

The Effect of Environmental, Social, and Governance (ESG) Performance on Dividend Policy in Non-Financial Companies in the ASEAN Capital Market

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Abstract

This study analyzes the influence of Environmental, Social, and Governance (ESG) performance on dividend policies in 199 non-financial companies listed on the ASEAN-5 capital market during the 2019-2023 period. The background of the research emphasizes the increasing attention of investors to the sustainability of the company and its potential to influence dividend distribution decisions. This quantitative study used panel data regression and probit regression with 995 company-year observations from the Refinitiv Eikon Database. The purposive sampling technique is used to select companies with complete ESG disclosures and reliable financial data. The results showed that the aggregate ESG performance significantly positively affected the Dividend Payout Ratio (coefficient of 0.010216, $p=0.000$). However, this relationship differs by dimension: the Environmental pillar shows a significant negative impact (coefficient -0.0074334, $p=0.000$), while the Social pillar (coefficient 0.0067466, $p=0.000$) and Governance (coefficient 0.0063344, $p=0.000$) pillar show a significant positive effect. Free Cash Flow emerges as a more important determinant than accounting profitability. In conclusion, the ESG dimension has a differential influence on dividend policy, with significant trade-offs between sustainability investments and dividend distributions varying by ESG type in emerging ASEAN markets.

INTRODUCTION

In the era of globalization and increasing awareness of sustainability, the concept of Environmental, Social, and Governance (ESG) has become a fundamental paradigm in the global business and investment world. The increased awareness of Environmental, Social, and Governance issues reflects a significant transformation from a business orientation that focuses solely on profit maximization to a more holistic and sustainable approach. These changes are fueled by increasing pressure from various stakeholders, including investors, regulators, and the wider community demanding more responsible and sustainable business practices. Governments and stock exchanges around the world are increasingly requiring companies to disclose their ESG performance, given the growing demand from governments and financial market participants that have prompted the imposition of mandatory ESG reporting (. This confirms that ESG is now an integral factor in the long-term value creation of a company. Thus, an in-depth understanding of how ESG performance influences a company's financial decisions, particularly dividend policies, is becoming increasingly critical for all stakeholders. (Li et al., 2024) (Chen et al., 2024)

Environmental, Social, and Governance performance has become a fundamental pillar in modern business strategy because it includes financial aspects, risk management, and sustainable value creation that have the potential to influence profit distribution decisions to shareholders.

Recent research shows that ESG plays a role as a risk management instrument, where companies with high ESG performance are rated more resilient in the face of economic uncertainty and more trusted by investors for the long term. ESG performance also serves as a comprehensive evaluation tool for investment risks and opportunities, in line with global literature trends that show a significant increase in academic attention to ESG topics in the past decade. In this context, dividend policy becomes a complementary instrument that cannot be ignored, where investors not only consider ESG aspects but also analyze how the company distributes profits as a reflection of fundamental performance and commitment to shareholders. The relationship between ESG performance and dividend policy has been the focus of increasingly intensive research in the corporate financial literature, with a number of empirical studies suggesting that strong ESG practices tend to positively correlate with more consistent and attractive dividend policies to investors. (Almulhim et al., 2024) (Zhou & Bu, 2025)

The relationship between ESG performance and dividend policy still shows mixed and inconsistent results across various research contexts. Most studies in developed markets, particularly Europe and North America, have found a significant positive relationship between ESG performance and dividend payouts. Theoretically, companies with good ESG performance tend to have better access to funding sources, lower business risk, and a stronger reputation in the eyes of stakeholders. This is in line with signaling theory, where ESG practices serve as a signal of credibility and sustainability prospects that strengthen investors' confidence in dividend stability. The latest findings show that companies with high ESG performance tend to pay dividends more consistently, maintain distribution stability, and offer greater dividend yields, so ESG is perceived by the market as an indicator of long-term financial health. From a stakeholder theory perspective, ESG reflects a company's responsibility to the interests of stakeholders and encourages dividend policy consistency, which is reinforced by the finding that shareholder activism can amplify the influence of ESG on dividend distribution decisions. (Bilyay-Erdogan et al., 2023; Zahid et al., 2023) Almulhim et al. (2024) (Rastogi & Singh, 2025)

