



**ESG PERFORMANCE AND DIVIDEND PAYOUT IN  
ASEAN: THE MODERATION BY CASH HOLDINGS**

**BY**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL  
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FACULTY OF COMMERCE AND ACCOUNTANCY

INDEPENDENT STUDY

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ENTITLED

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## **ABSTRACT**

This study investigates the relationship between Environmental, Social, and Governance (ESG) performance and dividend payout policies among firms in the ASEAN region, with a particular focus on the moderating role of cash holdings. Using panel data from six ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam) spanning from 2003 to 2022, the research examines how ESG scores influence both dividend payout ratios and dividend yields. The findings reveal a significant positive relationship between ESG performance and dividend payout ratios, indicating that firms that have higher ESG Performance are more likely to pay a larger dividend. However, there isn't a statistically significant link between ESG and dividend yield, meaning that the impact of ESG on yield is complex and potentially influenced by other factors such as stock price movements. The study also highlights the moderating effect of cash holdings, showing that firms with substantial liquidity are better able to sustain or enhance dividend yields in the context of strong ESG performance. Additionally, the analysis of individual ESG components (environmental, social, and governance) demonstrates that each pillar positively influences dividend payouts. This study enhances the existing literature on this field by offering empirical data from the ASEAN region, emphasizing the importance of ESG factors and cash holdings in shaping corporate dividend policies. The findings offer valuable insights

(2)

for investors, corporate managers, and policymakers as they navigate the evolving landscape of corporate governance and sustainability in emerging markets.

Keywords: ESG performance, dividend payout, ASEAN



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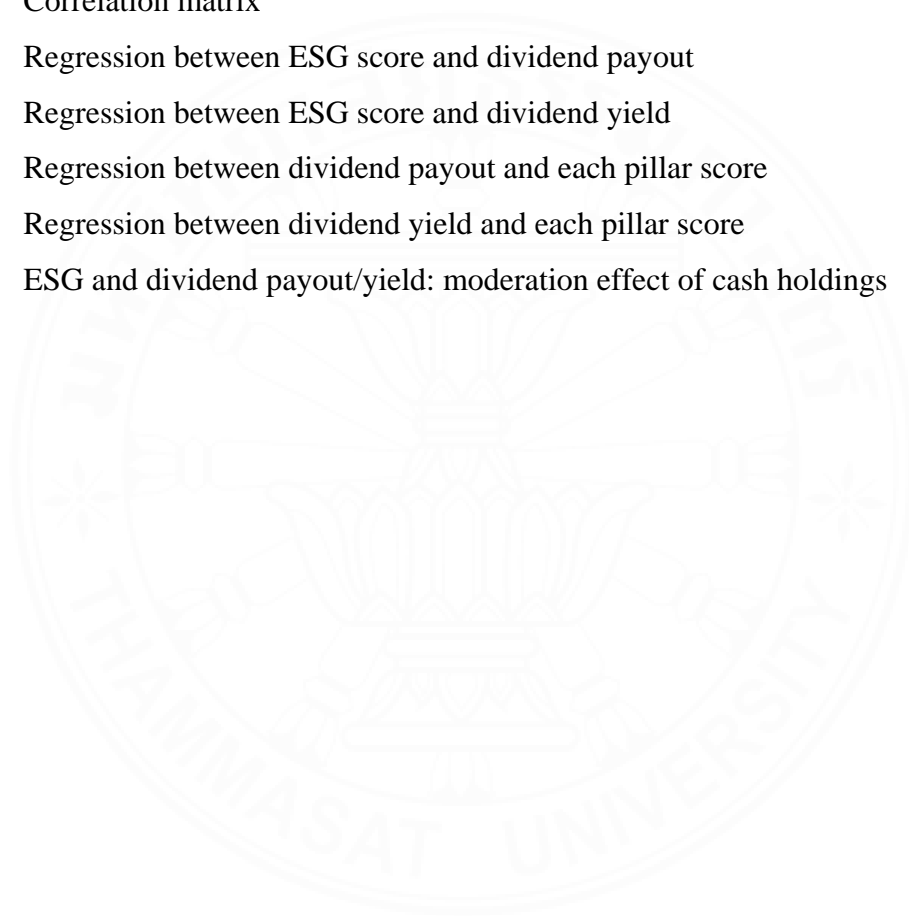
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## CHAPTER 1

### INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) criteria have become a significant foundation for evaluating company conduct and guiding investment decisions. The importance of ESG ratings in the financial performance and strategic decisions of firms has gained substantial attention, particularly within the ASEAN region. This growing focus is attributed to a heightened public awareness of social and environmental sustainability, which determines both challenges and opportunities for businesses. Firms that fail to incorporate ESG criteria into their operations may face negative consequences from investors, impacting their market performance and associated financial risks (Rahma & Rokhim, 2022). Conversely, evidence suggests that companies with strong ESG performance exhibit more stable dividend payout policies, underscoring the interconnection between ESG practices and financial stability (Verga-Matos et al., 2020).

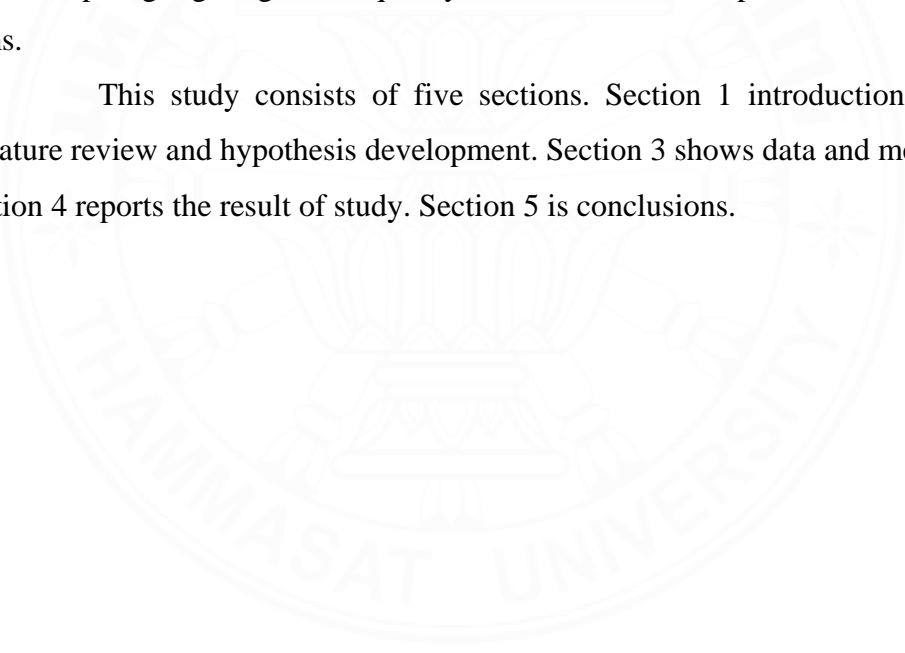
There are many previous researches studied on many aspects of ESG with many firm characteristics such as firm value, firm performance, but this paper will focus on firm dividend payout. There have been some research curious about ESG performance and dividend payout of the firm but most of them study mostly in US and Europe firms, so, there are few papers study the effect of ESG performance and dividend policy in ASEAN. It is important to study more in ASEAN region because it's growing region and will be the important market of the world in the next few decades. Especially, research about moderating effect of cash holding to the relationship between ESG scores and dividend payout is scarce.

