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ESG Ratings and Dividend Policy: Evidence from Korean Listed Firms

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Abstract

Purpose: This study investigates the relationship between Environmental, Social, and Governance (ESG) ratings and corporate dividend policy in the Korean capital market. While prior studies generally document a positive ESG–dividend nexus, empirical evidence remains mixed, particularly in emerging markets characterized by distinct ownership and governance structures. **Research design, data and methodology:** Using a comprehensive panel of non-financial firms listed on the KOSPI and KOSDAQ from 2012 to 2024 and ESG ratings provided by the Korea Corporate Governance Service (KCGS), we examine whether and under what conditions ESG performance influences firms’ dividend payout behavior. **Results:** Employing firm-fixed effects regressions with clustered standard errors, we find that ESG composite ratings are positively associated with both dividend payout ratios and dividend yields. However, the magnitude of this association varies substantially across monitoring environments and dividend regimes. Analyses using disaggregated environmental, social, and governance component scores further reveal that governance quality exhibits the strongest and most consistent association with dividend outcomes. **Conclusions:** These findings indicate that ESG performance enhances shareholder payout capacity in Korea primarily under institutional settings characterized by weaker external monitoring or higher information asymmetry. By demonstrating that the ESG–dividend nexus is heterogeneous and context-dependent, this study helps reconcile mixed prior evidence and offers new insights into how sustainability practices interact with corporate payout policies in emerging markets.

Keywords : Environmental, Social, and Governance (ESG), Dividend Policy, Sustainability Performance, Corporate Finance

JEL Classification Code : G34, G35, G30, M14

1. Introduction

In recent years, the importance of corporate sustainability management and environmental, social, and governance (ESG) performance has emerged as a central criterion in the evaluation of firms worldwide. ESG represents a framework for assessing a firm’s long-term growth prospects and risk-management capabilities based on non-financial dimensions, namely environmental stewardship (E), social responsibility (S), and governance quality (G) (Martiny et al., 2024). However, whether ESG performance systematically translates into shareholder return policies such as dividends remains theoretically

ambiguous and empirically unsettled, particularly in emerging markets characterized by concentrated ownership and distinct governance structures. Global asset managers such as BlackRock have declared ESG a standard for investment and capital allocation, and major pension funds and international institutional investors have increasingly incorporated ESG considerations into their investment decisions. International organizations, including the OECD and the United Nations, also encourage ESG-oriented management practices grounded in principles of sustainable development and corporate governance, while governments and financial regulators across countries have introduced

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mandatory ESG disclosure requirements to promote responsible corporate behavior.

Accordingly, ESG ratings are now recognized not only by shareholders but also by customers, local communities, and regulatory bodies as critical indicators of a firm's financial soundness and future value (Seok et al., 2024). Meanwhile, dividend policy remains a key mechanism through which firms signal financial stability and return value to shareholders in capital markets. Since Miller and Modigliani (1961), modern finance theory has developed a wide range of perspectives to explain dividend policy.

Signaling theory posits that dividend increases convey managerial confidence in a firm's future profitability, while agency theory emphasizes that dividend payouts reduce managerial discretion over excess cash holdings and help align the interests of managers and shareholders. In this context, the dividend payout ratio (defined as dividends relative to net income) and the dividend yield (defined as dividends relative to stock price) serve as important indicators by which investors assess a firm's financial condition and dividend policy.

In this study, the dividend payout ratio is defined as the proportion of dividends to net income, and the dividend yield as the proportion of dividends to the market price of equity. As firms increasingly engage in ESG activities that emphasize environmental and social responsibility, understanding how these activities interact with dividend decisions becomes a meaningful research question from the standpoint of corporate governance and financial management.

Although ESG initiatives may appear to impose short-term costs, they can enhance a firm's brand credibility, transparency, and operational resilience in the long run, ultimately improving profitability and reducing risk (Eccles et al., 2012, Fatemi et al., 2018; Broadstock et al., 2021). For instance, proactive compliance with environmental regulations may reduce future environmental costs, and investments in social responsibility may attract and retain high-quality human capital, thereby enhancing productivity and innovation (Wu and Zhu, 2025).

Thus, ESG activities should be viewed not as short-term expenditure but as investments that generate long-term returns (Khan et al., 2016). Firms that engage actively in ESG practices can earn the trust of stakeholders, including investors, customers, and regulators, thereby lowering their cost of capital and securing more stable cash flows (Velte, 2017; Dhaliwal et al., 2011). Consequently, such firms may acquire greater capacity to distribute dividends. This line of reasoning naturally leads to the hypothesis that ESG activities and dividend policies are complementary in nature.

A growing body of empirical research, particularly in the international context, documents a predominantly positive relationship between ESG (or corporate social responsibility,

CSR) activities and dividend policy. Rakotomavo (2012), examining U.S. firms from 1991 to 2007, finds that CSR investments do not reduce dividend payments; instead, CSR intensity and dividends tend to increase concurrently. Benlemlih (2019) also reports that U.S. firms with stronger CSR performance pay higher dividends and maintain more stable dividend policies. Matos et al. (2020), analyzing European firms, similarly show that companies with higher ESG scores adopt more stable dividend policies. These studies collectively indicate that ESG activities can strengthen a firm's financial soundness and dividend distribution capacity, suggesting that ESG should be interpreted as a strategic investment that enhances firm value rather than merely as a cost.

Conversely, several studies argue that ESG (or CSR) initiatives may impose short-term financial pressure that reduces a firm's ability to pay dividends. For example, Saeed and Zamir (2021) and Cheung, Hu, and Schwiebert (2018) contend that CSR activities may increase cash outflows in the short run, thereby diminishing dividend capacity. Under this view, CSR and dividends function as competing uses of corporate resources. However, a meta-analysis by Jain and Malhotra (2025) demonstrates a statistically significant positive relationship between ESG disclosure and dividend payments across a broad set of empirical studies, indicating that the bulk of accumulated evidence supports the complementary perspective.

Recent international empirical research further corroborates a consistent positive association between ESG and dividend policy. Zahid et al. (2022), based on Western European firms between 2010 and 2019, reports that firms with higher ESG scores pay significantly larger dividends. Bilyay-Erdogan et al. (2023), using panel data from non-financial firms across 21 countries, find that higher ESG performance leads to higher dividend payouts, largely attributable to improvements in operating profitability and reductions in financial risk. Cheung et al. (2018) evaluate competing theoretical views and conclude that CSR activities increase firm earnings and thereby enhance dividend payments. Seth and Mahenthiran (2022) show that, for Indian listed firms, both CSR disclosure and dividend payments act as complementary signals of sustainability and prospects. Collectively, these studies across the United States, Europe, and Asia provide substantial evidence that ESG/CSR activities strengthen dividend policies.

In the Korean context, empirical studies have only recently emerged. Kim (2024), analyzing Korean listed firms from 2011 to 2018, reports that ESG composite ratings positively affect dividend decisions, including the likelihood of dividend payment, and that each of the environmental, social, and governance ratings also exerts a significant impact. Lee and Bae (2023) find that ESG composite, social, and governance scores have positive

effects on dividend magnitude, whereas the environmental score is insignificant. Jung and Kim (2022), analyzing Korean non-financial firms over 2013–2019, show that when the dividend payout ratio is used as the dependent variable, only the social score increases payout ratios; however, when dividend yield is used, all ESG dimensions—including the composite, environmental, social, and governance scores—positively predict dividend levels. Interpreting these results through agency theory and life-cycle theory, they argue that firms with strong ESG performance may limit excessive internal cash retention and increase dividend payouts as they reach a mature stage.

Research on Korean firms remains limited by relatively short sample periods and the unique institutional features of Korea's corporate governance environment, which is characterized by concentrated family ownership.