Nevertheless, different research results are also found in different geographical regions and industrial sectors. The research conducted by By found that although the governance dimension has a positive effect, the environmental and social dimensions are negatively correlated with dividend stability in the largest global companies. Similarly, research in the Indonesian market by found that although social disclosure and governance have a positive impact on the value of the company, the dividend policy has a negative effect on the value of the company. These differences in results show the complexity of the ESG and dividend policy relationship that still needs to be further explored, especially in the context of emerging markets. Most of the research focuses more on global companies and developed markets in Europe and the Americas, while research on ESG and dividend policies in developing regions such as ASEAN is still relatively limited, even though ASEAN has different and interesting capital market dynamics to study. The diversity of the results of this study indicates that the influence of ESG on dividend policy may depend on contextual factors such as the level of market development, national regulations, the company's ownership structure, and the preferences of local investors. (Matuszewska-Pierzynka et al., 2023) (Alliyah et al., 2024)

ASEAN as a developing market region shows its own urgency to be further researched considering its role in driving global economic growth and becoming an international investment center. The five main ASEAN countries, namely Indonesia, Malaysia, Singapore, Thailand, and the Philippines, have a dominant role in driving regional economic growth, each with unique

characteristics that reflect the diversity of ASEAN capital markets. Indonesia and the Philippines are known for their high economic growth rates and growing ESG awareness, while Malaysia and Thailand stand out with increasingly established sustainability regulations, and Singapore positions itself as an international financial hub with high governance standards. This diversity makes ASEAN-5 an ideal research object to examine the relationship between ESG and dividend policies in a cross-border context. Various empirical studies in the ASEAN region show generally positive trends, although the results are still mixed. examined non-financial companies in ASEAN-5 and found that ESG performance has a positive effect on the consistency of dividend payments, as ESG increases transparency and lowers information risk. Similar results were also shown by a study that analyzed the influence of ESG on dividend policy in ASEAN-5 with Return on Assets as an intervening variable, where the Governance Pillar had a positive effect on the Dividend Payout Ratio. Nevertheless, the study did not include a comprehensive analysis for 199 non-financial companies and a longer observation period (2019-2023), thus providing room for more in-depth research to understand the heterogeneity of ESG influences on dividend policies in the ASEAN region. Ismillah and Faisal (2023) Syarifah and Hersugondo (2024)

This research specifically focuses on non-financial companies listed in the ASEAN-5 capital market with the aim of analyzing the influence of Environmental, Social, and Governance performance on dividend policies, considering each ESG dimension separately to provide a more comprehensive understanding. The non-financial sector was chosen because it has greater flexibility in determining dividend policies than the financial, which is subject to strict regulations, and is more representative to reflect the diversity of industries in the region. The urgency of this research lies in the need to provide up-to-date empirical evidence on the relationship between ESG and dividend policies in ASEAN emerging markets, given the significant increase in regional sustainability regulations such as the ASEAN Corporate Governance Scorecard and the ASEAN Taxonomy for Sustainable Finance. The novelty of this study is shown through: (1) the use of the largest sample to date with 199 non-financial companies from ASEAN-5 for the period 2019-2023, (2) the integration of four theories (signaling theory, agency theory, stakeholder theory, and legitimacy theory) to explain the mechanism of ESG's influence on dividend policy, (3) a comprehensive analysis using panel data regression and probit regression methods to test the effects of ESG on the probability of dividend and dividend payments payout ratio simultaneously, as well as (4) contribution to the sustainable finance literature by providing perspectives from ASEAN emerging markets that are still underrepresented in global academic research. Thus, this research is expected to make a real contribution for investors, market analysts, companies, and policymakers in understanding the role of ESG in shaping profit distribution decisions in the ASEAN region and supporting the development of more sustainable capital markets in the future. (Zhan, 2023)

METHODS

This study uses a quantitative method with a non-experimental design to test the causal relationship between Environmental, Social, and Governance (ESG) performance and dividend policy in non-financial companies in the ASEAN region. The use of quantitative methods allows for an objective and measurable analysis in identifying the influence of ESG on two forms of dividend policy, namely the company's decision to pay dividends and the amount of the dividend payout ratio. The research data was compiled in the form of a cross-section time-series panel during the 2019–2023 period, which provides an advantage in capturing the dynamics of company

performance over time as well as variations between companies. This design was chosen to improve the efficiency of estimation and produce more robust empirical evidence regarding the role of ESG in dividend distribution practices.