The main objective of this study is to analyze the relationship between ESG ratings and dividend payout policies among ASEAN firms. Additionally, this study analyzes the moderation of cash holdings in the relationship between ESG scores and dividend payout. The influence of each ESG pillar (environmental, social, governance) on dividend policies will also be analyzed. This research aims to contribute to the growing body of literature by providing empirical evidence from an underexplored region.

The findings of this study reveal that firms with higher ESG scores tend to have higher dividend payout ratios, suggesting that strong ESG performance is positively associated with the likelihood of returning value to shareholders through dividends. However, the correlation between ESG scores and dividend yield is more nuanced and not uniformly significant across the region. The moderating effect of cash holdings also plays a critical role, particularly in sustaining or enhancing dividend yields in firms with strong ESG performance.

This paper makes two main contributions. First, it provides a better understanding of the relationship between ESG performance and dividend payout decisions in the ASEAN region, where the literature on this issue is quite little. Second, it offers new insights into the moderating role of cash holdings in the ESG-dividend relationship, highlighting how liquidity influences dividend policies in ESG-focused firms.

This study consists of five sections. Section 1 introduction. Section 2 literature review and hypothesis development. Section 3 shows data and methodology. Section 4 reports the result of study. Section 5 is conclusions.



## **CHAPTER 2**

### **REVIEW OF LITERATURE**

The integration of Environmental, Social, and Governance (ESG) factors into firms strategies and investor decision-making has come to be a significant subject in the field of corporate finance and sustainability. The objective of this literature review is to investigate the correlation between ESG scores and dividend payout and shows the evidence found by previous researches.

#### **2.1 Impact of ESG on firm's financial characteristics**

In the past, there has been many studies try to explain relationship between CSR scores and firm characteristics. For example, relationship between CSR score and dividend payout. Cheung et al. (2018) found that firms with high CSR scores distribute more dividends. Along with Rakotomavo (2012) studied in US firms also get the same result. Nowadays, the rise of ESG indicates a fundamental change from conventional CSR practices, focusing a structured and measurable method for evaluating a company's influence on environmental sustainability, social responsibility, and governance integrity. Empirical studies have been increasingly focused on quantifying the influence of ESG performance on different aspects of financial performance such as risk, profitability, capital structure, and dividend policy. El Ghouli et al. (2011) said that by delivering strong signals to the market, dividends and ESG both help boost a company's brand and improve its governance. Several empirical researches provide different perspectives on the relationship between ESG performance and dividend payouts. On one hand, some research indicates that companies with higher ESG ratings have greater financial stability and investor confidence, which empowers them to maintain or increase payouts of dividends. Benlemlih (2019) found that there is a direct correlation between a company's Environmental, Social, and Governance (ESG) score and its capacity to distribute profits through dividend in the United States. Additionally, a higher ESG score is associated with a more consistent and reliable payout policy. The paper gave the reasons that companies with strong ESG performance provide a message

to investors that they care about doing the right thing for society, which increases their reputation in the eyes of investors, who see them as socially responsible businesses. This, in turn, boosts their bottom line and allows them to pay out more dividends. Salvi et al. (2024) give another reason that companies give higher importance to ESG practices typically result in excess cash, which can be allocated to shareholders in the form of dividends. These kinds of positive relationship were also found by Zahid et al. (2023), Lucas (2020), Ismillah and Faisal (2023), and Bilyay-Erdogan et al. (2023). On the other hand, there are some literatures found negative correlation between ESG scores and dividend payout, Ni and Zhang (2019) and Niccolò et al. (2020), both studied in China. Starks et al. (2017) gave the interesting view that long-term investors tend to favor companies with greater environmental, social, and governance (ESG) ratings, whereas short-term investors tend to choose the opposite.

Based on the findings of studies like those by Zahid et al. (2023), and Verga-Matos et al. (2020) which suggest that firms with higher ESG scores tend to exhibit a higher tendency to distribute dividends or exhibit more stable dividend payouts. The rationale is that firms with strong ESG profiles may be more financially stable and profitable, enabling them to distribute more consistent and potentially higher dividends to their shareholders. And these lead to our first hypothesis that

**Hypothesis 1A: ESG performance have positive relationship with dividend payouts**

As mentioned earlier, some previous literature also found a negative relationship between ESG performance and dividend payouts. John and Knyazeva (2006) gave an interesting view that firms that lack of corporate governance may be compensated by dividend payment, then high corporate governance firm tend to have lower dividend payment. Thus, dividend payments are less important for high CSR firms since dividend and governance are a substitute in reducing the agency cost (Saeed & Zamir, 2021). Niccolò et al. (2020) studied relationship of each component of ESG of China listed companies and they found negative relationship between each ESG component with dividend payout with the reasons that firm invest in ESG will decrease resources of the firm then have less free cash flow for shareholders, lead to less dividend payout. It was also discovered by Ni and Zhang (2019) that there is a negative

correlation between dividend payout and CSR disclosure since CSR disclosure enhance the flow of information and may reduce the required profit distribution of shareholders. This led us to the second hypothesis that

**Hypothesis 1B: ESG performance have negative relationship with dividend payouts**

## **2.2 The moderating role of cash holdings**

Researches about the combined effect of ESG performance and cash holdings on firm's dividend payouts are scarce. Prior literatures explored the connection between ESG and cash holdings, revealed that ESG performance appears to be one of the factors that affect firm's cash holdings. According to Dimitropoulos and Koronios (2021) and Cheung et al. (2018), Companies that place a higher emphasis on ESG tend to maintain a greater amount of cash reserves. This is because managers are motivated to satisfy shareholders while simultaneously serving the needs for multiple stakeholders. On the other hand, Many previous researches studied relationship of cash holdings and dividend payout. Ananzeh et al., (2024) found that There exists a robust positive correlation between the cash reserves of a corporation and the dividends it distributes.

This means that Companies that have a substantial amount of cash on hand are more likely to distribute a higher proportion of their profits as dividends. After conducting a comprehensive review of the dividend policies of corporations across many countries, Denis and Osobov (2008) discovered that firms possessed with more substantial cash reserves exhibit a greater propensity to pay dividends, studied in US, Europe and Japan. According to pecking order theory (Myers & Majluf, 1984), Companies tend to prioritize the utilization of internal funds, such as retained earnings and cash, for investments rather than relying on external funding. If firms have a lot of cash reserves, it may indicate that they have few investment opportunities and then link to more dividend payout. Nonetheless, some papers found opposite result, they argued that Companies that distribute dividends typically maintain lower cash reserves, as they have the advantage of accessing funds at reduced transaction costs when necessary (Al-Najjar & Belghitar, 2011). There are many researches that studied ESG-dividend

