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Is ESG more comprehensive than governance? What dividends reveal[☆]

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ABSTRACT

We examine the relationship between ESG performance and dividend payout policy across European and U.S. firms. Our findings reveal a positive relationship, primarily driven by the environmental and social dimensions of ESG, while governance plays a minor role. Notably, the environmental and social pillars remain significant even after accounting for traditional corporate governance variables. This highlights that ESG captures distinct aspects of management decision-making that governance alone does not. ESG shows no significant effect on dividends in the energy sector, where firms in the U.S. maintain higher payouts, while European companies reinvest more due to regulatory pressure. Overall, ESG proves to be an independent and relevant driver of dividend policy.

1. Introduction

Much debate centers on the quantification and impact of sustainability. ESG stands for Environment, Social and Governance and is often used interchangeably with Corporate Social Responsibility (CSR) (Gillan et al., 2021). The statement, “A badly governed company cannot be sustainable” (Câmara and Morais, 2022), sheds light on the importance of corporate governance. In this context, the question arises as to whether ESG is solely a part of rebranded corporate governance or whether ESG contributes beyond governance itself.

We consider dividend payments in our investigation, as they are directly influenced by management decisions. In principle, a positive relationship between ESG and dividends is found so far (Matos, 2020). This can be attributed to the observation that ESG practices lead to lower risk, higher earnings and added value (El Ghouli et al., 2011; Friede et al., 2015; Kang et al., 2016), such that more dividends are paid out more frequently (Benlemlih, 2019). We further raise the question whether management teams that place greater emphasis on ESG — thus exhibiting more stakeholder-oriented and less self-interested behavior — may also be more inclined to distribute higher dividends. This perspective aligns with principal-agent theory, suggesting that managers who internalize broader responsibility may also be more willing to act in the interest of shareholders (Farre-Mensa et al., 2014). This relates to the question whether classic corporate governance variables already capture this relationship, or whether ESG variables contain additional information (Skarmeas and Leonidou, 2013). Comparing Europe with the U.S., we may identify substantial differences in considering ESG and dividend payment policies.

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In line with the literature, our results show that sustainable companies pay out higher dividends (Benlemlih, 2019). This generally holds for the European as well as the U.S. sample.¹ The positive impact of ESG on the dividend payout ratio remains even when controlling for individual corporate governance variables, demonstrating the importance of ESG variables. The positive relationship is especially driven by the environmental and social pillar in the U.S. and exclusively by the social pillar in Europe. This finding underlines the importance of social and environmental variables in the context of dividend payments. The variables are certainly influenced by a company's corporate governance, but show a strong influence on their own.

Our findings highlight that the environmental and social dimensions of ESG, rather than the governance pillar alone, are key drivers of dividend decisions, a distinction particularly relevant in the U.S. context, where governance-related variables show little to no effect. In Europe, individual governance mechanisms retain explanatory power, yet the social dimension emerges as the dominant ESG component. Our outcomes underscore that ESG, while interlinked with corporate governance, represents a distinct analytical and strategic framework that extends beyond traditional governance variables. Moreover, the persistence of ESG's effect after controlling for governance supports the validity and added value of ESG scores as independent indicators of corporate behavior and policy.

It has to be noted that the reported strength of ESG in explaining payout does not hold uniformly across all sectors. We show that the energy sectors in both Europe and the U.S. are largely unaffected by ESG factors. Our results thereby document that the positive relationship between ESG and payout cannot be generalized. From a comparative perspective, regulatory divergence in the energy sectors may influence the trade-off between sustainability investment and shareholder distribution. European energy firms are subject to EU-wide climate regulations and binding renewable energy targets. In contrast, U.S. energy companies face a more fragmented regulatory environment, shaped by a mix of federal guidelines and state-level policies. Our findings reflect this asymmetry to some degree: while the social pillar performance is a relevant factor for U.S. energy firms, ESG does not exhibit any explanatory power in Europe. This suggests that in politically regulated sectors, the relevance of ESG is constrained.

The remainder of this paper is organized as follows. Data, methodology and our hypotheses are introduced in Section 2. The results are presented in Section 3. Section 4 provides concluding remarks.