The research data used secondary sources consisting of annual reports, sustainability reports, and Refinitiv Eikon databases to obtain aggregate ESG scores as well as Environmental, Social, and Governance pillar scores. Financial variables such as dividend payout ratio, leverage, return on assets, company size, free cash flow, and market-to-book value are obtained from the financial statements of each company listed on the ASEAN-5 stock exchange. The purposive sampling technique was used to determine the sample based on certain criteria, i.e. non-financial companies that were consistently listed during the study period, had a complete ESG score, and had financial data and dividend data available in full. Based on these criteria, 199 companies were obtained with a total of 995 observations representing various non-financial sectors in five ASEAN countries.

The data analysis stage begins with data cleaning and verification to ensure that there are no significant missing values and identify outliers that have the potential to affect the results of the analysis. Next, a descriptive analysis was carried out to describe the basic characteristics of the research variables, followed by a Pearson correlation test to assess the closeness of the relationship between variables and detect the potential for multicollinearity. The research then proceeded to the classical assumption test, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure that the regression model met the Best Linear Unbiased Estimator (BLUE) criteria.

Inferential analysis was conducted using three main models: probit regression to analyze the probability of a company paying dividends, logit regression as a robustness test to validate the consistency of results, and panel data regression to test the influence of ESG on dividend payout ratios. Panel model selection is carried out through Chow, Hausman, and Lagrange Multiplier Tests to determine whether the Common Effect Model, Fixed Effect Model, or Random Effect Model is best used. Further testing includes model feasibility test through the F Test and the determination coefficient (R^2), as well as a partial test with the t-test. Additional robustness tests were carried out using robust standard errors, alternative variables, and Generalized Method of Moments (GMM) estimation to overcome the potential for endogeneity. The entire analysis process is carried out using STATA software which provides comprehensive features for panel data estimation and limited regression models.

RESULTS AND DISCUSSION

Results Research

Descriptive Statistical Analysis

Table 1
Descriptive Statistical Test Results

Variable	Obs	Red	Std. dev.	Min	Max
DPR	995	0.5101605	0.3660285	0	1.045134
d_DPR	995	0.6693467	0.470685	0	1
ESG	995	53.97019	16.89056	2.145867	92.02108
ENV	995	50.36816	21.16313	0.1019368	97.19689
SOC	995	59.63304	19.5232	0.3618816	98.10169

Variable	Obs	Red	Std. dev.	Min	Max
GOV	995	51.4304	21.1274	1.615646	97.58173
LEV	995	0.2969851	0.1636127	0.0001218	0.7437232
LONG	995	0.0718287	0.0794895	-0.1565965	0.8463682
SIZE	995	31.39235	1.382521	27.1604	34.97762
FCF	995	2.73e+12	8.66e+12	-3.71e+13	8.13e+13
MTBV	995	4.578431	2.798462	0.3125424	12.55

Based on the results of the descriptive statistical test in table 1, the dividend policy variable shows that the average DPR is 0.51, indicating that the company distributes about half of its net profit as dividends, with large variations between companies. The dividend payment dummy has an average of 0.67 which indicates the majority of companies in the sample pay dividends consistently. Meanwhile, control variables such as leverage have an average of 0.29 which reflects a moderate funding structure, while ROA with an average of 7.18 percent shows a large difference in operational efficiency between companies.

For the ESG variable, the average aggregate score value of 53.97 indicates that the company's sustainability performance is at a medium level. The three ESG pillars show different characteristics: environmental scores (50.37) describe moderate environmental policy implementation with high variation and ongoing implementation; social score (59.63) is the highest, reflecting the relatively strong social commitment of various companies; Meanwhile, the governance score (51.43) shows a fairly good quality of governance even though it is uneven between companies and still requires continuous improvement.

The other control variables show characteristics that support the overall analysis of the model. The company size has an average of 30.45, reflecting that most of the companies in the sample are relatively large, have strong operational capacity, and better stability in the face of business fluctuations. Free cash flow was recorded to have a positive average value, but with a very large variation, showing a significant difference in liquidity strength and internal funding ability between companies—both to finance investments and pay dividends. Meanwhile, a market-to-book value of 4.57 on average indicates that a company's market value is generally much higher than its book value, illustrating a positive investor perception of the company's growth prospects and ability to create long-term value.