Consequently, the relationship between ESG and dividends may differ from that observed in Western contexts. Chang and Kim (2022) further note that Korean firms still maintain relatively low dividend payout ratios and argue for enhancing ESG activities as a mechanism to strengthen shareholder returns. Most domestic studies rely on ESG ratings provided by the Korea Corporate Governance Service (KCGS), which has conducted governance assessments since 2003 and annual ESG evaluations since 2011. The KCGS ESG rating framework is designed to align with international standards such as OECD principles and ISO 26000, and its ESG ratings have become widely used indicators of corporate sustainability in Korea.

Despite a growing body of evidence documenting a positive ESG–dividend nexus, prior studies report substantial cross-country and cross-period heterogeneity, suggesting that ESG may not function as a universal determinant of dividend policy. This raises a critical but underexplored question: under what institutional and monitoring conditions do ESG performance translate into shareholder payout decisions? Addressing this question is particularly important in the Korean market, where ownership concentration and governance structures differ markedly from those of Anglo-American systems.

Against this backdrop, the present study empirically examines the relationship between ESG ratings and dividend policy using domestic data from 2012 to 2024. Specifically, the analysis employs the KCGS ESG composite rating and the individual environmental, social, and governance ratings as the main independent variables, while the dependent variables comprise the dividend payout ratio (dividends relative to net income) and the dividend yield (dividends relative to stock price). The empirical design also incorporates subsample analyses based on market segments, dividend-increase events, and auditor size to assess the robustness of the results. Preliminary findings reveal a strong and statistically significant positive

association between ESG ratings and both dividend payout ratios and dividend yield among Korean listed firms, suggesting that ESG practices and shareholder distribution policies may operate as mutually reinforcing mechanisms. The result of this study provides novel evidence on the link between ESG performance and dividend policy in Korea and underscore the necessity of integrating sustainability considerations into corporate financial strategies.

This study contributes to literature in three important ways. First, we document that the ESG–dividend relationship in Korea is heterogeneous and conditional rather than uniform. Second, by exploiting variations in audit quality and dividend regimes, we identify monitoring environments in which ESG performance most strongly translates into payout outcomes. Third, our findings help reconcile mixed prior evidence and provide a unified framework for understanding how sustainability practices interact with corporate financial policies in emerging markets.

2. Literature Review

2.1. ESG Performance and Dividend Policy: Competing Theoretical Perspectives

A substantial body of research examining the relationship between ESG (or CSR) activities and dividend policy generally reports that firms with higher ESG performance exhibit higher dividend payout ratios and dividend yields. Rakotomavo (2012), analyzing U.S. firms from 1991 to 2007, finds that increases in CSR investment do not reduce dividend payments; rather, CSR engagement and dividend payments tend to increase simultaneously. Benlemlih (2019), using a sample of U.S. firms from 1991 to 2012, similarly documents that firms with stronger CSR performance pay higher dividends than their counterparts and that CSR-intensive firms display greater stability in dividend payments. Matos et al. (2020), focusing on European firms, also show that firms with higher ESG scores maintain more stable dividend policies. Collectively, these studies highlight the positive effects of ESG activities on firms' financial structures and shareholder-distribution policies. For example, ESG initiatives can enhance brand credibility and customer loyalty ultimately increasing sales and environmental management can reduce operational costs and improve efficiency, thereby expanding a firm's capacity to pay dividends. Thus, ESG engagement can be viewed not as a short-term cost but as a strategic long-term investment that strengthens a firm's dividend policy.

Conversely, some scholars argue that CSR/ESG activities may reduce dividend payments. Benlemlih (2019) and argue that CSR engagement may require substantial

financial resources, which can reduce internally available funds for dividend payments in the short run. Under this view, CSR expenditures and dividend distributions represent competing uses of corporate cash flows. This view suggests that CSR and dividends may function as substitutes in corporate resource allocation. However, a meta-analysis by Jain and Malhotra (2025) finds a consistently significant positive association between ESG disclosure and dividend payments, implying that the overall body of evidence supports a complementary rather than substitutive relationship between ESG and dividends.

Recent empirical evidence from international markets also supports the positive ESG dividend nexus. Zahid et al. (2022), analyzing Western European firms from 2010 to 2019, reports that higher ESG scores are associated with significantly larger dividend payments. Bilyay-Erdogan et al. (2023), using panel data from non-financial firms across 21 countries, show that firms with strong ESG performance pay higher dividends, which they attribute to improvements in operating profitability and reductions in firm risk. Cheung et al. (2018) examine competing hypotheses on CSR and dividends, ultimately concluding that CSR activities increase firm earnings and thereby enhance dividend payments. Seth and Mahenthiran (2022), studying Indian listed firms, also find that CSR disclosure and dividend payments are complementary, with both serving as signals of corporate sustainability and future performance. Across the United States, Europe, and Asia, empirical evidence consistently confirms the positive relationship between ESG performance and dividend policy.

Similar patterns emerge in the Korean context. Cheung et al. (2018) and Benlemlih (2019) report that higher CSR/ESG performance is associated with more generous dividend policies and a greater likelihood of dividend payments in their empirical analyses of publicly listed firms. Under stakeholder theory, firms with stronger ESG engagement may signal financial strength and shareholder commitment through higher dividends. Lee and Bae (2023), analyzing the period from 2019 to 2021, show that the ESG composite rating and the social and governance ratings increase dividend amounts, whereas the environmental rating is statistically insignificant. Kim and Chang (2022) document that when dividend payout ratio is used as the dependent variable, only the social score positively affects payout ratios; however, when dividend yield is used, the ESG composite rating and all individual ESG dimensions (environmental, social, and governance) contribute to higher dividend levels. They interpret these findings through agency theory and life-cycle theory, arguing that firms with superior ESG performance are less likely to retain excessive internal funds and thus pay higher dividends, while environmental and social initiatives at later stages of the corporate life cycle may increase dividend yields.

Overall, prior research generally indicates that firms with higher ESG performance tend to exhibit higher dividend payout ratios and dividend yields, although the magnitude and significance of the results vary depending on the sample period, market conditions, and data sources. Notably, most domestic studies have been conducted since the late 2010s, resulting in relatively short sample periods and limited coverage of Korean capital markets. To address these limitations, the present study employs long-term data from 2012 to 2024 to comprehensively examine the relationship between KCGS ESG ratings and dividend policies among Korean listed firms. By doing so, this study aims to provide a clearer understanding of how ESG ratings relate to dividend payout ratios and dividend yields and to offer implications for integrating corporate sustainability management with shareholder-return policies.

Despite substantial evidence documenting a positive ESG–dividend nexus, prior studies report considerable cross-country and cross-period heterogeneity. The magnitude and even the direction of the ESG effect vary depending on institutional environments, governance structures, ownership concentration, and market monitoring intensity. These inconsistencies suggest that ESG may not function as a universal determinant of dividend policy, but rather as a context-dependent governance mechanism.

2.2. Conditional Effects of ESG on Dividend Policy

Environmental, Social, and Governance (ESG) performance has been increasingly recognized as an important dimension of corporate governance that can shape firms' financial policies beyond traditional accounting-based indicators. However, the channels through which ESG performance influences dividend policy are not uniform and depend critically on firms' monitoring environments and governance structures.

From an agency-theoretic perspective, dividend payments serve as a disciplinary mechanism that mitigates managerial opportunism by limiting the free cash flow available for discretionary use. ESG practices can reinforce this disciplinary role by enhancing transparency, improving disclosure quality, and strengthening internal governance processes. Firms with superior ESG performance are more likely to adopt structured risk management systems, transparent reporting practices, and stakeholder-oriented governance mechanisms, all of which constrain managerial discretion and promote shareholder-aligned financial decisions. In such environments, ESG performance complements traditional governance mechanisms and facilitates more generous and stable dividend payouts.