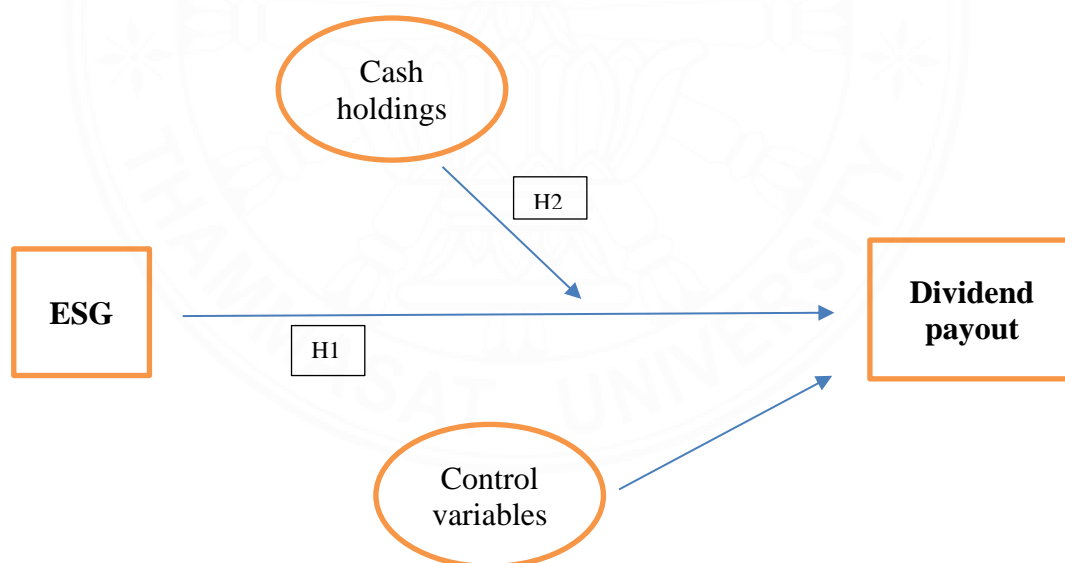
relationship; However, they applied different moderators such as audit quality (Zahid et al., 2023), Shareholder activism (Rastogi & Singh, 2023), Institutional ownership (Saeed & Zamir, 2021). However, based on all the above argument, both ESG and cash holdings can be applied together to study their combined impact on dividend payout policy.

Therefore, this paper would like to study the moderation effect of cash holding to dividend payout, to investigate how cash holding influence the relationship between ESG performance and dividend payout. The second hypothesis in this study is as follows:

**Hypothesis 2: Cash holdings positively moderates the relationship between ESG scores and dividend payout**

Figure 2.1

*Conceptual model*



## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.1 Data collection

The primary dataset for this research will be sourced from Refinitiv (Thomson Reuters Data base). Data used will consist of annually ESG performance score, dividend payout, dividend yield, covering the period from 2003 – 2022 Excluding financial and insurance firms. We also exclude firms without ESG rating. The study will focus on ten ASEAN countries: Thailand, Vietnam, Singapore, Malaysia, Philippines, Laos, Indonesia, Myanmar, Cambodia, Brunei Darussalam. However, after collecting all data, there are only six countries that have enough data to be used in this study. The final samples contain Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam.

Table 3.1 Sample distribution

<b>Country</b>	<b>No. of Observations</b>	<b>No. of Firms</b>	<b>% of total obs.</b>
Indonesia	417	57	15.5%
Malaysia	883	353	32.8%
Philippines	250	33	9.3%
Singapore	531	75	19.7%
Thailand	561	153	20.8%
Vietnam	50	23	1.9%
<b>Total</b>	<b>2692</b>	<b>694</b>	<b>100%</b>

## 3.2 Variables

### 3.2.1 Dependent variables

The primary dependent variables are dividend payout ratio, dividend yield and stock returns. For dividend payout ratio which measure the proportion of annual dividend per share to earnings per share

$$\text{Dividend payout} = \frac{\text{Dividend per share}}{\text{Earning per share}} \quad (3.1)$$

In addition to dividend payout, dividend yield is another metric used in assessing a company's payout policy. Defined as the annual dividend per share divided by the company's stock price, this ratio is frequently employed in research such as Saeed and Zamir (2021) as an effective measure for examining how specific attributes of a company influence its dividend distribution strategy.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Share price}} \quad (3.2)$$

### 3.2.2 Independent variables

The main independent variables include the total ESG score and its individual components which are environmental, social, and governance scores. All information obtained from Refinitiv Eikon. ESG score ranges between 0 to 100, 0 is the lowest and 100 is the highest value. The entire business assessment and scoring process is driven by 186 of the most relevant and comparable ESG metrics per industry, out of the nearly 630 company-level measurements that Refinitiv collects and computes. These are categorized into ten groups that generate an overall ESG score, which represents the company's ESG performance, and the three pillar scores.

Table 3.2 Calculation of ESG score from Refinitiv Eikon

Dimension	Category	Category weights
Environmental	Emission	0.15
	Innovation	0.13
	Resource use	0.15
Social	Human right	0.05
	Product Responsibility	0.04
	Workforce	0.13
	Community	0.09
Governance	Management	0.17
	Shareholders	0.05
	CSR strategy	0.03
ESG score	Sum of score on each weight category	

For each industry group, the weights of all 10 categories are added together. Next, the magnitude weight of each category is divided by the total of the magnitude weights within that industrial group to determine the category weight.

$$\text{Category weight of an industry group} = \frac{\text{Magnitude weight of a category}}{\text{Sum of magnitudes of all categories}} \quad (3.3)$$

### 3.2.3 Control variables

#### 3.2.3.1 Firm size (Size)

Firm size is recognized as a key factor influencing dividend distributions, exhibiting a positive relationship with the amount of dividends paid (Benlemlih, 2019). This variable, commonly denoted by the natural logarithm of total assets, functions as a control in research studying dividend policy. Essentially, larger companies, endowed with greater resources, are typically more capable of disbursing dividends and tend to exhibit higher stability.

### **3.2.3.2 Return on asset (ROA)**

The concept of return on assets (ROA) serves as a proxy for a company's ability to pay dividends because it is expected that profitable businesses will generate higher free cash flows and, as a result, pay out larger dividends (Benlemlih, 2019). A company's ability to pay dividends is indicated by its return on assets (ROA), which is calculated by net income divided by total assets. ROA serves as a measure of how well an organization generates earnings in relation to its assets.

### **3.2.3.3 Leverage ratio (LEV)**

Adjaoud and Ben-Amar (2010) suggest that the ratio of total liabilities to total assets can be used to measure financial leverage. This type of debt may harm dividend payments as lenders try to protect their own interests. This metric is a very important control variable because it affects both the ability to invest in ESG factors and the ability to pay dividends. Basically, more financial leverage means more debt, which can make it harder for a company to decide how to spend its money on things like dividends or ESG-focused projects.

### **3.2.3.4 Cash holding (CASH)**

Following the previous research (Ozkan & Ozkan, 2004). Cash holding is measured by using cash divided by total assets. Ananzeh et al. (2024) also found a significant relationship between cash holding and dividend allocation. They discovered that firms with substantial cash reserves are inclined to allocate a substantial portion of their profits to dividend payouts to their shareholders.

### **3.2.3.5 Capital expenditures (CAPEX)**

Kumar and Waheed (2015) found that it is anticipated that companies with a high operating income growth rate, which indicates greater investment prospects, will incur greater capital expenditures. Companies that exhibit these characteristics are unlikely to distribute large dividends. Thus, it is anticipated that companies with greater capital expenditures will distribute lower dividends. In this context, capex is measured by dividing capex with total assets.

### **3.2.3.6 Lagged dividend payout (LPAYOUT)**

Lagged dividends have consistently been demonstrated to have a positive impact on current dividend distributions in empirical studies. For instance, Dewasiri et al. (2019) demonstrated that past dividend payments are among the most

significant determinants of current dividend policies in emerging markets, indicating a strong persistence in dividend behavior over time. This implies that companies that have a history of dividend payments are more likely to continue this practice.