Correlation Test

Table 2
Correlation Test Results

Variable	DPR	ESG	ENV	SOC	GOV	LEV	LONG	SIZE	FCF	MTBV
DPR	1.0000									
ESG	0.4726***	1.0000								
ENV	-0.4129***	0.0221	1.0000							
SOC	0.3860***	-0.0219	0.0418	1.0000						
GOV	0.3828***	0.0296	0.0399	0.0348	1.0000					
LEV	0.0130	-0.0360	-0.0100	0.0245	0.0289	1.0000				

Variable	DPR	ESG	ENV	SOC	GOV	LEV	LONG	SIZE	FCF	MTBV
LONG	0.0512	-0.0047	-0.0106	0.0541	0.0236	0.0288	1.0000			
SIZE	0.0022	0.0111	0.0751	0.0175	0.0022	-0.0574	-0.0002	1.0000		
FCF	0.1581**	0.0681	0.0601	0.0443	0.0623	0.0435	0.1014	0.0429	1.0000	
MTBV	-0.0581	-0.0040	0.0728	0.0035	-0.0416	-0.0131	0.0254	0.0093	0.0078	1.0000

Based on the results of the correlation test in Table 2, the DPR variables show a diverse relationship with each ESG variable. DPR has a positive and significant correlation with aggregate ESG of 0.4726, indicating that companies with better sustainability performance tend to pay higher dividends. However, at the pillar level, only environmental performance showed a negative correlation of -0.4129 , indicating that companies that focus more on environmental investments tend to hold back profits for financing sustainability programs. In contrast, social and governance performance had a positive correlation of 0.3860 and 0.3828, respectively, indicating that companies with better social responsibility and governance quality are likely to increase dividend payments.

Financial variables show a weaker relationship with the DPR. Leverage has a very small and insignificant correlation, so the level of debt utilization is not proven to be related to dividend policy. ROA shows a positive but weak correlation, indicating that profitability is not the dominant factor in the linear relationship with the DPR. The size of the company also shows almost zero correlation, indicating that the size of the company does not have a direct influence on the dividend payment policy.

Free cash flow is the only control variable with a significant positive correlation, of 0.1581, so companies with larger free cash flows are more likely to pay dividends. In contrast, market-to-book value has a negative and insignificant correlation with the DPR, suggesting that market perceptions of company value are not strongly related to dividend policy. In addition, relationships between independent variables such as ESG, ENV, SOC, and GOV have low correlation values (below 0.90), so there is no serious multicollinearity.

Panel Data Regression Analysis

Table 3
Panel Data Regression Analysis

Variable	Coefficients	Prob.	Remarks
ESG	0.010216	0.000	Significant positive
ENV	-0.0074334	0.000	Negative significance
SOC	0.0067466	0.000	Significant positive
GOV	0.0063344	0.000	Significant positive
LEV	0.0046950	0.907	Insignificant
LONG	0.0458043	0.579	Insignificant
SIZE	0.0046706	0.317	Insignificant
FCF	4.71e-15	0.000	Significant positive

Variable	Coefficients	Prob.	Remarks
MTBV	-0.0016835	0.464	Insignificant
Constant	-0.551274	0.000	Negative significance

Based on the panel data regression test in table 3 above, the following regression equations are obtained:

$$\text{DPR} = -0.551274 + 0.010216\text{ESG} - 0.0074334\text{ENV} + 0.0067466\text{SOC} + 0.0063344\text{GOV} + 0.0046950\text{LEV} + 0.0458043\text{ROA} + 0.0046706\text{SIZE} + 4.71\text{e-}15\text{FCF} - 0.0016835\text{MTBV}$$

From the above equation, it can be interpreted as follows:

1. The constant coefficient ($\alpha = -0.551274$) indicates that if all independent variables ESG, ENV, SOC, GOV, LEV, ROA, SIZE, FCF, and MTBV are zero, then the dividend policy value (DPR) is -0.551274.
2. The value of the ESG regression coefficient of 0.010216 indicates that any increase in the ESG score by one unit will increase the dividend policy (DPR) by 0.010216 assuming other independent variables remain.
3. The value of the ENV regression coefficient of -0.0074334 indicates that any increase in the environmental performance score by one unit will decrease the dividend policy (DPR) by 0.0074334, assuming the other independent variables remain the same.
4. The value of the SOC regression coefficient of 0.0067466 indicates that any increase in the social performance score by one unit will increase the dividend policy (DPR) by 0.0067466, assuming the other variables remain the same.
5. The value of the GOV regression coefficient of 0.0063344 indicates that any increase in the governance score by one unit will increase the dividend policy (DPR) by 0.0063344, assuming other independent variables are fixed.
6. The value of the LEV regression coefficient of 0.0046950 shows a positive but not significant influence on the dividend policy. This means that changes in the company's leverage level or debt structure have no real effect on the dividend distribution policy.
7. The value of the ROA regression coefficient of 0.0458043 also shows a positive but insignificant influence on the DPR, which means that the level of profitability of the company has not been the main factor in determining the dividend policy in this study sample.
8. The value of the SIZE regression coefficient of 0.0046706 showed a positive but not significant influence, indicating that the size of the company does not play an important role in determining dividend payment decisions.
9. The FCF regression coefficient value of $4.71\text{e-}15$ shows a significant positive influence on the DPR. Although the value is very small, this means that the larger the free cash flow the company has, the higher the company's ability to pay dividends to shareholders.
10. The value of the MTBV regression coefficient of -0.0016835 shows an insignificant negative effect on the DPR, which means that the market value relative to the company's book value has no real effect on the dividend policy.