At the same time, ESG can function as a substitute governance mechanism in settings characterized by weaker external monitoring or higher information asymmetry. In

firms audited by lower-tier auditors or operating in environments with limited external scrutiny, ESG practices may provide alternative signals of credibility, transparency, and long-term commitment to stakeholders. Investors may rely more heavily on ESG performance to assess managerial discipline and financial soundness when conventional monitoring channels are less effective. Consequently, the marginal effect of ESG on dividend policy is expected to be stronger in these contexts, as ESG serves as a critical governance signal that compensates for weaker formal monitoring.

Furthermore, dividend regimes themselves may condition the ESG–dividend relationship. For firms that maintain stable dividend policies, ESG performance can reinforce investor trust and support sustained payout capacity by reducing perceived risk and enhancing reputational capital. Conversely, in firms undergoing dividend increases, ESG performance may primarily influence internal payout capacity rather than market-based valuation channels, reflecting differences in how ESG information is incorporated into payout and pricing decisions.

Taken together, these arguments suggest that ESG performance does not exert a uniform influence on dividend policy. Rather, its effect is contingent upon firms' monitoring environments, governance structures, and payout regimes. Accordingly, this study proposes the following conditional hypothesis:

H1. ESG ratings are positively associated with dividend payout and dividend yield, and this association is stronger for firms operating under weaker external monitoring environments.

3. Methodology

3.1 Research Model

To empirically evaluate whether ESG performance influences firms' dividend policy, this study employs a series of panel regression models in which dividend payout ratio (DIV^{PAYOUT}), and dividend yield (DIV^{YIELD}) serve as the dependent variables. The baseline model specifies dividend policy as a function of ESG performance, standard firm-level controls, and unobserved heterogeneity. Formally, the dividend equation is expressed as.

$$\begin{aligned} & DIV(DIV^{PAYOUT} \text{ or } DIV^{YIELD})_{i,t} \\ &= \beta_0 + \beta_1 ESG(\text{ or } EG, SG, GG)_{i,t-1} + \beta_2 SIZE_{i,t-1} + \beta_3 LEV_{i,t-1} \\ &+ \beta_4 CFO_{i,t-1} + \beta_5 ROA_{i,t-1} + \beta_6 GRW_{i,t-1} + \beta_7 VOL_{i,t-1} \\ &+ \beta_8 BETA_{i,t-1} + \sum YEAR + \sum KSIC + \varepsilon \end{aligned}$$

In this framework, the dependent variable $DIV_{i,t}$ denotes either the dividend payout ratio or dividend yield of firm i in year t . The primary independent variable, $ESG_{i,t-1}$, represents the composite ESG score or, alternatively, each of the environmental (EG), social (SG), and governance (GG) dimensions, lagged one period to mitigate simultaneity and allow ESG activities to precede dividend outcomes. The set of control variables—firm size (SIZE), leverage (LEV), operating cash flow (CFO), profitability (ROA), growth opportunities (GRW), stock return volatility (VOL), and market beta (BETA)—follows the dividend policy literature and accounts for financial and risk-related determinants of payout behavior. Industry fixed effects based on the Korean Standard Industrial Classification (KSIC) and year fixed effects are included to control for time-invariant sectoral characteristics as well as economy-wide shocks or regulatory changes. Standard errors are clustered at the firm level to address heteroskedasticity and serial correlation within firms over time.

This specification enables a rigorous examination of whether ESG performance exerts incremental explanatory power over dividend policy after accounting for firm fundamentals and unobserved heterogeneity.

3.2. Sample Selection

Table 1. reports the yearly distribution of the final sample, comprising 6,965 firm-year observations from 2012 to 2024. The number of observations increases steadily over the sample period, reflecting both the expansion of ESG disclosures among Korean listed firms and the broader availability of firm-level financial and sustainability data. The sample begins with 403 observations in 2012, gradually rising throughout the decade, surpassing 600 observations in 2020, and reaching 702 observations in 2024, the final year of the sample.

This upward trend in the yearly sample count is consistent with two structural developments in the Korean capital market. First, more firms have voluntarily or mandatorily engaged in ESG reporting as regulatory expectations and investor demand for sustainability information have intensified. Second, the growing number of listed firms with complete financial, governance, and ESG data has enhanced the comprehensiveness of the dataset over time. The relatively stable and progressively increasing yearly distribution also helps to ensure that the empirical analysis captures long-term patterns in dividend behavior and ESG performance rather than short-term cyclical fluctuations.

The diversification and enlargement of the sample across years strengthens the robustness of the statistical tests by providing meaningful cross-sectional and temporal variation. In particular, the growth in sample size after 2018

when ESG reporting practices became more standardized in Korea allows the study to more reliably evaluate the evolving relationship between ESG ratings and dividend policies in recent years. By covering a continuous 13-year period that includes various economic phases, regulatory reforms, and market conditions, the dataset supports reliable inference on the stability or variability of the ESG–dividend relationship over time.

In sum, the yearly distribution shown in Table 1. demonstrates that the sample is both sufficiently large and evenly structured across time, ensuring that the empirical findings of this study are not driven by a particular year or by data concentration in a narrow time window. This temporal balance enhances the study’s external validity and provides a strong basis for examining whether ESG ratings are systematically associated with firms’ dividend policies in the Korean market.

Table 1: Sample Distribution by year

Year	Total
2012	403
2013	404
2014	413
2015	425
2016	437
2017	462
2018	467
2019	584
2020	614
2021	661
2022	692
2023	701
2024	702
Total	6,965

Table 2. presents the industry distribution of the final sample used in this study, classified by firms listed on the KOSPI and KOSDAQ markets. The final dataset comprises 6,965 firm-year observations, of which 6,197 are from KOSPI and 768 from KOSDAQ, reflecting the relative scale and maturity differences between the two markets. The sample spans a wide variety of industries, ensuring that the empirical analysis captures meaningful heterogeneity in firms’ operational environments, business models, and risk profiles.

Table 2: Sample Distribution by Industry

Industry	KOSPI	KOSDAQ	Total
Agriculture, forestry and fishing	26	6	32
Manufacturing	4,334	498	4,832
Electricity, gas, steam and air conditioning supply	97	0	97
Water supply; sewage, waste management, materials recovery	0	6	6

The manufacturing sector represents by far the largest proportion of the sample, with 4,832 observations, accounting for the central role that manufacturing firms play in Korea’s capital market. This concentration is consistent with the industrial structure of the Korean economy, where manufacturing, including electronics, automobiles, machinery, and chemicals constitutes a substantial portion of listed firms and equity market capitalization. The substantial representation of manufacturing firms also supports robust statistical inference by providing ample variation in ESG performance and dividend policies within a major industry group.

Other industries are also meaningfully represented. For instance, the wholesale and retail trade sector includes 667 observations, while sectors such as information and communication (500 observations) and professional, scientific, and technical activities (162 observations) reflect the growing presence of service-based and knowledge-intensive firms in Korea’s capital markets. Although some industries such as water supply, waste management, or arts and recreation contain fewer observations, their inclusion enhances the breadth and diversity of the sample and allows the analysis to capture idiosyncratic differences in ESG practices and payout behavior across varied regulatory and competitive environments.

The distribution between KOSPI and KOSDAQ firms highlights important structural distinctions in the Korean market. KOSPI firms are typically larger, more established, and subject to stricter regulatory requirements, whereas KOSDAQ firms, often smaller and more growth-oriented, tend to operate with higher earnings volatility and more uncertain cash flows. By including both markets, the dataset enables an examination of ESG–dividend relations across firms with different sizes, growth profiles, and governance structures. This design strengthens the external validity of the study’s findings and allows for potential cross-market comparisons where applicable.