### 3.3 Methodology

The research will employ a Panel data regression model, this approach will help us understand the relationship between ESG scores and dividend payout. To evaluate the impact of ESG strategies on a firm's payout, we have developed a model that depicts the payout policy as a function of these ESG strategies. The model also runs dividend yield as dependent variables.

#### 3.3.1 Test hypothesis 1:

$$\begin{aligned} \text{DIV}_{it} = & \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{LEV}_{it} + \beta_4 \text{SIZE}_{it} + \\ & \beta_5 \text{CASH}_{it} + \beta_6 \text{CAPEX}_{it} + \beta_7 \text{Div}_{it-1} + \beta_8 \text{GDP}_{kt} + \\ & \alpha_k + \lambda_t + \varepsilon_{it} \end{aligned} \quad (3.4)$$

Where DIV = Dividend policy, ESG = ESG performance scores, ROA = Profitability LEV = Leverage, SIZE = Firm size, CASH = Cash holdings, CAPEX = Capital expenditures DIV<sub>t-1</sub> = lagged value of dividend payout, GDP = GDP per capita growth,  $\alpha_k$  = country fixed effects,  $\lambda_t$  = time fixed effects,  $\varepsilon_{it}$  = disturbance term, i = firm, k = country, s = sector, t = year

Equation (3.4) is the base model to test hypothesis 1A and 1B. we expect to see positive sign of  $\beta_1$  in hypothesis 1A, meaning that ESG score has positive correlation with dividend payout. Negative sign of  $\beta_1$  is expected in testing hypothesis 2, meaning that ESG score has negative relation with dividend payout.

#### 3.3.2 Test hypothesis 2:

$$\begin{aligned} \text{DIV}_{it} = & \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{CASHDUM}_{it} + \beta_3 \text{CASHDUM}_{it} \times \\ & \text{ESG}_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{SIZE}_{it} + \\ & \beta_7 \text{CAPEX}_{it} + \beta_8 \text{Div}_{it-1} + \beta_9 \text{GDP}_{kt} + \alpha_k + \lambda_t + \varepsilon_{it} \end{aligned} \quad (3.5)$$

Building upon the basic framework presented in equation (3.4), we have now incorporated the interaction terms in equation (3.5) to examine the impact of Cash holdings as a moderator on the relationship between ESG and dividend payout. The CASHDUM variable in the interaction term will be used as dummy variable, it will take value of 1 if the particular company has cash more than the median value of all firms in its own country. And will be 0 if the company has cash less than median. To serve the hypothesis 2, the sign of interaction term must be positive.



## CHAPTER 4

### RESULT

#### 4.1 Descriptive statistics and correlations

Table 4.1 provides a summary of the key variables analyzed in this research, which explores the correlation between ESG performance and dividend payout policies among firms in the ASEAN region. Observations consist of six countries (i.e. Singapore, Thailand, Vietnam Malaysia, Philippines, Indonesia).

The dividend payout ratio ranges widely from 0 to 99.56%, with an average of 39.81%, demonstrating the variety in how businesses allocate their profits. This variation shows that dividend policies are not the same throughout the region. The ESG combined score shows a mean of 42.90, with scores ranging significantly from 6.48 to 86.30. This wide range indicates substantial differences in how firms in the ASEAN region approach environmental, social, and governance issues. Firm size (SIZE), have averages 17.83, capturing a broad spectrum of corporate scales. Return on assets (ROA) of 8.38% indicates that these companies' profitability varies widely, which may have an effect on their ability to fund ESG activities and pay dividends. Cash holdings (CASH), averaging 7.82% of total assets, reflect different liquidity levels across firms, which could influence their dividend policies. Capital expenditures (CAPEX) average 5.21%, indicating varied investment intensities among firms. The lagged dividend payout, which is similar to the current payout, suggests that many firms maintain stable dividend policies over time. Finally, GDP growth averages 2.96%, with fluctuations reflecting diverse economic conditions in the ASEAN region.

It is important to note that the data have been winsorized at the 1st and 99th percentiles, which mitigates the influence of extreme outliers and provides a more robust analysis of the central trends within the dataset.

Table 4.1 Descriptive statistics

<b>Variables</b>	<b>N</b>	<b>Std. Dev.</b>	<b>Mean</b>	<b>Median</b>	<b>min</b>	<b>max</b>
PAYOUT	2692	27.765	39.807	39.97	0	99.56
DYIELD	2692	2.195	2.609	2.19	0	11.42
ESG	2692	19.354	42.897	41.545	6.48	86.3
E	2692	24.863	34.675	31.78	0	90.63
S	2692	23.263	45.605	45.05	3.7	93.17
G	2692	21.537	47.664	47.31	7.16	90.83
SIZE	2692	3.565	17.827	16.963	12.147	25.861
ROA	2692	8.169	8.377	6.73	-9.15	49.03
LEV	2692	17.136	27.174	27.34	0	68.42
CASH	2692	7.511	7.818	5.403	.12	38.226
CAPEX	2692	5.495	5.213	3.57	.03	29.06
LPAYOUT	2692	27.637	39.660	39.88	0	99.38
GDP	2692	3.661	2.964	3.12	-6.58	13.52

*Note* : PAYOUT = Dividend payout, DYIELD = Dividend yield, ESG = ESG combined score, E = Environmental pillar score, S = Social pillar score, G = Governance pillar score, SIZE = Firm size, ROA = Return on asset, LEV = Leverage, CASH = Cash ratio, CAPEX = Capital expenditure, LPAYOUT = Lagged payout of the firm, GDP = GDP per capital growth

Table 4.2 presents a correlation matrix that highlights the relationships between key variables, shedding light on how various factors influence dividend payout and dividend yield as well as their connection to ESG scores and financial characteristics.

A significant positive correlation exists between dividend payout and dividend yield (0.495\*), indicating that firms that distribute a larger portion of their earnings as dividends generally offer higher yields to investors. This relationship aligns with the intuitive expectation that payout and yield are directly related.

The ESG score shows a positive correlation with both dividend payout (0.189\*) and dividend yield (0.103\*), suggesting that firms with higher ESG ratings have tendency to offer superior returns to shareholders through both higher payouts and yields.

Strong correlations among the components of ESG, environmental (E), social (S), and governance (G) highlight the connection of these dimensions within firms. For instance, the environmental score is highly correlated with the social (0.774\*) and governance scores (0.647\*), indicating that companies that perform well in one ESG aspect often exhibit in others.

