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# ESG, Dividend Payout, and Ownership in Chinese Enterprises

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**Abstract:** This study examines the impact of Environmental, Social, and Governance (ESG) Score on cash dividends among Chinese A-share listed companies. Based on firm-level data from 2010 to 2019, the findings indicate that companies with higher ESG scores tend to pay higher cash dividends, with this relationship being significant in non-state-owned enterprises but not evident in state-owned enterprises. Furthermore, firms with a higher proportion of mutual fund (MF) ownership are more likely to implement ESG-related dividend policies. To ensure robustness, the study employs Instrumental Variables (IV) and the Propensity Score Matching (PSM) method to address endogeneity concerns, and the results remain consistent. The findings suggest that ESG scores serve as a signaling mechanism for Chinese enterprises, mitigating inefficient investment caused by information asymmetry and highlighting the role of ESG in corporate governance and investor decision-making.

**Keywords:** ESG Scores; Cash Dividends; Information Asymmetry; Mutual Fund

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## 1. Introduction

In recent years, ESG (Environmental, Social, and Governance) performance has become a key factor influencing corporate financial decisions. While extensive research has examined how ESG disclosure affects corporate behavior and financial performance, its impact on dividend policy remains underexplored. Dividend payments play a crucial role in reducing agency conflicts and signaling financial stability to investors. However, whether firms with higher ESG scores systematically pay higher dividends and how this relationship differs across ownership structures remains an open question. Existing literature has primarily focused on the connection between corporate social responsibility (CSR) and dividend payments. Many studies suggest that companies engaging actively in social responsibility activities tend to distribute higher dividends, while firms with weaker CSR commitments adjust their dividends more frequently [1-2]. Additionally, Chinese listed firms face financing constraints and regulatory scrutiny from financial institutions, making ESG disclosure an important tool for attracting investors and shaping corporate reputation. Empirical evidence from global markets suggests that firms with stronger ESG performance tend to pay more dividends while experiencing lower financial risk. Bilyay-Erdogan et al. [3] based on a sample of 1,094 non-financial firms from 21 European countries, found that higher ESG performance correlates with higher returns and lower risk, leading to greater dividend payouts. Similarly, Maqueira et al.

[4] found a significant positive relationship between ESG performance and dividend payments in a study of 274 large family-owned businesses. Salvi et al. [5] further demonstrated that financial constraints moderate the ESG-dividend relationship, as firms with limited financial flexibility may face trade-offs between ESG commitments and shareholder returns. Building on these insights, this study investigates the impact of ESG performance on dividend payments in Chinese A-share listed firms, emphasizing the moderating roles of ownership structure and institutional investors. Using non-financial firms from 2010 to 2019, we examine whether higher ESG scores lead to increased dividend payouts and whether mutual fund ownership strengthens this relationship. Mutual funds, representing diversified investors with a preference for stable income, often pressure firms to maintain or increase dividend payments [6]. In China's capital market, northbound capital inflows indicate a preference for ESG-compliant firms, with Non-SOEs being more responsive to ESG-driven investment than SOEs [7]. Additionally, digital transformation has been found to enhance ESG performance, particularly in Non-SOEs, manufacturing firms, and high-tech enterprises [8-9]. Based on existing literature and theoretical foundations, we propose three key hypotheses: First, firms with higher ESG scores tend to pay higher dividends. Second, Non-SOEs with high ESG scores are expected to distribute larger dividends compared to SOEs. Third, higher mutual fund ownership strengthens the relationship between ESG scores and dividend payments.

To test these hypotheses, we apply panel regression models to analyze the relationship between ESG scores and dividend payouts while controlling for industry and year effects. The findings strongly support our hypotheses. Specifically, firms with higher ESG scores exhibit a stronger tendency to pay dividends, and this relationship is more pronounced among Non-SOEs. Furthermore, firms with higher mutual fund ownership show a stronger ESG-dividend link, reinforcing the role of institutional investors in shaping corporate payout policies. These results underscore the significance of ownership structure as a moderating factor in the ESG-dividend relationship.