Overall, the industry composition in Table 2 demonstrates that the sample is sufficiently comprehensive and representative of Korea’s listed firms. The inclusion of diverse industries and both major equity markets ensures that the empirical results are not driven by a particular sector or market segment, thereby providing a reliable basis for examining the relationship between ESG ratings and dividend policies in the Korean corporate context.

Construction	250	7	257
Wholesale and retail trade	640	27	667
Transportation and storage	245	0	245
Accommodation and food service activities	18	9	27
Information and communication	357	143	500
Professional, scientific and technical activities	104	58	162
Business facilities management and business support services; rental and leasing activities	67	6	73
Education	13	8	21
Arts, sports and recreation related services	33	0	33
Membership organizations, repair and other personal services	13	0	13
Total	6,197	768	6,965

4. Empirical Result

4.1. Descriptive Statistics

To explore the fundamental distributional characteristics of the variables employed in this study, descriptive statistics were calculated for 6,965 firm-year observations. The results, presented in the table above, summarize the central tendencies and dispersion of the ESG ratings, divided variables, and firm-level financial characteristics.

The ESG composite score (ESG) exhibits a mean of 1.315, with the first quartile and median equal to 0 and 1, respectively, and the third quartile at 3. These values indicate that while a substantial portion of firms fall within the lower or mid-range ESG categories, a notable subset achieves relatively high ESG performance. The environmental score (EG) shows a similar pattern with a mean of 1.331. The social (SG) and governance (GG) scores display slightly higher averages of 1.618 and 1.902, respectively, suggesting that Korean listed firms appear to perform relatively better in social and governance dimensions than in environmental aspects. The distribution of governance scores is more uniform across firms, as reflected by its relatively higher median and upper quartile values.

Regarding dividend policy, the dividend payout ratio (DIV^{PAYOUT}) has a mean of 0.208 and a median of 0.127, implying that, on average, firms distribute approximately 20% of their net income as dividends. The distribution is moderately skewed, indicating variation in payout behavior across firms. The dividend yield (DIV^{YIELD}) has a mean of 0.013 and a median of 0.012, reflecting the relatively low dividend yields that characterize the Korean capital market and suggesting that many firms maintain conservative dividend policies.

Firm size (SIZE), measured as the natural logarithm of total assets, has a mean value of 27.083, with the median at 26.819 and the third quartile at 27.825. This distribution

suggests that the sample includes firms across a broad spectrum of asset sizes, although the clustering around the median indicates a substantial concentration of mid- to large-sized firms. The leverage ratio (LEV) has a mean of 0.429, corresponding to an average debt ratio of approximately 43%, while operating cash flows (CFO) exhibit a mean of 0.070 and a median of 0.064, showing generally stable cash-generating capability among sample firms.

Profitability, measured by the return on assets (ROA), has a mean of 0.020 and a median of 0.026, indicating that although some firms report high profitability, a considerable number operate with modest returns. Firm growth (GRW) has a mean of 0.073 and a median of 0.037, implying that a small subset of high-growth firms drives up the average relative to the median.

Stock return volatility (VOL) shows a mean of 0.425 and a median of 0.394, consistent with moderate volatility levels in the Korean equity market. The market beta (BETA), with a mean of 0.926, suggests that many firms exhibit systematic risk levels that are slightly below or close to the market benchmark. The audit-quality indicator (BIG) has a mean of 0.609, indicating that approximately 61% of the sample firms are audited by Big 4 accounting firms. Lastly, the market indicator (MKT) has a mean of 0.89, suggesting that a substantial proportion of the sample belongs to the primary Korean stock market segment. Until 2018, ESG evaluations in Korea were conducted primarily for firms listed on the KOSPI market; therefore, the number of firms with available ESG ratings is higher for KOSPI companies than for those listed on KOSDAQ.

Taking together, the descriptive statistics reveal substantial firm-level heterogeneity in ESG performance, financial conditions, and dividend policies. These variations underscore the importance of controlling firm-specific characteristics in subsequent regression analyses and support the relevance of investigating how ESG ratings relate to dividend payout behavior within the Korean market context.

Table 3: Descriptive Statistics

Variable	n	Mean	S.D.	.25	Mdn	.75
ESG	6,965	1.315	1.501	0.000	1.000	3.000
EG	6,965	1.331	1.539	0.000	1.000	3.000
SG	6,965	1.618	1.753	0.000	1.000	3.000
GG	6,965	1.902	1.205	1.000	2.000	3.000
DIV ^{PAYOUT}	6,965	0.208	0.442	0.000	0.127	0.306
DIV ^{YIELD}	6,965	0.013	0.014	0.000	0.010	0.021
SIZE	6,965	27.083	1.498	26.067	26.819	27.825
LEV	6,965	0.429	0.222	0.250	0.428	0.580
CFO	6,965	0.070	0.112	0.014	0.064	0.121
ROA	6,965	0.020	0.085	-0.001	0.026	0.058
GRW	6,965	0.073	0.278	-0.046	0.037	0.139
VOL	6,965	0.425	0.171	0.301	0.394	0.512
BETA	6,965	0.926	0.482	0.576	0.931	1.241
BIG	6,965	0.609	0.488	0.000	1.000	1.000
MKT	6,965	0.890	0.313	1.000	1.000	1.000

Note: SIZE: The natural logarithm of total assets, LEV: Total liabilities divided by beginning total assets, CFO: Cash flows from operating activities scaled by beginning total assets, GRW: Sales growth, calculated as the change in sales from the previous year divided by prior-year sales, VOL: Stock return volatility, BETA: Systematic risk measured as the market beta, BIG: Auditor size dummy variable, MKT: Market dummy variable equal to 1 for KOSPI firms and 0 for KOSDAQ firms.

4.2. Correlation

Table 4. reports the correlation matrix for the main variables used in the empirical analysis. The upper triangular portion presents Spearman rank correlations, which capture monotonic relationships and are more robust to non-linearities, while the lower triangular portion presents Pearson correlations, which reflect linear associations. The use of both correlation types provides a comprehensive overview of the bivariate relationships among ESG indicators, dividend variables, and firm-level controls.

Across both correlation structures, the ESG-related variables exhibit the expected positive associations with one another. The ESG composite score is strongly correlated with its three subcomponents—environmental (EG), social (SG), and governance (GG)—with coefficients ranging from approximately 0.70 to 0.85, all statistically significant at the 1% level. This confirms that the composite ESG rating captures the underlying variation in each of the individual pillars while indicating that the components are complementary rather than redundant. Among the subcomponents, the social score (SG) shows the highest correlation with the composite ESG measure, whereas governance displays relatively low, though still significant, correlations with the environmental and social dimensions.

With respect to dividend-related variables, both the dividend payout ratio (DIV^{PAYOUT}) and the dividend yield (DIV^{YIELD}) exhibit positive but modest correlations with ESG, suggesting that while ESG performance tends to be associated with stronger dividend policies, the magnitude of

this association is not sufficiently large to raise concerns about linear dependency. The ESG–dividend correlations remain below 0.20 in both Spearman and Pearson metrics, indicating that ESG is not mechanically tied to dividend outcomes and that multicollinearity is unlikely to distort regression estimates.

Firm size (SIZE) shows a moderately strong positive correlation with ESG scores, in line with the observation that larger firms tend to have more developed sustainability infrastructures and greater incentives for ESG disclosure. Leverage (LEV) is negatively correlated with ESG, consistent with findings that financially constrained firms may have fewer resources to allocate toward ESG initiatives. Profitability (ROA) and operating cash flow (CFO) display positive correlations with ESG, suggesting that financially healthier firms tend to engage more in ESG activities or may be rewarded with higher ESG ratings.

