 2.111. The Sobel test produced a Z-value of 7.2684 with a significance level of 0.000 (Z > 1.96), proving that FRQ significantly mediates the effect of CSR on DPR. Because the direct effect of CSR on DPR remains significant after FRQ is included in the model, the type of mediation that occurs is partial mediation.

Table 5. Mediation Analysis of Financial Reporting Quality

Effect	Value
Direct effect of CSR on DPR	1.169
Indirect effect of CSR on DPR through FRQ	0.942
Total effect	2.111
Sobel Z-value	7.2684
Significance	0.000
Type of mediation	Partial mediation

Table 5 confirms that CSR influences dividend policy through both direct and indirect mechanisms. The indirect effect through FRQ is statistically significant, as indicated by the Sobel Z-value of 7.2684 with a significance level of 0.000. However, because the direct effect of CSR on DPR remains significant after FRQ is included in the model, FRQ functions as a partial mediator rather than a full mediator.

5. Discussion

5.1 Effect of Corporate Social Responsibility on Financial Reporting Quality

The results show that CSR has a positive and significant effect on FRQ, indicating that H3 is accepted. The positive coefficient suggests that companies with stronger CSR activities tend to be associated with better financial reporting quality. This finding indicates that CSR is not only related to social and environmental responsibility but is also connected to the way companies communicate financial information to their stakeholders. Companies that are more active in implementing and disclosing CSR are likely to face greater expectations regarding transparency, accountability, and consistency in corporate reporting.

This relationship can be explained through

Stakeholder Theory and Legitimacy Theory. From a stakeholder perspective, companies are expected to provide reliable information not only to shareholders but also to employees, creditors, regulators, customers, and the wider community. CSR increases the company's interaction with these stakeholder groups, creating greater demand for transparent reporting. Financial reporting quality therefore becomes an important mechanism for demonstrating that CSR activities are supported by credible corporate information and are integrated with the company's broader accountability practices (Freeman, 1984; Hanifah & Widyaningsih, 2025).

From the perspective of Legitimacy Theory, companies seek to maintain acceptance from society by demonstrating that their activities are consistent with social expectations. CSR disclosure may strengthen this legitimacy, but its credibility becomes greater when it is accompanied by reliable financial information. Thus, high-quality reporting can reinforce the credibility of CSR activities and reduce stakeholder concerns that CSR is merely symbolic. This interpretation is consistent with the role of financial reporting quality in supporting corporate accountability discussed in the existing literature (Alharbi et al., 2023).

5.2 Effect of Corporate Social Responsibility on Dividend Policy

The results indicate that CSR has a positive and significant effect on dividend policy, confirming H1. This result suggests that companies with higher CSR disclosure tend to distribute higher dividends. CSR may contribute to stronger corporate reputation, stakeholder trust, and investor confidence, which can support management's ability to maintain dividend payments. In this context, CSR can be interpreted not merely as a social expenditure but as part of a broader corporate strategy that strengthens relationships with stakeholders.

The finding is consistent with the view of Stakeholder Theory, which emphasizes the importance of balancing the interests of various groups affected by corporate activities. Companies that demonstrate greater social responsibility may be perceived as more accountable and more committed to sustainable business practices. Such perceptions can increase investor confidence and reduce uncertainty regarding corporate prospects. Consequently, firms may have stronger incentives to maintain dividend distributions as part of their effort to meet shareholder expectations and preserve a positive market reputation.

This finding is consistent with previous studies, which reported a positive relationship between CSR and corporate financial outcomes, but differs from other studies, which found that CSR did not significantly affect dividend-related outcomes (Maqbool et al., 2022; Buertey et al., 2024). These differences indicate that the relationship between CSR and dividend policy may depend on the characteristics of the companies, the industrial context, and the observation period (Ellili, 2022; Buertey et al., 2024). In some firms, CSR may enhance reputation and stakeholder support, whereas in others, CSR expenditure may be viewed as a competing use of financial resources that could otherwise be distributed as dividends (Seth & Mahenthiran, 2022; Maqbool et al., 2022).

5.3 Effect of Financial Reporting Quality on Dividend Policy

The results show that FRQ has a positive and significant effect on dividend policy, supporting H2. This finding indicates that companies with higher-quality financial reporting tend to have stronger dividend payout decisions. High-quality financial statements provide investors with more relevant, reliable, and transparent information regarding corporate performance. As a result, investors can more accurately assess the company's ability to generate earnings and maintain dividend payments.

Agency Theory provides an important explanation for this result. Information asymmetry arises because managers possess more detailed information about corporate performance than shareholders. When financial reporting quality is low, shareholders may face greater difficulty in assessing whether reported earnings accurately reflect the company's actual condition. Higher FRQ reduces this information gap and limits the opportunity for managerial opportunism, thereby strengthening the credibility of dividend decisions (Jensen & Meckling, 1976; Alharbi et al., 2023).