To ensure robustness and address potential endogeneity concerns, we employ instrumental variable (IV) regression and propensity score matching (PSM). First, we use the average ESG score within the same province and industry as an instrumental variable, confirming that IV regression results align with our baseline findings. Second, we perform PSM analysis, grouping firms into treatment and control groups based on median ESG scores within the same industry and year, again verifying a significant positive correlation between ESG scores and dividend payouts. Additionally, we conduct Logit regression analysis, using dividend payment occurrence as the dependent variable, further validating the stability of our results.

This study contributes to the ESG and corporate finance literature by providing empirical evidence on how ESG performance influences dividend policy in an emerging market context. Unlike prior studies that focus primarily on developed economies, our research offers new insights into the role of ownership structure and institutional investors in shaping dividend decisions in China. Our main contributions are threefold. First, we provide strong empirical support for the positive link between ESG performance and dividend payouts, particularly among Non-SOEs. Second, we highlight the moderating role of mutual fund ownership, showing how institutional investors influence corporate payout policies. Third, by employing IV and PSM methods, we ensure greater causal interpretation of the ESG-dividend relationship, strengthening the reliability of our findings. These insights carry important practical implications for investors, policymakers, and corporate managers. As ESG investing gains momentum, our results suggest that firms with higher ESG

performance attract investors and exhibit more stable dividend policies. Institutional investors can use ESG metrics to assess firms' financial discipline and commitment to shareholder returns. Additionally, for Non-SOEs, strengthening ESG practices could serve as a strategic tool to enhance financial stability and investor confidence. In conclusion, our findings demonstrate that ESG scores are a critical determinant of dividend payments. Ownership structure plays a vital role in shaping this relationship, with Non-SOEs and firms with higher mutual fund ownership exhibiting stronger ESG-dividend correlations. This research fills an important gap in ESG-dividend studies, providing new perspectives on how ESG practices influence financial decisions in emerging markets.

Future research could further explore the specific mechanisms through which ESG engagement influences dividend policy, particularly whether ESG affects dividend smoothing. Additionally, how do external factors, such as regulatory changes or economic uncertainty, moderate the relationship between ESG and dividends? Further investigation into institutional investors' preferences for ESG compliance could also provide deeper insights into the evolving relationship between ESG, corporate governance, and financial policy. This study lays a foundation for future research on ESG and dividend policy and highlights the importance of sustainable corporate finance in emerging markets.

This study is mainly composed of the following sections. The first section is Introduction, the second section is Development of ESG Policies in China, the third section is Literature and Hypothesis Development, the fourth section is Data and Research Methodology, the fifth section is Empirical Results, the sixth section is Conclusion and Discussion.

## **2. Development of ESG Policies in China**

In recent years, with the gradual proliferation of theoretical frameworks and practical implementation of ESG initiatives, research on ESG activities in the international market has been steadily increasing. The increasing refinement of capitalist market systems has particularly underscored the significance of environmental protection, corporate social responsibility, and organizational structural changes within ESG activities, thereby influencing corporate development strategies and economic growth. Compared to capitalist nations, China's initiation of ESG frameworks commenced relatively late. Currently, research on ESG in China predominantly focuses on the impact of corporate behavior and capital market performance.

This study investigates the impact of ESG scores on the development of ESG regulatory policies in China, which can be broadly divided into three stages. The nascent stage is characterized by an emphasis on environmental governance, primarily guided by the construction of ecological civilization. During this period, enterprises were encouraged to voluntarily engage in ESG reporting. The exploratory stage centered around green finance, where practical explorations were conducted from the perspective of green finance. Regulatory agencies began to mandate environmental information disclosure and encouraged the voluntary disclosure of social responsibility reports by enterprises. The acceleration stage, led by the "dual-carbon" goal, focused on advancing progress. Under the low-carbon transformation strategy, the ESG system was further refined, and the state enacted legislation to enhance the disclosure mechanism for social responsibility information. Additionally, regulations have been introduced for ESG information disclosure in the financial industry and the development of green finance systems.

The development of China's ESG framework can be categorized into three distinct stages. First, beginning in 2002, the China Securities Regulatory Commission (CSRC) explicitly mandated the

disclosure of corporate governance structures for listed companies. In 2007, the State Environmental Protection Administration required enterprises to publicly disclose environmental information, followed by the introduction of social responsibility guidelines for central enterprises by the State-owned Assets Supervision and Administration Commission in December of the same year. Notably, in 2008, the Chinese government mandated that certain companies report on their social responsibility, establishing a comprehensive regulatory framework centered around enterprises. The second stage involves the CSRC providing clearer provisions for corporate governance guidelines for listed companies, incorporating "stakeholders, environmental protection, and social responsibility" into the regulations. During this period, ESG ratings and the green.