2. Data and methodology

2.1. Data

The data for the empirical analysis is taken from the London Stock Exchange Group (LSEG, former Refinitiv) database from 2005 to 2022. Data is retrieved for European companies listed in the EuroStoxx 600 index and U.S. companies of the S&P 500 share index. The variable of main interest is the dividend payout ratio *DP*, measured as the ratio of common stock dividends to net income. The ESG ratings, with the pillars "Environmental", "Social" and "Governance", from the LSEG database provide the basis for evaluating ESG performance in this paper. Further, firm-level variables are extracted from Datastream and macroeconomic variables from World Bank. After the exclusion of firms in the finance sector, our sample contains 491 firms in the European dataset and 445 firms in the U.S. dataset, with 8835 firm-year observations in total.

Descriptive statistics for the variables used in our study are presented in Table 1 for the European dataset and in Table 2 for the U.S. dataset. With regard to dividend payout, the European sample includes 7355 observations and shows a mean value of 0.60. In contrast, the U.S. sample comprises 6828 observations with a mean of 0.47. This indicates that, on average, European firms distribute a higher share of their earnings as dividends. The main independent variable, ESG, is slightly higher in the European sample, with a score of 60.81 compared to 54.03 in the U.S. As far as the individual ESG pillars are concerned, there are only minor differences between the pillars and the samples, except for the U.S. environmental pillar, which is the weakest. The remaining control variables are very similar in both datasets, allowing for a reliable comparison in the subsequent analysis.

The distribution of the sample between industries is presented in Table 3. Across industries, companies are relatively evenly distributed, with the industrial sector being the most predominant economic sector in the European market, while the U.S. market is mainly dominated by the technology sector. The correlation coefficients between the variables of both datasets indicate no multicollinearity issues and no evidence of conflict between shareholder and ESG goals.

2.2. Methodology

Given our firm data as described in the section above, we set up a panel regression model in order to test for the significance of explanatory variables in explaining firms' differing payout ratios. In the model, the dependent variable is the dividend payout ratio (*DP*). The independent variable is the ESG score (*ESG*), as well as the individual pillars of the ESG score in further specifications: environment (*ENV*), social (*SOC*) and governance (*GOV*). The following three variables are used to represent traditional corporate governance: board size (*BOARD*), proportion of women on the board (*WOMEN*) and board independence (*INDEP*). In addition, accounting controls are used, i.e. market capitalization (*SIZE*),² cash holdings (*CASH*), sales growth (*SG*), return on assets (*ROA*) and leverage (*LEV*). The legislation variable *LAW* controls for regulatory differences for investor protection in the European sample,

¹ The United States and Europe pursue different paths in sustainability policy. The EU follows a more coordinated and long-term strategy, with initiatives like the Green Deal and national efforts such as Germany's Energiewende. In contrast, U.S. climate policy is more fragmented and politically volatile. While the Biden administration boosted climate action via the Inflation Reduction Act, the federal structure results in significant variation between states. Overall, Europe provides more policy continuity, whereas the U.S. relies on large-scale funding but remains less stable.

² As an alternative measure of firm size, market capitalization is replaced with total assets. The results remain consistent and confirm our findings.

Table 1
Descriptive statistics — Europe.

Variable	mean	median	sd	min	max	n
<i>DPR</i>	0.60	0.44	0.80	0	6.06	7355
<i>ESG</i>	60.81	63.95	19.48	2.60	95.58	6855
<i>SOC</i>	63.42	68.25	22.89	0.25	98.47	6855
<i>ENV</i>	59.67	64.76	25.44	0	98.75	6855
<i>GOV</i>	57.31	59.82	21.99	0.80	99.04	6855
<i>BOARD</i>	11.07	11	3.79	2	30	6843
<i>WOMEN</i>	0.24	0.25	0.15	0	0.75	6782
<i>INDEP</i>	0.60	0.60	0.24	0	1	6173
<i>SIZE</i>	22.69	22.66	1.38	19.12	25.83	7774
<i>CASH</i>	0.09	0.06	0.09	0.0005	0.47	8047
<i>SG</i>	36.32	10.18	186.39	470.07	1,272.91	7775
<i>ROA</i>	6.48	5.60	6.91	15.28	34.33	7970
<i>LEV</i>	0.93	0.63	1.06	0.001	6.75	7832

Descriptive statistics for the annual European raw data sample, covering the period from 2005 to 2022. It includes key variables used in the empirical analysis. The data is based on firms listed in the EuroStoxx 600 index, excluding financial firms. The variables are winsorized at the 1%-level to reduce the impact of outliers.