Robust Test

Table 4
Robust Test Results

Variable	Coefficient	Std. Err.	t	P> t	[95% Conf. Interval]	
ESG	0.0099418	0.0004586	21.68	0.000	0.0090375	0.0108461
ENV	-0.0074849	0.0003212	-23.31	0.000	-0.0081182	-0.0068515
SOC	0.0068437	0.0003807	17.97	0.000	0.0060928	0.0075945
GOV	0.0060535	0.0003366	17.98	0.000	0.0053897	0.0067173
LEV	0.0083118	0.0493285	0.17	0.866	-0.0889649	0.1055885
LONG	0.0783954	0.1468367	0.53	0.594	-0.2111692	0.36796
SIZE	0.0028758	0.0048789	0.59	0.556	-0.0067455	0.012497
FCF	4.19e-15	1.36e-15	3.08	0.002	1.50 ⁻¹⁵	6.88 ⁻¹⁵
MTBV	-0.001298	0.0026554	-0.49	0.626	-0.0065345	0.0039384
_cons	-0.4727381	0.18528	-2.55	0.011	-0.8381135	-0.1073626

Based on the results of the robust test in table 4, all model estimates are consistent with the previous panel regression, thus confirming the stability of the model despite the standard error correction. ESG performance in aggregate remains a significant positive effect on dividend policy, while the environmental pillar has a significant negative effect and the social and governance pillar has a significant positive effect. These findings confirm that social and governance aspects are important determinants in dividend payment consistency, while environmental commitments still create cost pressures that reduce dividend distribution capacity. On the other hand, most control variables such as leverage, profitability, company size, and market-to-book value had no significant effect, while free cash flow remained significant positive, confirming that liquidity was a key factor. Overall, the robust test reinforces the empirical validity that ESG plays a role in determining dividend policies on non-financial companies in the ASEAN capital market.

Prosite Test

Table 5
Prosite Test

Variable	(1)	(2)	(3)	(4)
ESG	0.125*** (0.011)			
ENV	-0.087*** (0.007)	-0.027*** (0.003)		
SOC	0.083*** (0.006)		0.026*** (0.002)	
GOV	0.082***			0.024***

	(0.007)			(0.002)
LEV	0.412	-0.009	-0.015	-0.009
	(0.516)	(0.251)	(0.267)	(0.248)
LONG	2.670**	0.782	0.649	0.826
	(1.152)	(0.662)	(0.592)	(0.607)
SIZE	0.097*	0.042	0.008	0.015
	(0.055)	(0.035)	(0.031)	(0.031)
FCF	0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
MTBV	0.009	-0.014	-0.027*	-0.021
	(0.025)	(0.016)	(0.015)	(0.016)
Industry	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Constant	-14.942***	-0.218	-2.254**	-2.015**
	(2.130)	(1.137)	(1.047)	(1.020)
Observations	995	995	995	995

Based on the results of the Probit Regression Test that has been carried out in table 5 above, it can be concluded as follows:

Aggregate ESG Performance Test on Probability of Dividend Payment

Model (1) examines the aggregate effect of ESG performance on the probability of a company paying dividends. Based on the estimated results, the ESG variable shows a coefficient of 0.125 and is significant at 1 percent, indicating that overall sustainability performance has a positive and significant effect on the probability of dividend payments. This means that the better the company's ESG score, the higher the company's chances of distributing dividends. These results support the accepted hypothesis, so the initial hypothesis that ESG in aggregate affects the probability of a company paying dividends is empirically proven.

Environmental has a coefficient of -0.087 and is significant at 1 percent, indicating a significant negative influence on dividend payment opportunities. In contrast, Social shows a coefficient of 0.083 and is significant at 1 percent, indicating that companies with high social performance through CSR programs, employee well-being, and social responsibility are more likely to pay dividends. Meanwhile, Governance has a coefficient of 0.082 and is significant at 1 percent, which means good governance practices encourage increased opportunities for companies to pay dividends.