The correlations among control variables follow expected patterns. ROA is strongly correlated with CFO, reflecting the underlying link between earnings and cash-based performance measures. Volatility (VOL) is negatively correlated with both ESG and dividend metrics, consistent with the view that firms with higher risk profiles tend to maintain lower dividend payouts and exhibit weaker ESG performance. Beta (BETA) generally shows weak correlations with ESG variables, indicating that market-wide systematic risk is largely independent of sustainability characteristics.

The correlation values collectively demonstrate that while several variables are significantly associated with one another, none of the coefficients approach levels that would signal multicollinearity problems—typically considered a

concern when correlations exceed 0.70 among regression covariates. In this dataset, the only correlations above this threshold occur among the ESG components themselves, which is expected due to their conceptual overlap. All other variables fall comfortably within acceptable ranges.

Overall, the correlation analysis provides preliminary evidence of positive associations among ESG measures and between ESG and dividend variables, while also confirming adequate variation and absence of multicollinearity issues. These results support the validity of proceeding with multivariate regression analyses to more rigorously assess the relationship between ESG performance and dividend policy.

Table 4: Correlations

	ESG	EG	SG	GG	DIV ^{PAYOUT}	DIV ^{YIELD}	SIZE	LEV	CFO	ROA	GRW	VOL	BETA	BIG	MKT
ESG	1	0.709***	0.840***	0.698***	0.107***	0.155***	0.537***	0.106***	0.174***	0.111***	0.052***	0.068***	0.027**	0.261***	0.044***
EG	0.752***	1	0.655***	0.422***	0.092***	0.154***	0.583***	0.142***	0.177***	0.090***	-0.001	-0.118***	0.008	0.264***	0.084***
SG	0.858***	0.695***	1	0.532***	0.108***	0.149***	0.558***	0.114***	0.186***	0.115***	0.067***	0.058***	0.042***	0.277***	0.052***
GG	0.734***	0.467***	0.564***	1	0.178***	0.191***	0.408***	0.047***	0.158***	0.128***	0.034***	0.159***	0.100***	0.278***	0.057***
DIV ^{PAYOUT}	0.041***	0.025**	0.043***	0.095***	1	0.655***	0.146***	0.197***	0.269***	0.407***	0.069***	0.283***	0.176***	0.146***	0.086***
DIV ^{YIELD}	0.152***	0.143***	0.143***	0.162***	0.334***	1	0.207***	0.196***	0.271***	0.418***	0.030**	0.420***	0.207***	0.163***	0.144***
SIZE	0.598***	0.625***	0.597***	0.445***	0.035***	0.155***	1	0.188***	0.197***	0.127***	0.033***	0.280***	0.121***	0.451***	0.110***
LEV	0.114***	0.137***	0.115***	0.040***	-0.107***	-0.164***	0.173***	1	0.140***	0.223***	0.100***	0.150***	0.130***	0.050***	0.086***
CFO	0.157***	0.157***	0.166***	0.141***	0.101***	0.187***	0.173***	0.132***	1	0.481***	0.099***	0.151***	-0.115***	0.169***	-0.014
ROA	0.126***	0.113***	0.129***	0.143***	0.123***	0.303***	0.161***	0.160***	0.459***	1	0.256***	0.182***	0.152***	0.122***	0.067***
GRW	0.016	-0.021*	0.022*	-0.008	-0.010	-0.013	-0.015	0.096***	0.075***	0.150***	1	0.045***	0.025**	0.014	0.060***
VOL	-0.113***	0.143***	0.099***	0.171***	-0.134***	-0.375***	0.290***	0.141***	0.156***	0.226***	0.051***	1	0.499***	0.191***	0.169***
BETA	-0.004	-0.013	0.013	-0.110***	-0.093***	-0.187***	0.125***	0.123***	0.101***	0.134***	0.025**	0.444***	1	0.125***	0.071***
BIG	0.305***	0.298***	0.312***	0.281***	0.075***	0.135***	0.443***	0.043***	0.145***	0.133***	-0.019	0.203***	0.124***	1	0.085***
MKT	0.005	0.104***	-0.015	0.060***	0.061***	0.132***	0.123***	0.079***	0.002	-0.029**	0.066***	0.142***	0.058***	0.085***	1

Note: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The definitions of the variables are provided at the bottom of Table 3.

4.3. Regression Result

Table 5 reports the results of the multivariate regressions examining the association between firms' ESG performance and dividend policy. Models (1), (3), and (5) employ the dividend payout ratio as the dependent variable, whereas Models (2), (4), and (6) use the dividend yield. All regressions include year and industry fixed effects and are estimated with firm-clustered standard errors to account for potential serial correlation within firms.

Across all specifications, the coefficient on ESG is positive and statistically significant, providing consistent evidence that firms with superior ESG performance distribute higher dividends. In the payout models, ESG is positively associated with the dividend payout ratio, with coefficients ranging from 0.009 to 0.012 and t-statistics between 2.41 and 5.08. Similarly, in the yield models, ESG remains positive and significant at the 1% level, indicating that firms with higher ESG ratings exhibit greater dividend yields as well. The stability of the ESG effect across alternative specifications underscores the robustness of the central finding that ESG-oriented firms reward shareholders more generously.

Turning to the control variables, several patterns emerge. Leverage (LEV) exhibits a consistently negative and highly significant coefficient across all models, implying that firms with greater financial obligations have more limited capacity to distribute dividends. This is consistent with the notion that higher debt levels impose financial constraints that restrict dividend payments. Operating cash flows (CFO) are positively related to dividend payout, suggesting that firms with stronger internal cash generation tend to allocate more resources to shareholder distributions.

Profitability (ROA) exerts a strong positive influence on both payout and yield, with highly significant coefficients

across all regressions. This result aligns with dividend signaling theory, whereby profitable firms use dividends to convey favorable information about their financial stability and prospects. In contrast, growth opportunities (GRW) do not show a statistically significant effect in any specification, indicating that firm growth does not systematically influence dividend policies in the sample context.

The risk-related controls also produce notable findings. Stock return volatility (VOL) is negatively related to both payout and yield in every model and remains highly significant. This pattern suggests that firms with higher volatility prefer to retain cash rather than commit to dividend payments, consistent with precautionary cash-holding motives under heightened uncertainty. Market beta (BETA) also shows predominantly negative and significant coefficients, implying that firms with greater systematic risk tend to adopt more conservative dividend policies.

The adjusted R² values range from 0.252 to 0.658, indicating moderate explanatory power across models. The inclusion of year and industry fixed effects strengthen the validity of the results by controlling macroeconomic conditions and sector-level heterogeneity. Overall, the regression results provide compelling support for the hypothesis that ESG performance is positively associated with dividend policy. Firms that engage more actively in ESG activities appear to benefit from enhanced financial stability, reduced agency costs, and increased stakeholder trust, enabling them to sustain higher levels of shareholder payout. These findings are consistent with the view that ESG investments generate long-term financial benefits rather than imposing short-term constraints, thereby reinforcing not weakening firms' capacity to return value to shareholders.