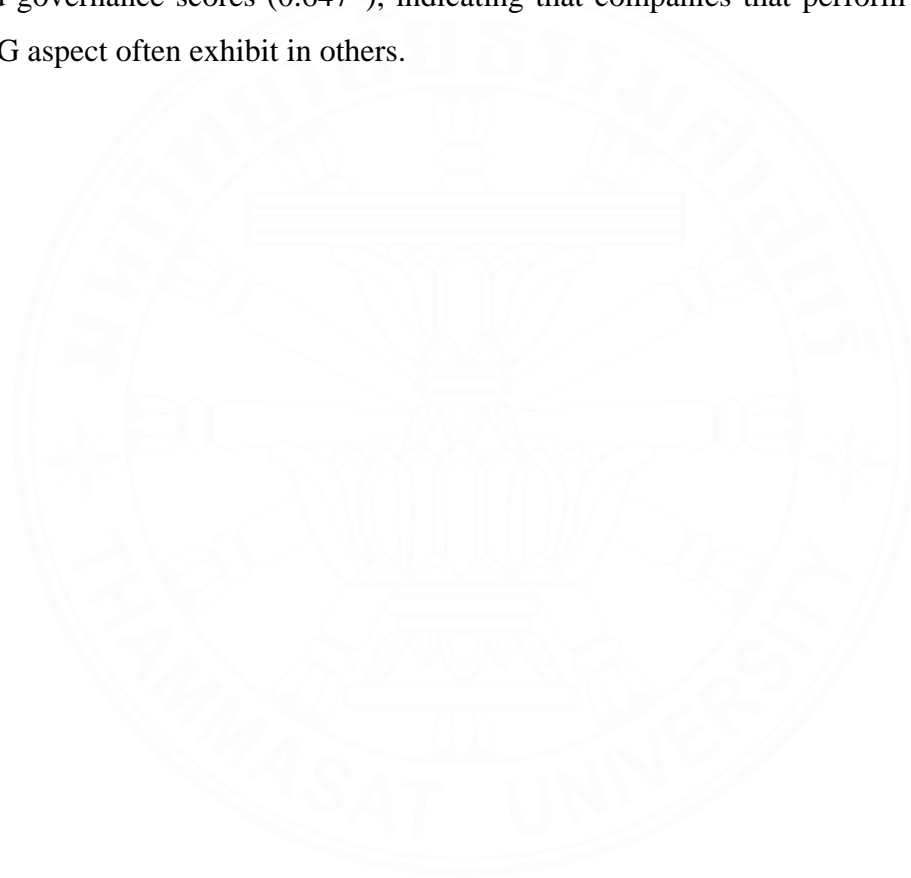


Table 4.2 Correlation matrix

	PO	DY	ESG	E	S	G	SIZE	ROA	LEV	CASH	CAPEX	LPO	GDP
PAYOUT	1												
DYIELD	0.50*	1											
ESG	0.19*	0.10*	1										
E	0.17*	0.10*	0.87*	1									
S	0.17*	0.11*	0.92*	0.77*	1								
G	0.11*	0.06*	0.65*	0.34*	0.40*	1							
SIZE	-0.03	-0.06*	0.16*	0.17*	0.16*	0.04	1						
ROA	0.38*	0.25*	0.05*	0.00	0.04*	0.04*	0.05*	1					
LEV	-0.16*	-0.08*	0.09*	0.13*	0.08*	0.01	0.20*	-0.27*	1				
CASH	-0.01	0.03	-0.01	-0.02	0.00	-0.04*	-0.00	0.20*	-0.29*	1			
CAPEX	0.10*	0.01	-0.01	-0.04*	-0.01	0.01	0.14*	0.25*	-0.01	0.04*	1		
LPAYOUT	0.80*	0.52*	0.18*	0.16*	0.17*	0.11*	-0.04	0.38*	-0.15*	-0.01	0.11*	1	
GDP	-0.07*	-0.03	-0.07*	-0.08*	-0.08*	-0.01	-0.02	0.05*	-0.09*	0.02	0.02	-0.06*	1

Note: \*Significant at 5% level

## 4.2 Baseline results

Table 4.3 presents the regression results of estimating equation (3.4), which is the baseline model, examining the relationship between ESG score and dividend payout. The table is divided into seven columns: Column 1 shows the results for all ASEAN countries combined, while Columns 2 and 3 focus on Malaysia and Singapore individually. The decision to highlight Malaysia and Singapore is based on the statistical significance of their results. For columns 4 to 7 show the rest of the countries.

In the first column, the regression includes data from all the ASEAN countries in the sample. The coefficient for ESG is 0.0729, which is statistically significant at the 1% level. This positive and significant coefficient indicates that, on average, a higher ESG score is associated with a higher dividend payout across ASEAN firms. Specifically, when ESG score increase by 1 unit, then dividend payout will increase 0.0729 unit. This finding implies that firms that exhibit superior ESG performance are more likely to allocate a greater proportion of firm's profit as dividends. This suggests that organizations that reveal better ESG performance are perceived as having a more reliable commitment to society, which is likely to improve their reputation. A positive reputation could improve the ability of companies to secure external funding at lower costs, resulting in improved financial performance and increased dividend payments (Bilyay-Erdogan et al., 2023). Moreover, the results follow Cheung et al. (2018) which states that Firms having good governance and social responsibility have better relationship with stakeholders, efficient management. Good relationships with stakeholders reduce transaction costs and reduce cashflow shocks, then firms will have higher outcomes and lower risk, resulting in a good position to pay out more to shareholders. This finding supports hypothesis 1A.

Column 2 presents the results for Malaysia. The ESG coefficient is 0.169, which is also statistically significant at the 1% level. This indicates a stronger relationship between ESG performance and dividend payout in Malaysia compared to the ASEAN region as a whole. A 1 unit increase in ESG score result in a 0.169 percentage point increase in dividend payout. The larger coefficient suggests that in Malaysia, firms with higher ESG scores are particularly inclined to distribute higher dividends,

In Singapore, shown in Column 3, the ESG coefficient is 0.134, significant at the 1% level. This result is similar to Malaysia but slightly less pronounced. A dividend payout ratio increase of 0.134 percentage points is the result of a one-unit increase in the ESG score. The significance of the results in Singapore suggests that firms with high ESG score are also more likely to payout more dividends

However, the relationship between ESG scores and dividend payouts is not uniformly significant across all countries. In Indonesia, the Philippines, Thailand, and Vietnam, the ESG coefficients are positive but not statistically significant. This indicates that in these countries, there is no clear evidence of a relationship between ESG performance and dividend payouts, suggesting that other factors may be more influential in determining dividend policies.

In addition to ESG scores, the analysis also considers other variables that could impact dividend payouts. Firm size (SIZE) emerges as a significant factor, particularly in the overall ASEAN context, Indonesia, and Thailand. Profitability, as measured by return on assets (ROA), is another critical determinant of dividend payouts. The ROA coefficients are consistently positive and highly significant across all regions. This suggests that more profitable firms are more likely to pay higher dividends. Finally, the lagged dividend payout (LPAYOUT) variable shows strong persistence in dividend policies. The coefficients for LPAYOUT are consistently high and significant, indicating that firms with a history of paying dividends are likely to continue this practice. This finding emphasizes the stability and consistency of dividend policies among firms in the ASEAN region.