Table 2
Descriptive statistics — U.S.

Variable	mean	median	sd	min	max	n
<i>DPR</i>	0.47	0.28	0.77	0	5.44	6828
<i>ESG</i>	54.03	56.57	20.21	0.60	95.16	6772
<i>SOC</i>	56.24	57.54	22.14	0.26	98.26	6772
<i>ENV</i>	46.53	51.94	29.18	0	98.55	6772
<i>GOV</i>	57.23	59.76	21.70	0.62	99.43	6772
<i>BOARD</i>	10.71	11	2.83	1	138	6752
<i>WOMEN</i>	0.20	0.20	0.11	0	1	6746
<i>INDEP</i>	0.83	0.85	0.10	0	1	6304
<i>SIZE</i>	23.49	23.45	1.28	20.25	26.69	7336
<i>CASH</i>	0.10	0.06	0.10	0.001	0.51	7522
<i>SG</i>	36.29	11.36	190.59	623.32	1,187.71	7444
<i>ROA</i>	6.82	6.14	8.09	25.26	30.41	7495
<i>LEV</i>	1.27	0.72	2.03	0	14.83	6875

Descriptive statistics for the annual U.S. raw data sample, covering the period from 2005 to 2022. It includes key variables used in the empirical analysis. The sample consists of firms listed in the S&P 500 index, excluding the financial sector. The variables are winsorized at the 1%-level to reduce the impact of outliers.

Table 3
Sample distribution by sector.

Industry	No. of Obs. Europe	%	No. of Obs. U.S.	%
Industrials	1997	22.60%	1296	16.18%
Consumer Cyclical	1440	16.30%	1188	14.83%
Technology	1170	13.24%	1620	20.22%
Basic Materials	988	11.18%	486	6.07%
Healthcare	918	10.39%	1152	14.38%
Consumer Non-Cyclical	900	10.19%	720	8.99%
Real Estate	540	6.11%	540	6.74%
Utilities	486	5.50%	576	7.19%
Energy	396	4.48%	432	5.39%
TOTAL	8835	100.00%	8010	100.00%

Industry distribution for both European and U.S. firm-year observations. Industries are classified according to the Refinitiv Business Classification (TRBC). The European sample is dominated by industrials, while the U.S. sample is technology-heavy. The sample period is from 2005 until 2022.

indicating whether a country follows a common-law system (1) or a civil-law system (0).³ All regressions control for industry and year fixed effects as indicated by the Hausman test statistic. The independent variables are lagged by one year.⁴ Multiple regressions

³ As an additional test and in line with Bilyay-Erdogan et al. (2023), the Anti-Director Rights Index (La Porta et al., 1998) and the Anti-Self-Dealing Index (Djankov et al., 2008) were separately included as macro-level proxies for investor protection. The results remain robust, confirming the consistency of our findings.

⁴ ESG scores typically reflect the previous fiscal year. As a robustness check, we re-estimate the models without lagging ESG, while keeping all other variables lagged. These results confirm our reported findings and are available from the authors upon request.

are conducted to estimate the following model:

$$DPR_{i,t} = \alpha_i + \beta_1 ESG_{i,t-1} + \beta_2 BOARD_{i,t-1} + \beta_3 WOMEN_{i,t-1} + \beta_4 INDEP_{i,t-1} + \beta_5 Controls_{i,t-1} + \beta_6 Year_t + \beta_7 Industry_i + \varepsilon_{i,t} \quad (1)$$

Based on the considerations outlined above, we formulate the following hypotheses to guide our analysis:

- H_0^1 : ESG performance has no effect on dividend payout.
- H_0^2 : The ESG score acts as a substitute for traditional corporate governance in explaining dividend payout.
- H_0^3 : The impact of ESG performance on dividend payout does not vary across sectors.

3. Empirical results

3.1. Overall results

Table 4 shows our results for Europe in columns (1) to (5) and for the U.S. in columns (6) to (10). In line with prior evidence for Europe (Bilyay-Erdogan et al., 2023; Salvi et al., 2024), a positive influence of the ESG variable on the dividend payout ratio can be seen for both markets. This also holds when looking at the individual pillars. Only governance is not significant in the U.S. sample. The influence on dividend payout is therefore not driven by governance, but rather by the environmental and social pillars of the ESG Score. In addition, an inverse relationship between sales growth or return on assets and dividend payment can be observed in both Europe and the U.S., which is in line with the life-cycle theory (Bulan and Subramanian, 2009). ESG considerations are generally a decisive factor in shaping dividend payout policies.