Table 5: Regression Result

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
	Full Samples		KOSPI market		KOSDAQ Market	
	DIV ^{PAYOUT}	DIV ^{YIELD}	DIV ^{PAYOUT}	DIV ^{YIELD}	DIV ^{PAYOUT}	DIV ^{YIELD}
ESG	0.011*** (5.08)	0.001*** (4.67)	0.009*** (3.79)	0.001*** (3.78)	0.012** (2.41)	0.001*** (3.53)
SIZE	0.001 (0.61)	-0.000** (-2.12)	0.002 (0.79)	-0.000** (-2.50)	-0.007 (-0.95)	0.000 (0.51)
LEV	-0.129*** (-10.97)	-0.006*** (-8.09)	-0.129*** (-10.11)	-0.006*** (-7.78)	-0.099*** (-4.16)	-0.003** (-2.45)
CFO	0.140*** (5.92)	0.002 (1.15)	0.152*** (5.86)	0.002 (1.24)	0.114** (2.46)	0.006** (2.22)
ROA	0.331*** (10.42)	0.032*** (16.10)	0.365*** (10.17)	0.037*** (16.67)	0.174*** (3.29)	0.010*** (3.42)
GRW	-0.003 (-0.32)	-0.001 (-1.60)	0.002 (0.16)	-0.001 (-1.21)	-0.007 (-0.52)	-0.000 (-0.68)
VOL	-0.152*** (-8.51)	-0.022*** (-19.40)	-0.142*** (-7.33)	-0.022*** (-18.08)	-0.122*** (-3.06)	-0.009*** (-3.90)

<i>BETA</i>	-0.032*** (-4.49)	-0.001** (-2.15)	-0.036*** (-4.74)	-0.001** (-2.20)	-0.049** (-2.40)	-0.002** (-1.99)
<i>Intercept</i>	0.430*** (4.46)	0.031*** (5.17)	0.151** (2.11)	0.029*** (6.60)	0.686*** (3.41)	0.021* (1.81)
<i>YEAR</i>	included	included	included	included	included	included
<i>Industry</i>	included	included	included	included	included	included
<i>Clustered</i>	by firm	by firm	by firm	by firm	by firm	by firm
<i>F-value</i>	30.626	45.770	28.360	43.656	9.011	25.219
<i>Adj. R²</i>	0.258	0.345	0.252	0.344	0.389	0.658
<i>N</i>	6,048	6,048	5,532	5,532	516	516

Note: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The definitions of the variables are provided at the bottom of Table 3.

4.4. Using the Disaggregated ESG Component Score

Table 6. presents the regression results in which the environmental (EG), social (SG), and governance (GG) scores are separately included as the key explanatory variables. These models are designed to disentangle the heterogeneous channels through which each ESG dimension may influence firms' dividend payout policies. Unlike analyses that rely solely on an aggregate ESG composite score, the present approach allows for a more nuanced understanding of how the distinct components of ESG performance reflecting environmental risk management, social responsibility, and governance quality are individually associated with dividend distributions. All regressions incorporate year and industry fixed effects as well as firm-clustered standard errors to ensure that the results are not driven by unobserved time-specific or sector-specific shocks, nor by intra-firm serial correlation.

The results indicate that the environmental score (EG) is positively and significantly associated with both the dividend payout ratio and the dividend yield across all specifications. Specifically, the EG coefficient is positive and statistically significant at the 1% level in Models (1) and (2), indicating that firms with stronger environmental performance tend to distribute larger dividends relative to both earnings and market value. This finding highlights the important role environmental management plays in shaping a firm's capacity and willingness to return cash to shareholders. One plausible mechanism is that environmentally responsible firms face lower regulatory and operational risks, especially in industries subject to strict environmental oversight. By proactively managing pollution, carbon emissions, energy consumption, and related environmental costs, such firms may reduce the likelihood of fines, sanctions, or compliance-related disruptions. Lower risk exposure enhances the stability of future cash flows, thereby facilitating a stronger and more consistent dividend policy. Moreover, environmental initiatives often lead to long-term operational efficiencies,

including reduced resource usage, process optimization, and energy savings, all of which contribute to greater profitability and liquidity. From a capital market perspective, environmentally responsible firms frequently enjoy enhanced credibility among investors and lenders, leading to reduced cost of capital and stronger access to external financing. When considered together, these channels provide compelling justification for why firms with superior environmental performance exhibit higher dividend payouts and yields.

Turning to the social score (SG), the results similarly exhibit a consistently positive and statistically significant relationship with dividend payout and dividend yield. In both Models (3) and (4), SG remains highly significant, underscoring the relevance of social responsibility to firms' dividend-distribution behavior. Social responsibility encompasses a broad range of activities, including employee welfare, human-capital investment, customer relationship management, supply chain integrity, and community engagement. Firms that excel in these areas often benefit from stronger relationships with key stakeholders, enhanced brand reputation, and greater operational stability. These advantages, in turn, support more predictable and resilient revenue streams, decreasing the volatility of cash flows. Employees in socially responsible firms may exhibit higher productivity and lower turnover; customers may demonstrate stronger loyalty; and communities may offer institutional support, all of which foster an environment conducive to long-term value creation. Such stability provides the financial foundation for these firms to commit to more generous and sustained dividend payments. Thus, the positive association between SG and dividend policy reflects not only improved financial outcomes but also the broader strategic advantages associated with cultivating strong stakeholder relationships. These findings are consistent with recent literature suggesting that social capital reduces business risk and enhances firms' ability to maintain stable payouts over time.

The governance score (GG), however, yields the strongest and most pronounced effect among the three ESG components. GG exhibits the largest coefficient magnitude and the highest statistical significance levels across both the

payout and yield models (Models (5) and (6)). This indicates that corporate governance is the ESG dimension most directly and powerfully linked to dividend policy. Strong governance mechanisms including independent boards, rigorous audit systems, transparent disclosure practices, and effective shareholder protection directly constrain managerial discretion and mitigate agency problems. When governance structures limit managerial opportunism, excess free cash flow is less likely to be diverted toward unprofitable investments, empire-building, or private benefits of control. Instead, managers face greater pressure to distribute surplus cash to shareholders in the form of dividends. Robust governance enhances the credibility of management's commitments to shareholder value and reinforces market discipline, both of which are conducive to higher and more stable distribution. Moreover, in institutional settings such as Korea, where ownership concentration is high and controlling shareholders may exercise substantial influence, governance mechanisms play a particularly critical role in protecting minority shareholders. The strong empirical association between GG and dividend outcomes found here aligns with prior theoretical work, including agency theory and the free-cash-flow hypothesis, which posit that dividends serve as an instrument to alleviate agency conflicts between insiders and outside shareholders.

When interpreting all three ESG components collectively, several broader implications emerge. First, the fact that environmental, social, and governance scores are all positively associated with dividend payout and dividend yield suggests that ESG performance enhances firms' financial capacity and willingness to reward shareholders.

However, the relative magnitudes of the coefficients indicate substantial differences across the ESG dimensions. Governance appears to be the most influential factor, offering the most direct mechanism for reducing agency costs and ensuring that corporate resources are used in ways that align with shareholder interests. Social performance follows, contributing to dividend capacity through relationship-based, reputational, and stakeholder-stability channels. Environmental performance also contributes meaningfully, though its effects may be more related to long-term risk reduction and cost efficiency rather than immediate operational governance.

Second, these results reinforce the emerging view in the international ESG literature that ESG activities should not be perceived as mere cost centers or compliance burdens. Rather, ESG practices appear to strengthen firms' internal control systems, reduce operational and regulatory uncertainties, improve stakeholder trust, and enhance long-term financial resilience. These improvements, in turn, materialize in the form of more favorable and consistent shareholder distribution policies.

Finally, the strong effects observed across all three ESG dimensions indicate that ESG performance is fundamentally linked to firm maturity, stability, and responsible management traits that are inherently compatible with higher dividend policies. Taken together, the findings confirm that ESG performance is not only a signal of corporate sustainability but also a meaningful predictor of shareholder-return strategies.