### 3. Literature and Hypothesis Development

In recent years, with the promotion of the "dual carbon" policy and green finance initiatives, research on ESG among Chinese listed companies has been continuously evolving. ESG ratings, as an evaluation system for non-financial performance, have garnered considerable attention from corporate stakeholders. Currently, China's economic development is facing increasingly severe issues such as environmental pollution, resource depletion, and ecological imbalance. Consequently, sustainable development has become a major strategy vigorously promoted by the Chinese government. This focus on sustainability has attracted attention not only from the government and enterprises but also from academic researchers. Particularly after the Fourth Industrial Revolution and the continuous promotion of the "Belt and Road" initiative, the disclosure of ESG indices has facilitated industrial upgrading and transformation, enabling more enterprises to enter the international market and effectively ensuring the sustainable development of the economy.

From the perspective of agency theory and signaling theory, dividend policy serves as a mechanism to reduce agency costs and, more importantly, to signal information to external investors. A company's dividend payment decision reflects its management's assessment of future profit prospects. When a company decides to increase dividends, it is often interpreted as a display of management's confidence in the company's future earnings potential. Conversely, a decision to reduce or not pay dividends may be interpreted by the market as indicating uncertainty about the company's future earnings or potential negative impacts. Therefore, dividend policy becomes an important tool for market communication, through which companies can convey signals about their internal assessments and prospects [10-18]. ESG scores serve as signals for predicting dividend payments, manifesting specifically in increased financial flexibility, improved resource utilization, and enhanced earnings quality, which greatly enhance a company's dividend-paying capability. Jung and Kim [19] utilized a sample of non-financial companies in the South Korean securities market and further confirmed the significantly positive impact of ESG activities on dividend yields, leveraging agency theory and lifecycle theory. This encourages companies not only to pay more dividends to shareholders but also to stabilize dividend policies, indicating that companies engaged in ESG activities have higher target dividends and may continuously adjust the differences between target dividends and actual dividends. Moreover, the findings further demonstrate that following the mandatory disclosure of ESG reports, shareholders' enhanced monitoring capabilities over corporate governance promote dividend payments by listed companies [20]. Verga Matos et al. [21] find that, based on a sample of European companies, firms with high ESG scores tend to achieve more stable dividend distributions, with this effect particularly pronounced in the environmental and

governance dimensions. A similar study using European listed companies as the research sample shows that high-quality ESG practices not only meet the needs of stakeholders and shareholders but also promote dividend payments, while simultaneously slowing dividend growth [22]. Whether in China or overseas, companies committed to ESG practices are more attractive, particularly to investors with a long-term perspective. Such companies are often better positioned to achieve stable long-term returns through dividend payments [23].

Based on previous research findings, we have observed that when companies actively engage in ESG practices and maintain high ESG scores, it often indicates that the management is committed to long-term sustainable development, reducing risks arising from agency problems. At the same time, it conveys positive signals to the outside world, such as financial stability and high management quality. Therefore, we believe that companies that are dedicated to ESG practices and have high scores are more likely to pay higher dividends. Based on the research findings, we propose the following hypothesis:

**Hypothesis 1:** The higher the ESG score of Chinese-listed companies, the higher the dividends paid.

Unlike privately or institutionally controlled non-state-owned enterprises (Non-SOEs), the objectives of Chinese state-owned enterprises (SOEs) go beyond achieving economic indicators to include ensuring social stability, maintaining employment, and contributing taxes to support local economic development. As a result, SOEs may incur certain losses. Even without disclosing external information such as ESG scores, SOEs can still obtain greater government funding and technical support, indicating that ESG scores do not play a decisive role in receiving government policies and financial aid [24-25]. At the same time, research suggests that Non-SOEs, being more constrained by financing channels and market mechanisms, are more driven by stakeholder demands and therefore more actively engage in social responsibility activities [26]. Khalid et al. [27] found that Non-SOEs outperform SOEs in environmental and governance performance, while Bradford et al. [28] pointed out that Non-SOEs tend to use higher dividend payments to signal capital conveyance and attract investors. Tao et al. [29] further discovered that the overseas work experience of independent directors has a significantly positive impact on the dividend payments of low-growth Non-SOEs. Moreover, research highlights that the ESG performance of Non-SOEs significantly improves operational performance and stock returns while reducing corporate fraudulence, demonstrating the vital role of ESG practices in optimizing corporate governance structures and promoting sustainable development [30-31]. In summary, Non-SOEs are more inclined to use dividend payments to convey positive market signals, enhance investor confidence, and attract capital support, especially when their ESG scores are higher. Based on this, we propose the following hypothesis:

**Hypothesis 2:** Non-state-owned enterprises (Non-SOEs) with higher ESG scores pay higher dividends than state-owned enterprises (SOEs).

In the study of dividend policies in Chinese listed companies, factors such as the nature of corporate equity, financial performance, and corporate structure play significant roles. Additionally, the influence of institutional investors is crucial. Companies often pay high dividends to attract external investors' attention. Overseas investors, in particular, tend to invest in companies with high dividend payouts, leading to a higher proportion of foreign equity in such companies. These foreign investors, operating independently and free from political institutional pressures, supervise other shareholders to some extent and restrict managerial overinvestment and inefficient resource

allocation. Consequently, foreign investors indirectly guide companies to payout higher dividends, supporting the agency-principal theory [32-35].

A decisive factor in institutional investors' influence on dividend payments is the threat of exit. Active institutional investors can directly participate in corporate governance and act as a check on management. Conversely, when companies encounter operational problems, some institutional investors may choose to sell stocks to recover losses, indirectly causing a decline in stock prices. To appease these institutional investors, companies increase dividend payments [36-40]. Therefore, research on mutual funds and BIS institutions is indispensable in studying Chinese dividend policies. Mutual funds, in particular, have a promoting effect on companies' high dividend payments. The longer the investment period and the larger the ownership stake, the more conducive it is to stimulate companies to pay higher dividends. Conversely, the impact of BIS institutions on dividend policies is not as significant [6].

In Chinese listed companies, higher ESG scores not only alleviate corporate financing issues but also promote institutional investors to increase their holdings, significantly reducing financial constraints. Institutional investors tend to favor companies with higher ESG scores, which often convey a positive signal to the market. Moreover, in non-state-owned enterprises, higher ESG scores in the secondary and tertiary industries can alleviate financial difficulties such as financing constraints [41].

In summary, the above research findings indicate that institutional investors play a moderating role in the relationship between ESG performance and dividend payments. Independent institutional investors tend to favor companies with higher ESG performance, thereby achieving higher dividend returns. Therefore, we formulate the following hypothesis:

**Hypothesis 3:** Companies with a higher proportion of holdings by mutual funds (MF), compared to BIS institutions, exhibit a significantly positive impact of ESG scores on dividend payments under the interaction of ESG scores and the proportion of holdings by mutual funds (ESG\*MF).

## 4. Data and Research Methodology

### 4.1. Sample Selection

Based on data from 2010 to 2019, a sample of Chinese A-share listed companies was selected. This period was chosen because Chinese A-share listed companies began disclosing ESG-related information after 2009. Companies in the financial industry were excluded from our sample due to differences in their financial reporting compared to other sectors. Additionally, "winsorization" was applied to continuous variables at the 1% significance level to mitigate bias from outliers or extreme values. The final dataset comprised 1207 firms with 10,115 observations.

ESG disclosure information was sourced from the Shanghai Huazheng ESG Rating Database, which covers all A-share listed companies and evaluates corporate ESG performance through a hierarchical indicator system. This system includes three primary indicators: environmental protection, social responsibility, and corporate governance; 14 secondary indicators such as carbon emissions and social activities; 26 more specific tertiary indicators; and over 130 underlying indicators, including carbon emissions volume, the number of board directors, and the frequency of social welfare activities. These indicators together form a comprehensive ESG evaluation system.

Financial data for the companies were obtained from the China Stock Market and Accounting Research Database (CSMAR), which specializes in the Chinese economy and finance.