Table 4.3 Regression between ESG score and dividend payout

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Dividend Payout</b>	<b>All countries</b>	<b>Malaysia</b>	<b>Singapore</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Thailand</b>	<b>Vietnam</b>
ESG	0.0729*** (0.019)	0.169*** (0.036)	0.134*** (0.065)	0.0266 (0.046)	0.0187 (0.044)	0.0115 (0.044)	0.0454 (0.24)
SIZE	0.569** (0.26)	0.428 (0.51)	0.402 (0.45)	2.525** (1.04)	0.430 (1.26)	1.504** (0.64)	6.277 (4.30)
ROA	0.330*** (0.047)	0.259*** (0.069)	0.151*** (0.053)	0.488*** (0.11)	0.00932 (0.33)	0.565*** (0.14)	1.562** (0.74)
LEV	-0.0707*** (0.022)	-0.0451 (0.038)	-0.0783 (0.051)	-0.101* (0.057)	-0.0131 (0.067)	-0.109** (0.049)	-0.0320 (0.27)
CASH	-0.0639 (0.045)	-0.0192 (0.075)	-0.151 (0.10)	-0.0347 (0.12)	-0.0962 (0.16)	0.0529 (0.10)	0.553 (0.91)
CAPEX	-0.0993 (0.062)	-0.0915 (0.11)	-0.00139 (0.16)	-0.117 (0.16)	0.129 (0.17)	-0.371*** (0.14)	0.453 (0.59)
LPAYOUT	0.728*** (0.013)	0.738*** (0.022)	0.764*** (0.031)	0.687*** (0.039)	0.784*** (0.041)	0.674*** (0.029)	0.692*** (0.035)
GDP	-0.339** (0.15)						
Constant	-6.638 (6.11)	-3.719 (7.22)	-3.941 (7.51)	-17.40 (24.6)	14.27 (25.4)	-10.07 (10.0)	48.4 (102)
Observations	2692	883	531	417	250	561	50
R-squared	0.64	0.67	0.61	0.63	0.67	0.60	0.26
Year FE	yes	yes	yes	yes	yes	yes	yes
Country FE	yes	-	-	-	-	-	-

*Note:* Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4.4 presents the regression results examining the relationship between ESG scores and dividend yield across all ASEAN countries. Unlike the previous table where the dependent variable was dividend payout, this table uses dividend yield, which is the ratio of dividend per share to stock price, as the dependent variable.

The coefficient for ESG is -0.00403, but it is not statistically significant. This indicates that across the ASEAN region including each country's result, there is no clear evidence of a relationship between ESG performance and dividend yield. In other words, the data does not support the idea that higher ESG scores lead to either higher or lower dividend yields when looking at firms across all ASEAN countries.

Table 4.4 Regression between ESG score and dividend yield

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Dividend yield</b>	<b>All countries</b>	<b>Malaysia</b>	<b>Singapore</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Thailand</b>	<b>Vietnam</b>
ESG	-0.00403 (0.0021)	-0.0133 (0.0049)	-0.0176 (0.0043)	0.0128 (0.0048)	-0.000956 (0.0038)	0.00264 (0.0054)	-0.00407 (0.0095)
SIZE	0.186*** (0.029)	0.389*** (0.068)	0.149*** (0.042)	0.169 (0.11)	0.0146 (0.11)	0.187** (0.078)	0.192 (0.17)
ROA	0.0300*** (0.0051)	0.0460*** (0.0091)	0.0677*** (0.014)	0.0303*** (0.012)	0.0563* (0.029)	0.0651*** (0.017)	0.00779 (0.030)
LEV	0.00108 (0.0024)	0.000650 (0.0051)	-0.0131*** (0.0047)	-0.0129** (0.0058)	-0.0163*** (0.0059)	0.000643 (0.0060)	-0.00752 (0.011)
CASH	0.0113 (0.0050)	0.0244 (0.010)	-0.0147 (0.0094)	0.0381 (0.012)	-0.0143 (0.014)	-0.0104 (0.012)	0.0238 (0.036)
CAPEX	-0.0198*** (0.0068)	-0.0431*** (0.014)	-0.0156 (0.015)	0.00432 (0.016)	-0.0122 (0.015)	-0.0204 (0.017)	-0.0518** (0.024)
LPAYOUT	0.0384*** (0.0015)	0.0366*** (0.0030)	0.0350*** (0.0029)	0.0475*** (0.0040)	0.0380*** (0.0036)	0.0375*** (0.0036)	0.0369*** (0.0060)

Table 4.4 Regression between ESG score and dividend yield (Cont.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Dividend yield</b>	<b>All countries</b>	<b>Malaysia</b>	<b>Singapore</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Thailand</b>	<b>Vietnam</b>
GDP	-0.00201 (0.017)						
Constant	-3.671*** (0.67)	-4.542*** (0.96)	-0.637 (0.70)	-3.775 (2.53)	0.137 (2.22)	-2.716** (1.23)	-4.483 (4.09)
Observations	2692	883	531	417	250	561	50
R-squared	0.31	0.26	0.31	0.40	0.43	0.25	0.59
Year FE	yes	yes	yes	yes	yes	yes	yes
Country FE	yes	-	-	-	-	-	-

*Note:* Standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

### 4.3 Each pillar score and dividend payout

Table 4.5 presents the regression results examining the relationship between dividend payout and the each pillars of ESG performance, Environmental (E), Social (S), and Governance (G) across all ASEAN countries. Each pillar score is analyzed separately in the context of its impact on dividend payouts.

#### 4.3.1 Environmental Pillar (E)

In the second column, the regression analysis focuses on the Environmental pillar score. The coefficient for the E score is 0.0542, and it is statistically significant at the 1% level ( $p < 0.01$ ). This positively significant relationship suggests that firms with higher environmental performance tend to have higher dividend payout ratios. A one-unit increase in the Environmental score is associated with a 0.0542 percentage point increase in the dividend payout ratio. This

finding indicates that companies that prioritize environmental sustainability are likely to distribute a larger portion of their earnings as dividends

#### **4.3.2 Social Pillar (S)**

The third column examines the impact of the Social pillar score on dividend payout. The coefficient for the social score is 0.0552, also statistically significant at the 1% level. This indicates that higher social performance is associated with higher dividend payout ratios. A 1 unit increase in the Social score is linked to a 0.0552 percentage point increase in the dividend payout ratio. This result suggests that firms prioritizing social responsibility such as employee relations, community engagement, and customer satisfaction tend to pay out more dividends.

#### **4.3.3 Governance Pillar (G)**

In the fourth column, the regression focuses on the Governance pillar score. The coefficient for Governance is 0.0320, and it is statistically significant at the 5% level ( $p < 0.05$ ). Although the coefficient is slightly lower than those for the Environmental and Social pillars, the positive and significant relationship still suggests that better corporate governance practices are associated with higher dividend payouts. The dividend payout ratio increases by 0.0320 percentage points for each one-unit increase in the Governance score. This suggests that the distribution of higher dividends is more probable in organizations that have effective governance structures, including effective committees, transparent reporting, and strong shareholder rights.

Table 4.6 indicates that there is no statistically significant relationship between the individual ESG pillars and dividend yield in the ASEAN region. However, the control variables especially firm size, profitability (ROA), cash holdings, and capital expenditures play a crucial role in determining dividend yield. Besides, more profitable firms with significant cash holdings have higher probability offer higher yields, while those with higher capital expenditures tend to have lower yields.