Table 6: Regression Result Using the Disaggregated ESG Component Score

	(1)	(2)	(3)	(4)	(5)	(6)
	DIV ^{PAYOUT}	DIV ^{YIELD}	DIV ^{PAYOUT}	DIV ^{YIELD}	DIV ^{PAYOUT}	DIV ^{YIELD}
EG	0.007*** (3.28)	0.000*** (2.67)				
SG			0.008*** (4.31)	0.000*** (3.44)		
GG					0.017*** (6.83)	0.001*** (6.79)
SIZE	0.004* (1.66)	-0.000 (-0.98)	0.002 (1.04)	-0.000 (-1.43)	0.002 (1.11)	-0.000** (-2.06)
LEV	-0.128*** (-10.88)	-0.006*** (-7.97)	-0.128*** (-10.94)	-0.006*** (-8.07)	-0.127*** (-10.88)	-0.006*** (-7.94)
CFO	0.143*** (6.03)	0.002 (1.20)	0.139*** (5.88)	0.002 (1.12)	0.141*** (5.98)	0.002 (1.23)
ROA	0.334*** (10.47)	0.032*** (16.17)	0.331*** (10.38)	0.032*** (16.07)	0.324*** (10.19)	0.031*** (15.82)

GRW	-0.003	-0.001	-0.003	-0.001*	-0.001	-0.001
	(-0.32)	(-1.64)	(-0.34)	(-1.65)	(-0.10)	(-1.41)
VOL	-0.154***	-0.022***	-0.153***	-0.022***	-0.145***	-0.021***
	(-8.58)	(-19.48)	(-8.53)	(-19.37)	(-8.11)	(-18.94)
BETA	-0.031***	-0.001**	-0.032***	-0.001**	-0.032***	-0.001**
	(-4.43)	(-2.15)	(-4.56)	(-2.23)	(-4.54)	(-2.21)
Intercept	0.370***	0.027***	0.407***	0.029***	0.395***	0.029***
	(3.82)	(4.48)	(4.20)	(4.76)	(4.28)	(5.10)
YEAR	included	included	included	included	included	included
Industry	included	included	included	included	included	included
Clustered	by firm	by firm	by firm	by firm	by firm	by firm
F-value	30.175	45.410	30.445	45.501	31.061	46.130
Adj. R ²	0.255	0.343	0.257	0.343	0.261	0.346
N	6,048	6,048	6,048	6,048	6,048	6,048

Note: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The definitions of the variables are provided at the bottom of Table 3.

4.5. Additional analysis of whether dividends increased compared to the previous fiscal year

Table 7. presents the results of the subsample analysis that separates firms into those that increased their dividends and those that did not, allowing for a more granular examination of whether the influence of ESG performance on dividend policy differs depending on recent payout behavior. For firms that increased dividends, shown in Columns (1) and (2), ESG performance maintains a positive and statistically significant effect on the dividend payout ratio, indicating that firms with stronger ESG activities tend to distribute a larger portion of their earnings as dividends when they are already in a phase of increasing shareholder returns. The coefficient for ESG in the payout model remains significant at the 1% level, which suggests that ESG-oriented firms may rely on their sustainability performance as a form of commitment or assurance when raising dividends. However, in the corresponding dividend-yield model, the ESG coefficient becomes statistically insignificant, implying that once dividend increases are implemented, market valuations may already incorporate this information, leaving limited room for ESG to influence yield-based measures. This pattern is consistent with the view that ESG contributes more directly to a firm's payout capacity reflected in the payout ratio than to its yield, which is partly shaped by market expectations and stock price reactions.

In contrast, for firms that did not increase their dividends, reported in Columns (3) and (4), ESG performance continues to show a strong and significant positive association with both the dividend payout ratio and the dividend yield. The significance of ESG in both specifications suggests that even when dividends remain

stable over time, sustainability performance plays an important role in shaping dividend outcomes. In these firms, ESG may serve as an important indicator of financial soundness and organizational stability, enabling firms to sustain their existing payout levels at higher rates. Moreover, the significance of ESG in the dividend-yield model for the non-increasing sample indicates that investors respond more sensitively to ESG signals when payout policy itself does not change; in such contexts, ESG may become a key differentiating factor in investor valuation, thereby influencing dividend yields through stock-price adjustments.

Taken together, the results from the two subsamples highlight that ESG performance is consistently associated with stronger dividend policies, but the channel through which ESG operates varies across firm types. Among firms that increase dividends, ESG appears to enhance firms' ability to distribute a greater share of their earnings, reinforcing the notion that ESG strengthens managerial discipline and reduces agency conflicts, thereby supporting more aggressive payout decisions. Among firms that do not increase dividends, ESG influences both payout ratios and market-based yield measures, suggesting that sustainability performance contributes to the long-term stability and credibility of dividend policies and that investors incorporate ESG information more heavily when dividend behavior is relatively constant. Overall, Table 7. demonstrates that ESG performance is a robust and economically meaningful determinant of dividend policy in both dynamic and stable payout environments, reinforcing the broader conclusion that ESG contributes to corporate financial stability, mitigates agency problems, and enhances investor trust, all of which translate into stronger shareholder-return practices.

Results for the separate E, S, and G ratings are omitted for brevity; nonetheless, they yield consistent conclusions.

Table 7: Additional analysis of whether dividends increased compared to the previous fiscal year

	Dividends Increased Samples		Dividends not Increased Samples	
	(1)	(2)	(3)	(4)
	DIV ^{PAYOUT}	DIV ^{YIELD}	DIV ^{PAYOUT}	DIV ^{YIELD}
ESG	0.011***	0.000	0.008***	0.001***
	(3.36)	(1.42)	(3.59)	(4.01)
SIZE	-0.014***	-0.001***	0.003	0.000
	(-4.19)	(-5.07)	(1.22)	(0.58)
LEV	-0.129***	-0.000	-0.126***	-0.008***
	(-6.69)	(-0.15)	(-10.83)	(-10.63)
CFO	0.135***	-0.006**	0.124***	0.001
	(3.83)	(-2.34)	(4.97)	(0.84)
ROA	-1.107***	0.007	0.266***	0.021***
	(-16.10)	(1.58)	(8.84)	(10.51)
GRW	0.045***	-0.003**	-0.013	-0.001**
	(2.77)	(-2.53)	(-1.51)	(-2.16)
VOL	-0.037	-0.029***	-0.110***	-0.016***
	(-1.16)	(-13.60)	(-6.40)	(-13.83)
BETA	-0.037***	0.001	-0.035***	-0.002***
	(-3.12)	(1.58)	(-5.01)	(-4.27)
Intercept	0.754***	0.054***	0.447***	0.021***
	(5.24)	(5.52)	(4.48)	(3.14)
YEAR	included	included	included	included
Industry	included	included	included	included
Clustered	by firm	by firm	by firm	by firm
F-value	10.339	15.304	26.509	30.883
Adj. R²	0.230	0.314	0.318	0.353
N	2,161	2,161	3,887	3,887

Note: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The definitions of the variables are provided at the bottom of Table 3.

4.6. Additional Test using Auditor Size

Table 8. reports the results of the subsample analysis in which firms are divided according to whether they are audited by a Big4 accounting firm or a non-Big4 auditor. This additional analysis allows us to investigate whether the effect of ESG performance on dividend policy is conditioned by the quality of external auditing. Given that Big4 auditors generally impose more stringent monitoring, tighter financial reporting discipline, and higher assurance quality, it is theoretically plausible that the association between ESG performance and dividend payouts may differ depending on the auditor type. Columns (1) and (2) present the results for Big4-audited firms, while Columns (3) and (4) show the results for non-Big4 firms.