In Table 5, we include common corporate governance variables in addition to the ESG score to see whether ESG has greater explanatory power than corporate governance. If not, ESG is more of a rebranding than a new concept. Since companies in all aspects cannot be sustainable without good management, a skeptical attitude towards ESG is natural. However, contrary to expectations, the influence of the ESG variable remains significant even when traditional governance variables are added. This suggests that ESG as a concept actually captures new aspects that are relevant for dividend payout. While Zahid et al. (2023) emphasize the role of audit quality in enhancing the ESG–dividend relationship, our findings indicate that ESG itself carries explanatory power independently of such moderating mechanisms. This applies to both markets, although explanatory power of our regressions is significantly higher for the U.S. sample as compared to Europe. The environmental and social pillars of ESG make an important contribution to explaining dividend payout and can be clearly separated from classic corporate governance variables. Despite minor differences in the subsamples, the overall ESG score generally shows a significant positive effect on dividend payments, being an important explanatory factor. An additional illustration of the robustness of our results is given in Appendix.

3.2. Cross-sectoral results

Extensive research across all sectors highlights the energy sector as one that requires particular attention. While robust effects are observed across industries in our analysis, the energy sector stands out due to noticeable differences in patterns and responsiveness. This sector also plays a central role in current sustainability efforts. In recent years, both the United States and the European Union have advanced their climate and energy policies, yet their political approaches and implementation differ significantly. European countries like France, Germany and the Nordic states have long pursued coordinated and binding climate policies under the EU framework (Oberthür and Dupont, 2021). The United States has followed a more fragmented and politically volatile path (Bang, 2024), particularly in the context of sustainability.

The results in Table 6 underpin differences regarding dividend payments related to reported ESG activity. The regression model that performs well in the overall sample proves ineffective in the energy sector. This is reflected in a notably lower adjusted R^2 in both Europe and the U.S., indicating reduced explanatory power. A closer look reveals that in the European subsample, almost all independent variables — even the ESG score and its individual pillars — lose significance. Only sales growth remains robust. This suggests that dividend policy in the European energy sector is shaped by fundamentally different drivers, likely related to high capital expenditure and transition costs, which depress short-term earnings and limit the free cash flow available for dividends. Similar mechanisms are discussed by Chen et al. (2024), who find that mandatory ESG reporting requirements can reduce dividend payouts in highly regulated and capital-intensive industries. In addition, ongoing European regulatory interventions further limit earnings predictability and payout flexibility. In contrast, regulations in the U.S. are more relaxed and companies tend to see sustainability as an opportunity for differentiation, with ESG leading to higher dividend payouts. While ESG retains statistical significance, the model's explanatory power remains limited. Cash holdings as well as return on assets exhibit negative correlations with dividends, possibly reflecting cyclical volatility and firms' dividend smoothing behavior. The difference is therefore driven by the structural differences, with European companies committing to higher levels of investment and U.S. companies being able to pay out more.

Table 4
Baseline model.

	Dependent variable:									
	DPR									
	Europe					U.S.				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>ESG</i>	0.005*** (0.001)	0.003*** (0.001)				0.004*** (0.001)	0.003*** (0.001)			
<i>ENV</i>			0.001** (0.001)					0.002*** (0.001)		
<i>SOC</i>				0.002*** (0.001)					0.003*** (0.001)	
<i>GOV</i>					0.002** (0.001)					0.001 (0.001)
<i>SIZE</i>		0.006 (0.015)	0.016 (0.014)	0.011 (0.015)	0.019 (0.015)		0.038*** (0.013)	0.036*** (0.013)	0.040*** (0.013)	0.054*** (0.012)
<i>CASH</i>		0.059 (0.231)	0.046 (0.234)	0.057 (0.231)	0.045 (0.234)		0.099 (0.172)	0.110 (0.172)	0.110 (0.172)	0.079 (0.175)
<i>SG</i>		-0.0003*** (0.0001)	-0.0003*** (0.0001)	-0.0003*** (0.0001)	-0.0003*** (0.0001)		-0.0002** (0.0001)	-0.0001** (0.0001)	-0.0002** (0.0001)	-0.0002** (0.0001)
<i>ROA</i>		-0.032*** (0.004)	-0.032*** (0.004)	-0.032*** (0.004)	-0.032*** (0.004)		-0.026*** (0.003)	-0.026*** (0.003)	-0.027*** (0.003)	-0.027*** (0.003)
<i>LEV</i>		-0.003 (0.015)	-0.003 (0.015)	-0.003 (0.015)	-0.002 (0.015)		0.031*** (0.009)	0.031*** (0.009)	0.031*** (0.009)	0.032*** (0.009)
<i>LAW</i>		0.151*** (0.041)	0.158*** (0.040)	0.158*** (0.040)	0.139*** (0.041)					
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6259	5869	5869	5869	5869	6193	5653	5653	5653	5653
Adjusted R ²	0.021	0.077	0.075	0.076	0.076	0.225	0.280	0.280	0.279	0.275