#### 4.2. Variable Measurement

**Table 1.** Variable Definitions.

Variables	Symbol	Definition
Cash Dividend Payout Ratio	DIV	Dividends Per Share (DPS) / Earnings Per Share (EPS)
Dividend dummy	DIVDM	Dummy variable, which equals one if a firm pays a cash dividend and zero otherwise
ESG rating	ESG	ESG score
E rating	E	E score
S rating	S	S score
G rating	G	G score
mutual funds	MF	The proportion of shares held by mutual funds and qualified foreign institutional investors under the QFII scheme.
Bis	BIS	The proportion of shares held by other institutional investors including banks, insurance companies, and securities firms.
Firm size	Size	Ln(total asset)
Leverage	LEV	Total liabilities / Total Asset
free cash flow	CFO	Pretax profit + Depreciation and amortization – Increase in working capital – Capital expenditures
Return on asset	ROA	Net profit / Average asset
Shareholding	Top1	Percentage of shares held by the largest shareholder
Book to market ratio	PB	Total assets / Total market value
Listing Age	Age	Observation years (current cutoff date) – IPO year

In this study, we primarily analyze cash dividends, using dividend yield as the measure of dividend payments. Dividend yield is calculated as the ratio of cash dividends per share to income, and the dependent variable is whether cash dividends are paid. This measurement method is consistent with previous studies [42-46]. ESG data were obtained from the Shanghai Huazheng ESG Rating Database. The study utilized comprehensive ESG scores, as well as separate scores for environmental, social responsibility, and corporate governance aspects.

According to previous research, we selected several commonly used control variables that influence company dividend policies. Firstly, we consider firm size (Size), measured using the natural logarithm of total assets. Firm size is a significant factor in studies of dividend policies, with varying impacts [47-49]. Secondly, we examine free cash flow (CFO), calculated as operating cash flow minus capital expenditures, divided by total assets. Companies with higher free cash flow typically distribute more dividends, aiming to limit managerial overinvestment while safeguarding shareholder interests [50-51]. Additionally, we assess leverage (LEV), measured as total liabilities divided by total assets. Higher leverage is often associated with lower cash dividends, indicating a negative causal relationship between the two [52-53]. Companies with higher profitability are more likely to generate free cash flow and consequently pay higher dividends. Therefore, profitability

(ROA) also influences dividend policies. ROA is calculated as net income divided by total assets, and we predict a positive relationship between profitability and dividend payments [47, 52, 54]. Furthermore, companies with higher price-to-book ratios (PB) typically pay higher dividends. PB is calculated as total assets minus shareholder equity, divided by total market value [2]. Companies with a higher proportion of shares held by the largest shareholder (Top 1) tend to distribute fewer dividends, showing a more pronounced negative correlation between the proportion of the largest shareholder and dividend payments. The proportion of shares held by the largest shareholder is calculated as the number of shares held by the largest shareholder divided by the total outstanding shares [55]. Firm age (Age) is calculated as the number of years between the fiscal year and the first listing in the database. Companies with longer listing periods tend to pay fewer dividends because they accumulate sufficient retained earnings to effectively manage risks, leading to a gradual decrease in dividend payments [56-57].

Mutual funds are a significant factor influencing dividend payments. Among institutional investors, companies with a higher proportion of mutual funds tend to distribute more dividends, whereas the holdings of BIS institutional investors have a lesser impact on dividend payments. The variable for mutual funds (MF) is measured by the proportion of mutual funds qualifying under the Qualified Foreign Institutional Investor (QFII) program and other qualified foreign institutional investors. BIS represents other institutional investors, including banks, insurance companies, and securities firms. Please refer to Table 1 for specific variable names.

#### 4.3. Research Method

To investigate the impact of ESG performance on dividend payment policies, we refer to previous research methods and employ a fixed-effects regression model with industry and year fixed effects. This method is widely applicable to studying the impact of dividend payments among listed companies worldwide, effectively controlling for unobservable industry characteristics and other macroeconomic variations, thereby enhancing the robustness of the regression analysis [3, 21, 58-61].

$$DIV_{i,t} = \beta_0 + \beta_1 ESG \text{ score}_{i,t} + \beta_2 Controls_{i,t} + \text{Industry fixed effect} + \text{Year fixed effect} + \varepsilon_{i,t} \quad (1)$$

To test Hypothesis 3, which examines the influence of institutional investors on dividend payments within the context of ESG ratings, we first need to define mutual funds (MF) and BIS institutions, following the definition provided in previous research [27]. We categorize the holdings of ordinary funds, private equity funds, social security funds, QFII holdings, and other institutional holdings as mutual funds. In contrast, holdings by banks, insurance companies, trust companies, and securities firms are classified as BIS institutional holdings.