Table 4.5 Regression between dividend payout and each pillar score

COEFFICIENT	(1)	(2)	(3)	(4)
	Payout (ALL)	Payout (E)	Payout (S)	Payout (G)
E	0.0333 (0.022)	0.0542*** (0.015)		
S	0.0250 (0.024)		0.0552*** (0.016)	
G	0.0125 (0.016)			0.0320** (0.015)
SIZE	0.528** (0.27)	0.543** (0.27)	0.635** (0.26)	0.833*** (0.25)
ROA	0.331*** (0.047)	0.334*** (0.047)	0.334*** (0.047)	0.342*** (0.047)
LEV	-0.0708*** (0.022)	-0.0723*** (0.022)	-0.0700*** (0.022)	-0.0726*** (0.022)
CASH	-0.0646 (0.045)	-0.0674 (0.045)	-0.0650 (0.045)	-0.0629 (0.046)
CAPEX	-0.0960 (0.062)	-0.0939 (0.062)	-0.0996 (0.062)	-0.101 (0.062)
LPAYOUT	0.728*** (0.013)	0.729*** (0.013)	0.730*** (0.013)	0.733*** (0.013)
GDP	-0.338** (0.15)	-0.339** (0.15)	-0.340** (0.15)	-0.337** (0.15)
Constant	-5.399 (6.31)	-4.690 (6.29)	-7.799 (6.07)	-11.50* (5.96)
Observations	2692	2692	2692	2692
R-squared	0.64	0.64	0.64	0.64
Year FE	yes	yes	yes	yes
Country FE	yes	yes	yes	yes

Note: Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4.6 Regression between dividend yield and each pillar score

	(1)	(2)	(3)	(4)
COEFFICIENT	Divyield (ALL)	Divyield (E)	Divyield (S)	Divyield (G)
E	-0.00424 (0.0024)	-0.00185 (0.0017)		
S	0.00396 (0.0026)		-0.00113 (0.0017)	
G	-0.000947 (0.0018)			-0.00149 (0.0016)
SIZE	0.192*** (0.029)	0.193*** (0.029)	0.173*** (0.028)	0.171*** (0.027)
ROA	0.0298*** (0.0051)	0.0300*** (0.0051)	0.0294*** (0.0051)	0.0293*** (0.0051)
LEV	0.00132 (0.0024)	0.00115 (0.0024)	0.00117 (0.0024)	0.00120 (0.0024)
CASH	0.0116** (0.0050)	0.0115** (0.0050)	0.0115** (0.0050)	0.0113** (0.0050)
CAPEX	-0.0204*** (0.0068)	-0.0202*** (0.0068)	-0.0197*** (0.0068)	-0.0197*** (0.0068)
LPAYOUT	0.0384*** (0.0015)	0.0385*** (0.0015)	0.0381*** (0.0014)	0.0381*** (0.0014)
GDP	-0.00217 (0.017)	-0.00204 (0.017)	-0.00198 (0.017)	-0.00208 (0.017)
Constant	-3.930*** (0.69)	-3.894*** (0.69)	-3.460*** (0.66)	-3.398*** (0.65)
Observations	2692	2692	2692	2692
R-squared	0.32	0.31	0.31	0.31
Year FE	yes	yes	yes	yes
Country FE	yes	yes	yes	yes

Note: Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.4 The moderating role of cash holding

Table 4.7 presents the regression results examining the moderating effect of cash holdings on the ESG-dividend relationship across all ASEAN countries. This table explores whether the level of cash holdings within a firm influences the strength or direction of the relationship between ESG performance and dividend payout ratios. Cash holding is classified into two levels (i.e. high cash holding and low cash holding). Firm will be classified into high cash firm if they have cash holding more than the median value in their country. High cash firm will be denoted as “1” and “0” for low cash firm.

The results for payout (first column) suggest that while ESG performance positively impacts dividend payouts, the level of cash holdings within a firm does not significantly alter this relationship. The interaction term’s lack of significance implies that firms with high ESG scores tend to pay higher dividends, regardless of their cash reserves. This could suggest that the decision to pay out dividends based on ESG performance is driven more by the firm’s overall strategic commitment to sustainability and governance rather than by its liquidity position.

However, for the dividend yield, the result shows some interesting points. The interaction term between cash holdings and ESG score (*cashdum\_esg*) is 0.0120, statistically significant at the 1% level ( $p < 0.01$ ). This positive and significant interaction suggests that cash holdings moderate the relationship between ESG performance and dividend yield. In the other words, If the ESG score increases 1 unit, Firms with high cash holdings will have dividend yield increase more than firms that have low cash holdings by 0.012 percentage point. This means that firms with substantial liquidity are better able to sustain or even increase their dividend yields.

The results provide partial support for Hypothesis 2. Specifically, the interaction term between cash holdings and ESG scores (*cashdum\_esg*) is positive and statistically significant for dividend yield, indicating that cash holdings do moderate the relationship between ESG performance and dividend yields. Firms with higher cash reserves experience a more pronounced increase in dividend yields as their ESG scores improve, supporting the hypothesis that cash holdings positively moderate the ESG-dividend yield relationship. However, for dividend payout ratios, the interaction term

is not significant, suggesting that cash holdings do not play a significant moderating role in this context. Therefore, Hypothesis 2 is supported in the case of dividend yields but not for dividend payout ratios.

Table 4.7 ESG and dividend payout/yield: moderation effect of cash holdings

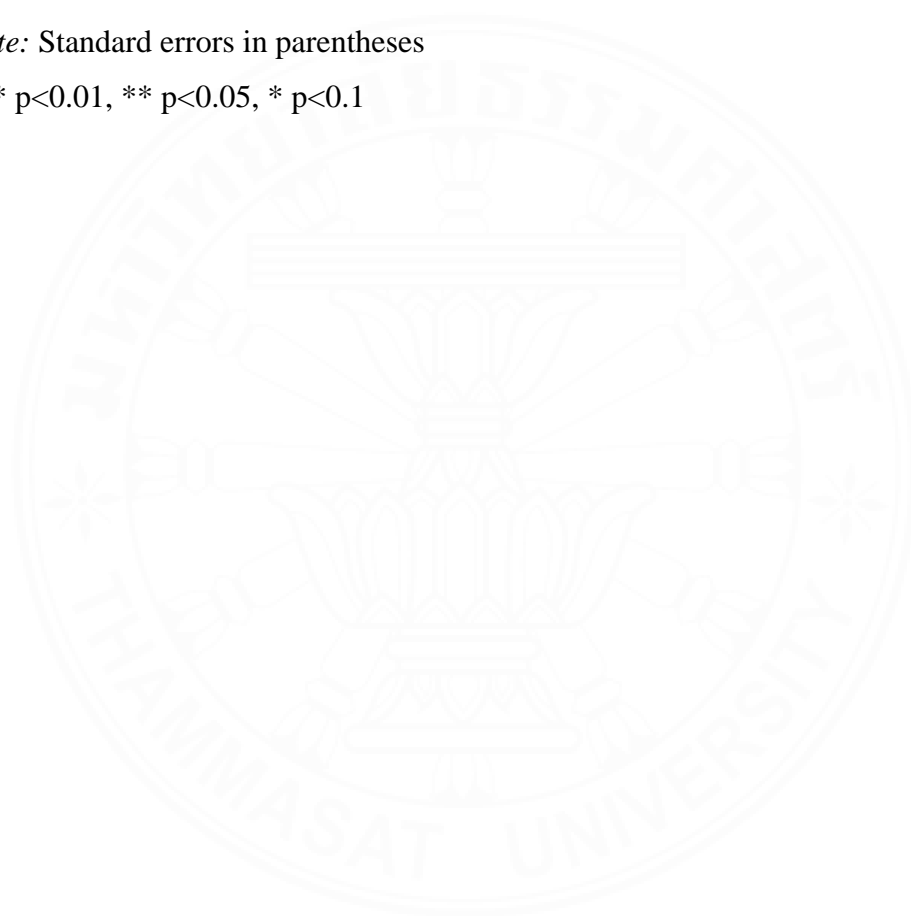
COEFFICIENT	(1) Payout	(2) Divyield
ESG	0.0750*** (0.027)	-0.00476 (0.0029)
CASHDUM	-0.191 (1.59)	-0.580*** (0.17)
CASHDUM_ESG	-0.00318 (0.034)	0.0120*** (0.0037)
SIZE	0.568** (0.26)	0.182*** (0.029)
ROA	0.321*** (0.047)	0.0327*** (0.0051)
LEV	-0.0649*** (0.021)	-0.000557 (0.0023)
CAPEX	-0.101 (0.062)	-0.0199*** (0.0068)
LPAYOUT	0.730*** (0.013)	0.0380*** (0.0014)
GDP	-0.338** (0.15)	-0.00255 (0.017)
Constant	-7.201 (6.20)	-3.128*** (0.68)
Observations	2692	2692
R-squared	0.64	0.32

Table 4.7 ESG and dividend payout/yield: moderation effect of cash holdings (Cont.)