Regression results of the fixed-effect model of ESG performance on the dividend payout of companies in Europe (1)–(5) and the U.S. (6)–(10). The dependent variable is the dividend payout ratio (*DPR*) and the independent variables are the ESG score (*ESG*) and the individual pillars of the ESG score (*ENV*, *SOC*, *GOV*). The control variables are company size (*SIZE*), cash liquidity (*CASH*), sales growth (*SG*), return on assets (*ROA*) and leverage (*LEV*). The European dataset additionally contains a control variable for legislation (*LAW*) at country level. All independent variables were lagged by one period. The error terms were adjusted for heteroskedasticity at the firm level. The robust *t*-statistics are shown in brackets. Statistical significance at 1%, 5%, 10% is marked with *, **, ***. Continuous data have been winsorized at the 1% level. The sample period is from 2005 until 2022.

Table 5
Model extended by corporate governance.

	Dependent variable:							
	DPR							
	(1)	(2)	Europe (3)	(4)	(5)	(6)	U.S. (7)	(8)
<i>ESG</i>	0.003*** (0.001)				0.004*** (0.001)			
<i>ENV</i>		0.001 (0.001)				0.002*** (0.001)		
<i>SOC</i>			0.002** (0.001)				0.003*** (0.001)	
<i>GOV</i>				0.001 (0.001)				0.001 (0.001)
<i>BOARD</i>	-0.015*** (0.005)	-0.014*** (0.005)	-0.014*** (0.005)	-0.012** (0.005)	0.003 (0.004)	0.003 (0.004)	0.003 (0.004)	0.006 (0.005)
<i>WOMEN</i>	0.061 (0.133)	0.090 (0.133)	0.081 (0.133)	0.101 (0.133)	-0.090 (0.164)	-0.065 (0.162)	-0.046 (0.162)	0.002 (0.164)
<i>INDEP</i>	0.057 (0.079)	0.092 (0.079)	0.082 (0.076)	0.072 (0.081)	-0.045 (0.156)	0.034 (0.155)	0.009 (0.155)	0.040 (0.161)
<i>SIZE</i>	0.021 (0.017)	0.027* (0.016)	0.023 (0.017)	0.031* (0.016)	0.039*** (0.014)	0.037*** (0.014)	0.041*** (0.013)	0.053*** (0.012)
<i>CASH</i>	0.038 (0.238)	0.027 (0.239)	0.043 (0.238)	0.028 (0.240)	0.121 (0.176)	0.125 (0.175)	0.126 (0.176)	0.099 (0.178)
<i>SG</i>	-0.0003*** (0.0001)	-0.0003*** (0.0001)	-0.0003*** (0.0001)	-0.0003*** (0.0001)	-0.0001** (0.0001)	-0.0001** (0.0001)	-0.0001** (0.0001)	-0.0002** (0.0001)
<i>ROA</i>	-0.033*** (0.004)	-0.033*** (0.004)	-0.033*** (0.004)	-0.033*** (0.004)	-0.027*** (0.003)	-0.027*** (0.003)	-0.027*** (0.003)	-0.028*** (0.003)
<i>LEV</i>	0.005 (0.016)	0.005 (0.016)	0.005 (0.017)	0.006 (0.016)	0.032*** (0.009)	0.032*** (0.009)	0.032*** (0.009)	0.032*** (0.009)
<i>LAW</i>	0.112*** (0.043)	0.117*** (0.042)	0.119*** (0.042)	0.106** (0.043)				
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5242	5242	5242	5242	5266	5266	5266	5266
Adjusted R ²	0.075	0.074	0.075	0.074	0.281	0.281	0.280	0.277