For the control variable, the estimated results showed that the ROA ($2,670$) was significant at 5 percent, indicating that profitability plays an important role in increasing the chances of dividend payout. SIZE (0.097) is significant at 10 percent, indicating that companies with larger sizes have better financial stability and a higher tendency to pay dividends. In contrast, LEV (0.412) and MTBV (0.009) are insignificant, so the debt level and growth outlook have no real effect on dividend policy. The FCF (0.000) is significant at 1 percent, reinforcing that free cash flow is the main factor supporting the company's ability to pay dividends.

A constant value of -14.942 , significant at 1 percent, indicates a negative underlying effect on the probability of dividend payout when all independent variables are zero. Overall, the results of

the model (1) prove that ESG performance in aggregate and the social dimension and governance have a significant positive effect on dividend payment opportunities, while the environmental dimension shows a significant negative influence due to the absorption of funds for sustainability activities.

Environmental Performance Test on the Probability of Dividend Payment

Model (2) examines the influence of environmental performance on dividend policy. The ENV variable shows a coefficient of -0.027 with a significance level of 1 percent, indicating a significant negative influence on the probability of dividend payments. This means that the higher the company's environmental performance, the less likely the company is to pay dividends. Thus the hypothesis is rejected, because although the environmental variable is statistically significant, the direction of the coefficient is negative. This shows that improving environmental performance actually reduces the probability of the company paying dividends.

The control variables show relatively uniform results. LEV (-0.009), ROA (0.782), and SIZE (0.042) are insignificant, indicating that capital structure, profitability, and company size are not major factors in dividend payment decisions in this model. The FCF (0.000) remains significant at 1 percent, confirming that free cash ability remains an important determinant in dividend distribution. The value of the constant -0.218 is insignificant, indicating the absence of a strong underlying effect on the probability of dividend payout when all variables are zero.

Social Performance Test on the Probability of Dividend Payment

Model (3) examines the influence of social performance on dividend policy. The SOC variable has a coefficient of 0.026 and is significant at 1 percent, showing a significant positive influence on the probability of dividend payout. This means that companies that have high social performance through CSR programs, employee welfare, and social contributions are more likely to pay dividends. Thus, H3a is accepted, so the initial hypothesis that social performance affects the probability of the company paying dividends is empirically proven.

For the control variables, LEV (-0.015), ROA (0.649), and SIZE (0.008) were insignificant, while FCF (0.000) remained significantly positive at 1 percent, suggesting that free cash was the dominant factor in dividend determination. The MTBV (-0.027) is significant at 10 percent, indicating that companies with high growth prospects are likely to hold back returns on investments rather than paying dividends. The constant value of -2.254 is significant at 5 percent, indicating a negative underlying effect on dividend payment opportunities.

Governance Performance Test on the Probability of Dividend Payment

Model (4) examines the influence of governance performance on dividend policy. The GOV variable shows a coefficient of 0.024 and is significant at 1 percent, which means it has a positive and significant effect on the probability of dividend payment. This shows that the better the Company's governance in terms of transparency, accountability, and management oversight, the higher the company's tendency to pay dividends. Thus the hypothesis is accepted, so that the initial hypothesis that governance performance has a significant positive effect on dividend policy is empirically proven.

The control variables in this model showed consistent results: LEV (-0.009), ROA (0.826), and SIZE (0.015) were not significant, while FCF (0.000) remained positive and significant at 1 percent. This reaffirms that the company's internal liquidity plays an important role in the dividend

distribution policy. The MTBV (-0.021) is insignificant, indicating that the growth potential has no effect on the probability of dividend payout. The constant value of -2.015 is significant at 5 percent, indicating a negative underlying effect on the company's tendency to pay dividends.

DISCUSSION

The Effect of Aggregate ESG Performance on Dividend Policy

The results of probit regression show that ESG performance in aggregate has a positive and significant effect on the probability of a company paying dividends. Similarly, in the panel regression model, ESG has a positive and significant coefficient of the magnitude of the dividend payout ratio, so the hypothesis is accepted. These findings indicate that companies with higher ESG scores tend to have better financial stability and are better able to channel profits in the form of dividends.