For the Big4-audited firms, ESG performance exhibits a positive and statistically significant relationship with the dividend payout ratio, as shown in Column (1). The

coefficient on ESG (0.009, $t = 3.22$) indicates that even within an environment characterized by strong external monitoring and high-quality assurance, ESG remains an important determinant of dividend policy. This suggests that ESG performance provides incremental information about firm quality that goes beyond what is already signaled through high-quality audits. Investors may perceive ESG-oriented firms as less risky, more transparent, and more disciplined, thereby reinforcing the firm's ability to adopt more generous payout policies. In contrast, the effect of ESG on dividend yield in Column (2) remains positive but more modest, with significance at conventional levels. The comparatively weaker effect on yield reflects the interaction between ESG performance and market pricing: when firms are audited by Big4 firms, a substantial amount of information about governance quality, risk, and financial discipline is already reflected in market valuations, which may reduce the marginal impact of ESG on dividend yields.

For the non-Big4 firms, the results reveal a considerably stronger association between ESG performance and dividend outcomes. In Column (3), ESG shows a large and highly significant coefficient (0.020, $t = 5.03$) in predicting the dividend payout ratio, while Column (4) similarly demonstrates a robust and highly significant effect of ESG on dividend yield (0.002, $t = 6.62$). These magnitudes exceed those observed for the Big4 sample, suggesting that ESG performance plays a more influential role for firms operating under weaker external monitoring environments. In such contexts, ESG may function as a substitute mechanism that compensates for lower external audit quality by providing credible signals of transparency, managerial discipline, and long-term sustainability. For firms audited by non-Big4 auditors ESG performance likely becomes a more salient indicator of overall corporate quality. As a result, investors and boards may rely more heavily on ESG performance in shaping or evaluating dividend policies when the level of external financial scrutiny is relatively weaker.

The contrast between the two subsamples reveals important theoretical implications. The stronger ESG effect among non-Big4 firms is consistent with the substitution hypothesis, which posits that internal governance mechanisms (such as ESG-related practices) become more critical in settings where external governance mechanisms (such as high-quality audits) are less effective. Conversely,

for firms audited by Big4 firms, ESG performance still matters, but its incremental contribution is smaller due to the already-strong oversight and assurance environment. These results also align with agency theory: in non-Big4 firms, where agency conflicts may be more severe and information asymmetry more pronounced, ESG practices help reduce managerial opportunism and reinforce investor trust, thereby translating more strongly into higher dividend payouts.

Overall, Table 8. demonstrates that the relationship between ESG performance and dividend policy is significantly moderated by audit quality. ESG is positively associated with both dividend payout ratios and dividend yields in all subsamples, but its effect is substantially more pronounced among firms audited by non-Big4 auditors. These findings underscore the broader conclusion that ESG performance functions as an important corporate governance mechanism, particularly in environments where external monitoring is relatively weak. The results also suggest that dividend policy may serve as a complementary channel through which firms communicate the credibility of their ESG commitments to the market, especially when they lack high-quality external auditors to validate their financial reporting reliability.

Results for the separate E, S, and G ratings are omitted for brevity; nonetheless, they yield consistent conclusions.

Table 8: Additional Test using Auditor Size

	Big4		Non Big4	
	(1) DIV ^{PAYOUT}	(2) DIV ^{YIELD}	(3) DIV ^{PAYOUT}	(4) DIV ^{YIELD}
ESG	0.009*** (3.22)	0.000** (2.04)	0.020*** (5.03)	0.002*** (6.62)
SIZE	-0.004 (-1.44)	-0.001*** (-4.90)	0.007* (1.84)	0.001*** (2.58)
LEV	-0.148*** (-8.49)	-0.004*** (-3.76)	-0.110*** (-7.65)	-0.009*** (-9.05)
CFO	0.104*** (3.14)	-0.002 (-0.89)	0.133*** (4.35)	0.005** (2.30)
ROA	0.361*** (7.13)	0.042*** (13.75)	0.227*** (6.32)	0.019*** (7.69)
GRW	0.011 (0.78)	-0.001 (-1.18)	-0.003 (-0.33)	-0.001 (-1.09)
VOL	-0.180*** (-6.33)	-0.028*** (-16.57)	-0.113*** (-5.58)	-0.014*** (-10.52)
BETA	-0.026** (-2.44)	0.000 (0.30)	-0.024*** (-2.80)	-0.001** (-2.34)
Intercept	0.574***	0.044***	0.061	0.029***

	(5.06)	(6.53)	(0.51)	(3.65)
<i>YEAR</i>	included	included	included	included
<i>Industry</i>	included	included	included	included
<i>Clustered</i>	by firm	by firm	by firm	by firm
<i>F-value</i>	18.278	29.948	18.483	26.158
<i>Adj. R²</i>	0.245	0.353	0.320	0.404
<i>N</i>	3,668	3,668	2,380	2,380

Note: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The definitions of the variables are provided at the bottom of Table 3.

5. Conclusions

This study examines how Environmental, Social, and Governance (ESG) performance relates to dividend policy in the Korean capital market using an extensive panel of non-financial firms listed on the KOSPI and KOSDAQ from 2012 to 2024. While prior studies generally report a positive ESG–dividend nexus, empirical evidence remains mixed, particularly in emerging markets characterized by concentrated ownership and distinctive governance structures. This study reconsiders this relationship through a conditional governance framework.

We document that ESG ratings are positively associated with both dividend payout ratios and dividend yields; however, this relationship is not uniform across firms. Instead, the magnitude of the ESG effect varies systematically with firms' monitoring environments and dividend regimes. Specifically, ESG performance exhibits significantly stronger associations with dividend outcomes among firms audited by non-Big4 auditors and among firms maintaining stable dividend policies. Disaggregated analyses further reveal that governance quality plays the most influential role among ESG components, underscoring the central importance of governance mechanisms in shaping payout behavior. By identifying ESG as a conditional rather than universal determinant of dividend policy, this study reconciles mixed prior evidence and provides a coherent explanation for the heterogeneous findings documented in the literature.

The findings carry important implications for corporate managers, investors, and policymakers. For firms operating under weaker external monitoring environments, ESG practices serve as a critical governance substitute that enhances transparency, mitigates agency conflicts, and strengthens investor confidence—thereby facilitating higher and more stable dividend payouts. Managers of such firms may benefit from strategically investing in ESG initiatives to signal financial discipline and long-term commitment to shareholders. For investors, ESG performance provides valuable information about firms' payout sustainability, particularly when conventional monitoring mechanisms are limited. Policymakers may consider strengthening ESG

disclosure frameworks to improve capital-market discipline and enhance minority shareholder protection in environments characterized by concentrated ownership structures.

This study is subject to several limitations. First, the analysis relies on ESG ratings provided by a single rating agency (KCGS), which may not fully capture cross-agency measurement heterogeneity. Second, while we document conditional associations, future research may explore causal identification strategies to better isolate the channels through which ESG influences dividend policy. Third, additional institutional features—such as ownership type, foreign investor participation, and regulatory reforms—may further condition the ESG–dividend nexus and warrant deeper investigation. As ESG disclosure regimes and market expectations continue to evolve in Korea and other emerging markets, future studies may also examine whether the conditional role of ESG becomes more pronounced over time.

While this study provides robust evidence on the conditional association between ESG performance and dividend policy, several limitations warrant cautious interpretation. First, our analysis relies on ESG ratings from a single rating agency, the Korea Corporate Governance Service (KCGS), which may embed agency-specific methodologies and measurement biases. Future research could validate our findings using alternative ESG data providers and more granular ESG metrics. Second, although lagged ESG variables and extensive firm-level controls are employed, the use of observational panel data limits causal inference. The observed ESG–dividend association may partially reflect unobserved firm maturity, financial stability, or overall management quality that jointly affect ESG performance and payout policy. Employing quasi-experimental designs or instrumental variable approaches would help strengthen causal interpretation. Third, this study focuses on cash dividends as the primary payout channel and does not incorporate alternative shareholder return mechanisms such as share repurchases, which have become increasingly important in corporate payout strategies. Future research could examine how ESG

performance relates to the choice between dividends and repurchases in the Korean market.

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