Regression results of the fixed-effect model of ESG performance and corporate governance on the dividend payout of companies in Europe (1)–(4) and the U.S. (5)–(8). The dependent variable is the dividend payout ratio (*DPR*) and the independent variables are the ESG score (*ESG*), the individual pillars of the ESG score (*ENV*, *SOC*, *GOV*) and the corporate governance indicators (*BOARD*, *WOMEN*, *INDEP*). The control variables are company size (*SIZE*), cash liquidity (*CASH*), sales growth (*SG*), return on assets (*ROA*) and leverage (*LEV*). The European dataset additionally contains a control variable for legislation (*LAW*) at country level. All independent variables were lagged by one period. The error terms were adjusted for heteroskedasticity at the firm level. *p*-values are provided in parentheses. *, **, *** indicate significance at the 10%, 5% and 1% level, respectively. Continuous data have been winsorized at the 1% level. The sample period is from 2005 until 2022.

Table 6
Energy sector model.

	Dependent variable:							
	DPR							
	Europe				U.S.			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>ESG</i>	-0.002 (0.005)				0.005** (0.002)			
<i>ENV</i>		-0.004 (0.004)				0.003 (0.002)		
<i>SOC</i>			0.003 (0.004)				0.003* (0.002)	
<i>GOV</i>				-0.003 (0.002)				0.003 (0.002)
<i>SIZE</i>	0.058 (0.035)	0.072* (0.041)	0.027 (0.033)	0.054* (0.030)	0.021 (0.039)	0.028 (0.038)	0.031 (0.038)	0.048 (0.041)
<i>CASH</i>	-0.736 (1.015)	-0.789 (1.002)	-0.650 (0.975)	-0.798 (0.948)	-3.520*** (1.150)	-3.446*** (1.149)	-3.584*** (1.170)	-3.240*** (1.202)
<i>SG</i>	-0.001*** (0.0002)	-0.001*** (0.0002)	-0.001*** (0.0002)	-0.001*** (0.0002)	0.0003 (0.0002)	0.0003 (0.0002)	0.0002 (0.0002)	0.0002 (0.0002)
<i>ROA</i>	-0.036 (0.023)	-0.036 (0.023)	-0.035 (0.023)	-0.036 (0.023)	-0.021** (0.009)	-0.022** (0.009)	-0.022** (0.009)	-0.022** (0.010)
<i>LEV</i>	0.029 (0.148)	0.040 (0.145)	-0.011 (0.155)	0.016 (0.132)	0.140** (0.055)	0.139** (0.055)	0.141*** (0.054)	0.140*** (0.052)
<i>LAW</i>	0.194 (0.124)	0.167 (0.103)	0.137 (0.136)	0.219* (0.128)				
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	250	250	250	250	277	277	277	277
Adjusted R ²	0.027	0.031	0.029	0.030	0.161	0.155	0.157	0.152

Regression results of the fixed-effect model of ESG performance on the dividend payout of companies in Europe (1)–(4) and the U.S. (5)–(8) in the energy sector. The dependent variable is the dividend payout ratio (*DPR*) and the independent variables are the ESG score (*ESG*) and the individual pillars of the ESG score (*ENV*, *SOC*, *GOV*). The control variables are company size (*SIZE*), cash liquidity (*CASH*), sales growth (*SG*), return on assets (*ROA*) and leverage (*LEV*). The European dataset additionally contains a control variable for legislation (*LAW*) at country level. All independent variables were lagged by one period. The error terms were adjusted for heteroskedasticity at the firm level. *p*-values are provided in parentheses. *, **, *** indicate significance at the 10%, 5% and 1% level, respectively. Continuous data have been winsorized at the 1% level. The sample period is from 2005 until 2022.

4. Conclusion

This study confirms a consistent, positive relationship between ESG performance and dividend payouts in both the U.S. and Europe. The effect holds even when controlling for traditional corporate governance variables, highlighting the independent influence of ESG and suggesting that ESG performance may have a deeper impact on corporate competitiveness (Gao et al., 2025). Our findings challenge the notion that ESG merely substitutes governance structures and underscore the role of environmental and social dimensions in shaping payout decisions. Governance factors — whether measured via ESG scores or individual indicators — play only a secondary role. It has to be noted that the reported strength of ESG in explaining payout does not hold uniformly across all sectors. We show that the energy sectors are largely unaffected by ESG. Overall, ESG performance emerges as a relevant and independent criterion for dividend decisions — its effects varying with regulatory intensity, reinvestment needs, and institutional context — and should be treated as such in future research and policy considerations.