Theoretically, these results are consistent with the Signaling Theory which states that ESG practices are a positive signal for investors regarding the credibility, risk management, and long-term prospects of the company. These findings are also in line with Agency Theory, where better ESG governance and transparency reduce agency conflicts, thereby increasing profit-sharing tendencies. In addition, from the perspective of Legitimacy Theory, dividend payments can be seen as a form of maintenance of social legitimacy by companies committed to sustainability.

The empirical results of this study are also consistent with the findings, , and which show that companies with high ESG scores are more stable and tend to consistently pay dividends. The research also confirms that ESG practices strengthen dividend policies through increased reputation, transparency, and market trust. Thus, overall, ESG performance is proving to be an important determinant in the dividend policy of non-financial companies in the ASEAN capital market. Bilyay-Erdogan et al. (2023) Zahid et al. (2023) Matuszewska-Pierzynka et al. (2023) Almulhim et al. (2024) Benlemlih (2019)

The Effect of Environmental Performance on Dividend Policy

The results of probit regression show that Environmental performance has a significant negative effect on the probability of the company paying dividends. The panel's regression findings also showed a significant negative coefficient to the dividend payout ratio, so the hypothesis was rejected. This indicates that the higher the company's investment in environmental activities, the lower the company's ability to distribute profits as dividends in the ASEAN capital market.

Theoretically, these results can be explained through Agency Theory and Signaling Theory in the context of emerging markets. Capital-intensive environmental spending increases the cost burden and reduces profits, thereby reducing the flexibility of dividend payments. In addition, sustainability signals are not fully considered an indicator of financial strength in the ASEAN region, so environmental activities are more perceived as a short-term burden rather than a strengthening of corporate value.

These findings are consistent with and that find a negative relationship between the environmental pillar and dividend policy, especially in transition markets. However, these results differ from the study, , and which show a positive relationship in regions with more mature ESG systems. Thus, this study confirms that in the current conditions of ASEAN, environmental performance is still depressing dividend payment capacity, although the potential for a change in the direction of the relationship can occur when the economic benefits of green investment begin to be realized. Niccolo et al. (2020) Matuszewska-Pierzynka et al. (2023) Verga Matos et al. (2020) Karki and Seth (2025) Prime (2025)

The Influence of Social Performance on Dividend Policy

The results of probit regression show that Social performance has a significant positive effect on the probability of the company paying dividends. The results of the panel's regression also showed a significant positive coefficient to the dividend payout ratio, so the hypothesis was accepted. These findings indicate that companies with better social performance tend to have more stable stakeholder relationships and are better able to maintain dividend payments to shareholders.

Theoretically, these results are in line with Signaling Theory, Legitimacy Theory, and Stakeholder Theory. Social activities such as employee well-being, community engagement, and inclusivity signal credibility, strengthen the company's legitimacy, and build support from various stakeholders. This lowers operational and reputational risks, improves profit stability, and ultimately allows the company to maintain the consistency of its dividend policy.

Empirically, the findings of this study are consistent with , , and which suggest that the social pillar is a strong ESG factor in driving dividend payments. They emphasized that social commitment increases productivity, reduces the risk of conflict, and strengthens investor confidence. Thus, the Social pillar has proven to be an important determinant of dividend policy for non-financial companies in ASEAN. Benlemlih (2019) Cheung et al. (2018) Saldi et al. (2023)

The Influence of Governance Performance on Dividend Policy

The results of probit regression show that Governance performance has a significant positive effect on the probability of the company paying dividends. The panel regression model also shows a significant positive coefficient to the dividend payout ratio, so the hypothesis is accepted. These findings indicate that companies with better governance practices tend to be more accountable in managing profits and more consistent in distributing dividends to shareholders.

Theoretically, these results are consistent with Agency Theory and Signaling Theory. Strong governance lowers information asymmetry and reduces the potential for opportunistic management behavior, so profits are more transparent and more likely to be distributed as dividends. From a signal theory perspective, dividend payments by companies with good governance are seen as signals of management quality, financial stability, and commitment to accountability. Governance mechanisms such as independent audits, effective boards, and reporting transparency strengthen the market's assessment of the company's integrity.

Empirically, these findings are in line with research, and which suggests that strong governance improves dividend stability and lowers agency risk. They emphasized that good governance improves the efficiency of financial decisions and builds investor trust. Thus, the Governance pillar has proven to be an important factor in encouraging stable dividend policies in non-financial companies in the ASEAN region. Matuszewska-Pierzynka et al. (2023) Zahid et al. (2023) Verga Matos et al. (2020)

The Influence of ESG on the Probability of Dividend Payments

The results of probit regression estimates reveal an additional dimension of the influence of ESG on dividend policy decisions. The probit model tests the influence of ESG not only on the size of the dividend payout ratio, but also on the probability that the company will pay dividends at all. The results showed that the aggregate ESG had a very significant positive coefficient of

0.125 (p -value = 0.000), indicating that companies with higher ESG scores had a higher probability of paying dividends to shareholders.