To evaluate the impact of mutual fund and BIS institutional holdings on ESG ratings, we initially identified MF dummy and BIS dummy as binary variables. Specifically, we calculate the average shareholding of mutual funds and BIS institutions for each company. Companies with average shareholding below the median of the overall sample are denoted as 0, while those with average shareholding above the median are denoted as 1.

We then generated interaction terms for  $ESG * MF$  (*ESG score \* MF dummy*) and  $ESG * BIS$  (*ESG score \* BIS dummy*), as well as interaction terms for variables such as  $E * MF$ ,  $E * BIS$ ,  $S * MF$ ,  $S * BIS$ ,

G\*MF, and G\*BIS. These variables are included in the regression equation to test the hypothesis that institutional investor shareholding impacts dividend payments within the context of ESG ratings.

In summary, to test hypothesis 3, we will formulate the following regression equation:

$$DIV_{i,t} = \beta_0 + \beta_1 ESG * MF_{i,t} + \beta_2 Controls_{i,t} + \text{Firm fixed effect} + \text{Year fixed effect} + \varepsilon_{i,t} \quad (2)$$

$$DIV_{i,t} = \beta_0 + \beta_1 ESG * BIS_{i,t} + \beta_2 Controls_{i,t} + \text{Firm fixed effect} + \text{Year fixed effect} + \varepsilon_{i,t} \quad (3)$$

## 5. Empirical Results

### 5.1. Descriptive Statistics

**Table 2.** Descriptive Statistics.

Variable	Obs.	Mean	Std.Dev.	Min	Max
DIV	10,115	26.48	32.54	0	199.6
DIVDM	10,115	0.714	0.452	0	1
ESG	10,115	72.56	5.155	56.60	82.92
E	10,115	59.55	7.450	45.13	79.80
S	10,115	72.89	10.14	41.94	100
G	10,115	79.08	6.949	53.66	91.22
MF	10,115	37.73	23.64	0.0478	84.64
BIS	10,115	0.465	1.266	0	7.551
Size	10,115	22.05	1.091	19.92	25.38
LEV	10,115	40.82	20.30	4.947	86.70
CFO	10,115	4.161	16.22	-58.78	38.10
ROA	10,115	3.773	5.966	-24.45	19.76
Top1	10,115	33.31	14.57	8.780	72.84
PB	10,115	353.6	274.5	69.14	1690
Age	10,115	9.669	6.550	1	25

Note: This table shows descriptive statistics for all the main variables for the 10115 firm-year observation between 2010-2019. Obs. is the number of samples. Mean is the mean of variables. Std.Dev. is the standard deviation. Min is the minimum value. Max is the maximum value.

Table 2 reports the descriptive statistical results of the variables. The average value of this DIV is 26.48, with a standard deviation of 32.54, indicating that the cash dividends of the sample company account for approximately 26.68% of the net profit. The descriptive statistical data of ESG shows a mean of 72.56 and a standard deviation of 5.155, indicating that the overall ESG score of the sample is relatively high. The score for corporate governance is higher compared to the other two projects, while the score for environmental governance is relatively lower. The average value of MF is 37.73, The average value of BIS is 0.465, indicating that mutual funds account for a considerable proportion of Chinese institutional investors, while BIS institutions such as banks, insurance companies, and securities companies have relatively low shareholding ratios.

Table 3 describes the Pearson correlation key variables. We observed a significant positive correlation between DIV and ESG score, with a correlation coefficient of 0.12. DIV is negatively correlated with MF and significantly negatively correlated with BIS. Similarly, DIVDM is significantly

positively correlated with ESG core, with a correlation coefficient of 0.25. DIVDM is positively correlated with MF (correlation coefficient=0.03) and negatively correlated with BIS (correlation coefficient=-0.03). In addition, DIV and DIVDM maintain consistent correlations with other control variables simultaneously. DIV and DIVDM are both related to LEV, PB is significantly negatively correlated with age, while CFO, Top1, and ROA show a significant positive correlation.