CRedit authorship contribution statement

Nina Anolick: Writing – review & editing, Writing – original draft, Validation, Supervision, Software, Resources, Project administration, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Helena Posselt:** Writing – review & editing, Writing – original draft, Validation, Software, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Niklas Wagner:** Writing – review & editing, Validation, Supervision, Project administration, Methodology, Investigation, Formal analysis, Conceptualization.

Appendix. Robustness

To address potential endogeneity between ESG performance and dividend payout, we estimate a two-stage least squares (2SLS) model. Specifically, we use ESG_{t-2} as an instrument for ESG_{t-1} , exploiting the temporal persistence of ESG scores. The correlation between ESG_{t-2} and ESG_{t-1} is high in both the European (0.94) and U.S. (0.93) samples, reflecting a strong relationship between the instrument and the endogenous regressor. However, the correlation is below unity, indicating no issue of perfect multicollinearity. The first-stage regressions yield extremely high F-statistics of 2881 (Europe) and 2408 (U.S.), far above the conventional threshold of 10, indicating strong instrument relevance and ruling out weak instrument concerns. Moreover, a Wu-Hausman test does not reject the null of exogeneity of ESG_{t-1} , suggesting that the potential endogeneity of ESG does not materially bias the OLS estimates. In the second stage, we regress dividend payout on the instrumented ESG values. The results remain consistent in sign and significance with our baseline findings, suggesting that the observed ESG effect is not driven by reverse causality. This strengthens the interpretation of ESG as a robust determinant of dividend policy (see [Tables 7 and 8](#)).

Table 7
First stage of the IV regression.

	Dependent variable:	
	$ESG_{initial}$	
	Europe	U.S.
ESG_{t-2}	0.874*** (0.006)	0.883*** (0.006)
<i>SIZE</i>	0.642*** (0.090)	0.612*** (0.104)
<i>CASH</i>	-1.381 (1.289)	1.470 (1.260)
<i>SG</i>	0.0005 (0.0005)	-0.0004 (0.0005)
<i>ROA</i>	-0.029* (0.016)	-0.023 (0.016)
<i>LEV</i>	0.034	0.068
Constant	-4.305** (1.867)	-4.993** (2.291)
Industry Fixed Effects	Yes	Yes
Observations	5513	5408
Adjusted R ²	0.880	0.862
F Statistic	2881	2408

This table presents the first-stage regression, where the ESG_{t-2} score serves as an instrument for the initial ESG score (ESG_{t-1}). All independent variables were lagged by one period. The first-stage F-statistics are reported and indicate sufficient instrument strength. Standard errors are robust to heteroskedasticity and clustered at the firm level. *p*-values are provided in parentheses. *, **, *** indicate significance at the 10%, 5% and 1% level, respectively. Continuous variables are winsorized at the 1% level. The sample period spans from 2005 to 2022.

Table 8
Second stage of the IV regression.

	Dependent variable:	
	DPR	
	Europe	U.S.
Instrumented $ESG_{initial}$	0.004*** (0.001)	0.004*** (0.001)
<i>SIZE</i>	-0.010 (0.012)	0.018* (0.009)
<i>CASH</i>	-0.616*** (0.158)	-0.250** (0.127)
<i>SG</i>	-0.00001 (0.0001)	-0.00001 (0.0001)
<i>ROA</i>	-0.008*** (0.002)	-0.010*** (0.002)
<i>LEV</i>	-0.019* (0.011)	0.015*** (0.006)
Constant	0.651** (0.262)	-0.127 (0.202)
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
Observations	5021	4957
Adjusted R ²	0.032	0.236

This table presents the results for the second stage regression, where the fitted values of *ESG* are included in the baseline model (see Table 4) to investigate *DPR*, which is the dividend payout ratio of a firm in a given year *t*. All independent variables were lagged by one period. The error terms were adjusted for heteroskedasticity at the firm level. *p*-values are provided in parentheses. *, **, *** indicate significance at the 10%, 5% and 1% level, respectively. Continuous data have been winsorized at the 1% level. The sample period is from 2005 until 2022.

Data availability

Data will be made available on request.

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