	(1)	(2)
<b>COEFFICIENT</b>	<b>Payout</b>	<b>Divyield</b>
Year FE	yes	yes
Country FE	yes	yes

*Note:* Standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$



## **CHAPTER 5**

### **CONCLUSION**

This study aimed to explore the relationship between Environmental, Social, and Governance (ESG) performance and dividend payout policies among firms in the ASEAN region, with a particular focus on the moderation effect of cash holdings. Using a comprehensive dataset from six ASEAN countries (Singapore, Indonesia, Vietnam Malaysia, Philippines and Thailand) spanning from 2003 to 2022, this research provides valuable insights into how ESG performance influence corporate dividend payout in a growing and increasingly significant economic region.

The results of this investigation indicate a substantial positive correlation between dividend payout ratios and ESG performance. Companies that have higher ESG scores are more likely to pay a greater proportion of their income as dividends. This implies that firms that emphasize sustainability and responsible governance are also dedicated to providing their shareholders with value.

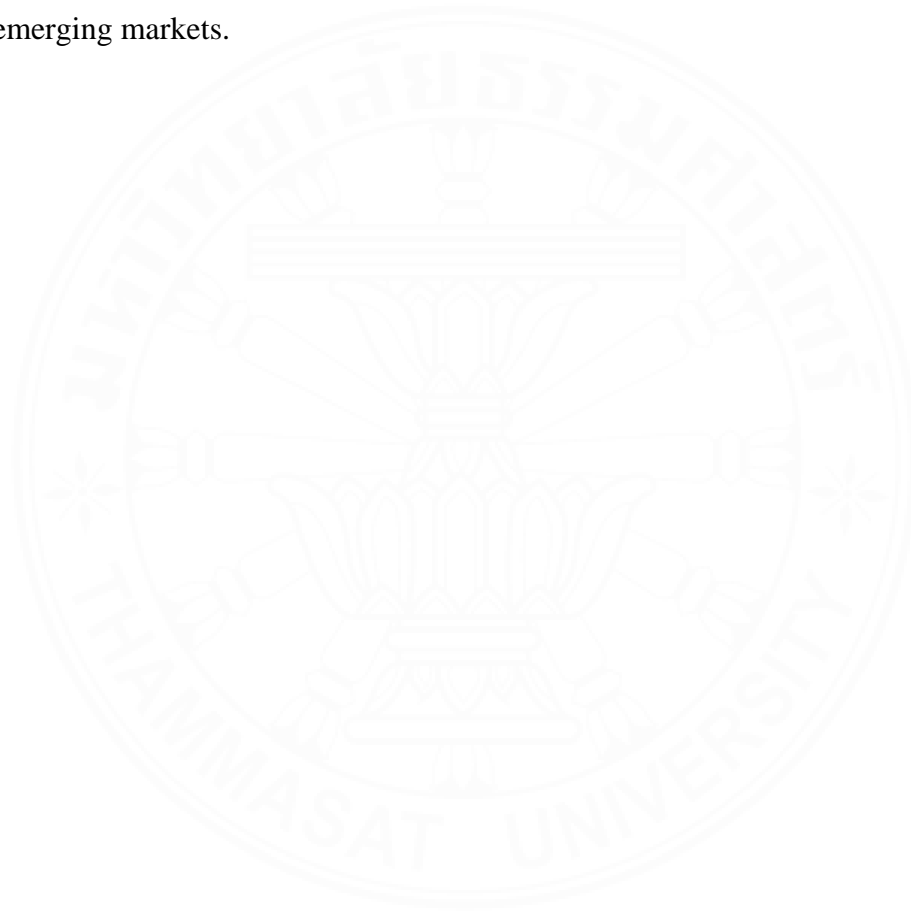
The analysis of individual ESG components (environmental, social, and governance) reveals that each pillar positively and significantly influences dividend payouts, Emphasizing the significance of comprehensive corporate accountability. Firms that excel in environmental sustainability, social responsibility, and governance integrity are more likely to reward their shareholders with higher dividends.

Furthermore, the study also investigated the moderating effect of cash holdings on the ESG-dividend relationship. The results indicate that cash holdings play a crucial role in maintaining or even enhancing dividend yields in firms with high ESG scores.

Overall, this research contributes to the understanding of ESG's role in dividend policy within the ASEAN context, offering empirical evidence that firms with strong ESG performance are more likely to maintain stable and generous dividend payouts. The findings also emphasize the importance of cash holdings as a moderating factor in sustaining dividend yields, particularly in the context of ESG-focused firms. These insights are good information for investors and corporate managers. Investors who are income-focused or prioritize stable dividend returns might benefit from

including high-ESG firms in their portfolios. By integrating ESG strategies into their business models, managers can enhance their firm's reputation, attract socially conscious investors, be able to access fund at lower cost and ensure a stable dividend policy that appeals to income-focused shareholders.

Future research could further explore the details of the ESG-dividend relationship by considering other potential moderating factors, in order to offer a more comprehensive understanding of the factors that motivate corporate dividend policies in emerging markets.



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### **Thesis**

- Lucas, J. R. S. (2020). *How ESG Scores Impact Dividend Policy: Emerging Markets Evidence?* [Master's Thesis in Finance, Universidade do Porto]. Portugal.



**APPENDICES**

## APPENDIX A

### VARIABLE DEFINITIONS

Variables	Description
<b>Dependent variable</b>	
Dividend payout (PAYOUT)	The ratio of dividend per share to earning per share
Dividend yield (DYIELD)	The ratio of dividend per share to share price
<b>Independent variables</b>	
ESG combined score	The weighted average score of a company's performance across Environmental, Social, and Governance (ESG) criteria, ranging from 0 (lowest) to 100 (highest).
Environmental score	Measures a company's impact on and management of environmental issues, including resource use and pollution. Range from 0-100
Social score	Measures a company's management on social agenda such as labors, human rights, and community relations. Range from 0-100
Governance score	Measures a company's governance practices, including board structure, transparency, and shareholder rights. Range from 0-100

<b>Variables</b>	<b>Description</b>
<b>Control variable</b>	
Firm size	Natural logarithm of total assets
Return on asset	Net income by total assets
Leverage	Total liabilities to total assets
Cash	The ratio of cash reserve to total assets
Cashdum	Dummy variable of cash, equal to 1 if firms have high cash (determined by median of cash holding in a particular country)
Capital expenditure	The ratio of capex to total assets
Lagged dividend	Dividend paid last period
GDP growth	GDP per capita growth each country

## BIOGRAPHY

Name	Pasawee Chokchaisiri
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