This result can also be interpreted through Signaling Theory. Dividend distribution is frequently viewed by investors as a signal regarding management's confidence in the firm's financial condition. However, the credibility of this signal depends on the reliability of the information supporting it. High-quality financial reporting provides

investors with a stronger basis for interpreting dividend payments as a reflection of genuine financial capacity. The finding is therefore consistent with the role of FRQ in supporting dividend-related decisions discussed by (Hoang, 2021; Sampurno et al. (2024).

5.4 Mediating Role of Financial Reporting Quality

The Sobel test demonstrates that FRQ significantly mediates the relationship between CSR and dividend policy, confirming H4. The mediation is categorized as partial because the direct effect of CSR on DPR remains significant after FRQ is included in the regression model. This means that CSR influences dividend policy through two mechanisms: a direct mechanism and an indirect mechanism through financial reporting quality.

The direct mechanism indicates that CSR can independently influence stakeholder perceptions, corporate reputation, and investor confidence. Companies that demonstrate greater social responsibility may be perceived as more stable, accountable, and oriented toward long-term sustainability. These perceptions can contribute directly to greater confidence in the company's dividend policy. At the same time, the indirect mechanism shows that CSR is also associated with improved financial reporting quality, which subsequently strengthens the credibility of corporate financial decisions.

From the perspective of Agency Theory, FRQ acts as an information mechanism that reduces information asymmetry between management and shareholders. CSR activities may generate positive stakeholder perceptions, but investors still require credible financial information to evaluate whether these activities are supported by sustainable financial performance. When financial information is transparent and reliable, investors are better able to assess the company's earnings quality and its ability to maintain dividend payments. Consequently, FRQ strengthens the transmission of the effect of CSR to dividend policy.

The mediating role of FRQ is also consistent with Signaling Theory and Legitimacy Theory. CSR disclosure can function as a positive signal of corporate responsibility, but its effectiveness depends on whether stakeholders perceive the disclosure as credible. High-quality financial reporting provides additional assurance that CSR activities are not merely symbolic or intended solely to improve corporate image. Therefore, FRQ increases the credibility of CSR signals and helps transform stakeholder trust into stronger confidence in the company's financial policies. This interpretation is consistent with the previous studied, who emphasize the importance of financial reporting quality in the relationship between CSR and dividend policy (Farooq et al., 2025).

5.5 Theoretical and Practical Implications

Theoretically, the findings contribute to the literature on CSR and dividend policy by showing that the relationship is not limited to a direct effect. Financial Reporting Quality serves as an important explanatory mechanism through which CSR can influence dividend decisions. The results therefore integrate Stakeholder Theory, Agency Theory, Legitimacy Theory, and Signaling Theory by demonstrating that social responsibility, information quality, and corporate financial decisions are interconnected. CSR may strengthen stakeholder relationships and legitimacy, while FRQ enhances the credibility of the information required for stakeholders to evaluate the financial consequences of corporate decisions.

From a managerial perspective, the findings suggest that companies should not treat CSR activities and financial reporting as separate corporate functions. CSR programs need to be accompanied by transparent and reliable financial information so that stakeholders can evaluate whether social responsibility initiatives are supported by sustainable corporate performance. Strengthening financial reporting quality may increase the credibility of CSR disclosure and support management in formulating dividend policies that are more acceptable to shareholders.

For investors, the findings indicate that CSR disclosure and financial reporting quality can be considered complementary information when evaluating corporate prospects. A high level of CSR disclosure may provide information regarding a company's commitment to stakeholders, but investors also need reliable financial reports to assess whether such commitments are supported by sufficient financial capacity. Therefore, CSR and FRQ can be used together as additional considerations when evaluating the sustainability of dividend payments.

For regulators, particularly the Financial Services Authority (OJK) and the Indonesia

Stock Exchange (IDX), the findings underline the importance of encouraging consistency between sustainability-related disclosure and financial reporting transparency. Stronger disclosure practices can improve information availability in the capital market, reduce information asymmetry, and help investors make more informed decisions. Greater consistency between CSR communication and financial reporting may also strengthen corporate accountability and support sustainable business practices.

6. Conclusion

This study concludes that Corporate Social Responsibility has a positive and significant effect on Financial Reporting Quality and dividend policy, while Financial Reporting Quality also has a positive and significant effect on dividend policy. The mediation analysis further demonstrates that Financial Reporting Quality partially mediates the relationship between CSR and dividend policy. These findings indicate that CSR affects dividend decisions not only directly but also indirectly through the credibility and transparency of corporate financial reporting. The results reinforce the importance of integrating corporate social responsibility with high-quality financial reporting in supporting stakeholder confidence and corporate financial decision-making.

This study is limited to manufacturing companies listed on the Indonesia Stock Exchange within a single observation period and focuses only on CSR, FRQ, and dividend policy. Consequently, the findings may not fully capture variations across different industries or economic conditions. Future research is recommended to extend the observation period, examine companies from other sectors, and incorporate additional variables such as profitability, leverage, firm size, or corporate governance. A broader research design may provide a more comprehensive understanding of the factors that influence dividend policy and the mechanisms through which CSR affects corporate financial decisions.

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