These findings show that the influence of ESG on dividend policy is bidirectional which not only affects the amount of dividends paid, but also influences the basic decision to pay dividends or not. Companies with strong ESG performance are more confident to make commitments to shareholders to pay dividends, as they are confident that their sustainability performance will support profitability and stable cash flow in the long run. Signaling communicated through strong ESG allows companies to more easily convince shareholders that promised dividends can be maintained even in challenging economic situations. (Awwalin et al., n.d.) (Yang et al., 2025)

At the dimension level, the results of the probit regression showed that the Environmental score (coefficient = -0.087, p -value = 0.000) and Social score (coefficient = 0.083, p -value = 0.000) and Governance score (coefficient = 0.082, p -value = 0.000) all had a significant effect on the probability of dividend payout, but with different directions for the environmental dimension. These findings reinforce the previous conclusion that intensive environmental investing reduces the probability of dividend payouts, while strong social performance and governance increase that probability. These results indicate that dividend payment decisions are binary influenced by complex considerations of various sustainability dimensions, with the environmental and social dimensions having significant but opposite impacts.

Integration of Findings and Contributions to the Literature

Overall, this study provides comprehensive empirical evidence that ESG performance has a significant and complex influence on dividend policies in non-financial companies in the ASEAN capital market. This relationship is not entirely positive or negative, but rather depends on the specific ESG dimension being considered. The aggregate ESG shows a positive influence, but when disaggregated into individual dimensions, the results become more complex: the environmental dimension shows a negative influence, while the social and governance dimensions show a positive influence. These findings make an important contribution to the sustainable finance literature by showing that not all ESG dimensions have the same effect on dividend policy, and that the financial trade-offs between sustainability investments and dividend payments vary based on the nature of those ESG investments.

The study also enriched the understanding of the transmission mechanisms through which ESG influences dividend policy, by integrating various theoretical frameworks including signaling theory, agency theory, stakeholder theory, and legitimacy theory. The findings indicate that the signaling function of ESG is more important in the context of emerging markets such as ASEAN than in developed markets, as ESG information helps reduce information asymmetry that is much greater in less mature markets. An additional contribution from this study is empirical evidence that free cash flow is a more important determinant than accounting profitability in determining dividend policies in the ASEAN market, indicating that investors and management in the region are more focused on cash-based metrics than accrual-based profitability measures.

CONCLUSION

This study has analyzed the influence of Environmental, Social, and Governance performance on dividend policies in 199 non-financial companies in the ASEAN-5 capital market during the period 2019 to 2023. Key findings suggest that aggregate ESG performance has a significant positive effect on dividend payout ratios, but this relationship is complex when analyzed

at the level of individual dimensions. The social and governance dimensions showed significant positive influences, indicating that investments in social responsibility and good governance practices improve the stability and consistency of dividend payments. In contrast, the environmental dimension showed a significant negative influence, reflecting that the allocation of funds for more intensive environmental initiatives reduced the availability of cash for dividend distribution. These findings confirm that the financial trade-off between sustainability investing and dividend payments varies based on the nature of ESG investments, with free cash flow proving to be a more important determinant than accounting profitability in determining dividend policies in the ASEAN region.

This study has several limitations that need to be considered in the interpretation of the results. First, data were drawn from five ASEAN countries with different levels of capital market development, so the results may not be completely generalizable for each country individually. Second, the research period is limited to five years, so long-term research is needed to confirm the consistency of ESG-dividend relationships over longer business cycles. Further research is suggested to explore the role of moderation variables such as shareholder activism, ownership structures, and macroeconomic conditions in strengthening or weakening the relationship between ESG and dividend policy. The practical implications of this study suggest that non-financial companies in ASEAN should integrate ESG considerations into their dividend policy strategies, with a particular focus on social and governance dimensions that show clearer financial returns for shareholders. For investors, these findings provide evidence that companies with strong social and governance performance tend to offer more stable and sustainable dividend policies. Regulators in the ASEAN region can use these findings to design a regulatory framework that encourages ESG adoption while maintaining a financially sustainable dividend policy.

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