5.2. Pearson Correlations

Table 3. (Main Variables) Pearson Correlation Matrix.

	DIV	DIVDM	ESG	E	S	G
DIV	1					
DIVDM	0.51*	1				
ESG	0.12*	0.25*	1			
E	0.05*	0.09*	0.52*	1		
S	0.04*	0.13*	0.68*	0.25*	1	
G	0.12*	0.23*	0.65*	0.07*	0.01	1

  

	DIV	DIVDM	ESG	E	S	G
MF	-0.04*	0.03*	0	-0.03*	-0.05*	0.06*
BIS	-0.03*	-0.03*	-0.04*	0.03*	0	-0.07*
Size	-0.05*	0.11*	0.16*	0.2*	0.19*	-0.04*
LEV	-0.21*	-0.21*	-0.1*	0.08*	0.06*	-0.26*
CFO	0.1*	0.07*	0.03*	0.01	-0.03*	0.07*
ROA	0.18*	0.47*	0.22*	0	-0.05*	0.06*

  

	DIV	DIVDM	ESG	E	S	G
Top1	0.09*	0.11*	0.05*	-0.04*	-0.04*	0.11*
PB	-0.08*	-0.12*	-0.15*	-0.13*	-0.12*	-0.04*
Age	-0.17*	-0.2*	-0.08*	-0.03*	-0.03*	-0.11*

Note: \* represent significance at the 5% levels.

5.3. Regression Results

To test Hypothesis 1, the regression analysis results in Table 4, column (1), show that the coefficient for ESG is 0.228 and is statistically significant. This means that for 1 percentage point increase in the ESG score, the dividend payout ratio (DIV) increases by 0.228 percentage points. Therefore, we can conclude that higher ESG scores are perceived as conveying positive investment signals to investors, indirectly proving the company’s operational capability and reputation. Furthermore, it also validates that companies with higher ESG scores often have more robust management practices, thereby protecting shareholder interests and mitigating agency problems caused by overinvestment [1-2].

In the context of environmental governance analysis, companies with higher environmental governance scores demonstrate a more proactive dividend payout policy. This further validates that under the “dual carbon” policy in China, listed companies exhibit more significant environmental

governance performance, leading to stronger financial performance and earnings sufficient to distribute dividends to shareholders.

Additionally, there exists a positive and significant relationship between corporate governance and dividend payouts. This highlights the importance of a stable internal management structure in listed companies for safeguarding shareholder interests, restraining resource wastage and irrational investments, and ensuring normal business operations [62]. LEV and PB are significantly negatively correlated with Dividend, indicating that highly leveraged and high-growth firms tend to reduce dividend payments. Highly leveraged firms prioritize debt repayment, while high-growth firms typically reinvest profits, leading to lower dividend distributions. ROA is significantly positively correlated with Dividend, indicating that firms with strong profitability are more likely to increase dividend payments. These firms have more stable cash flows, enabling them to return more to shareholders while signaling financial health to the market.

**Table 4.** Baseline result.

	(1)	(2)	(3)	(4)
VARIABLES	DIV	DIV	DIV	DIV
ESG	0.228*** (2.71)			
E		0.135** (1.98)		
S			0.012 (0.27)	
G				0.150*** (2.58)
Size	0.700 (0.76)	0.865 (0.94)	0.934 (1.01)	0.844 (0.92)
LEV	-0.291*** (-8.28)	-0.300*** (-8.58)	-0.300*** (-8.57)	-0.286*** (-8.10)
CFO	0.018 (0.92)	0.018 (0.90)	0.018 (0.91)	0.018 (0.91)
ROA	0.202*** (2.94)	0.213*** (3.11)	0.209*** (3.04)	0.201*** (2.93)
Top1	0.215*** (4.12)	0.219*** (4.19)	0.219*** (4.20)	0.213*** (4.08)
PB	-0.008*** (-4.56)	-0.009*** (-4.59)	-0.009*** (-4.64)	-0.009*** (-4.61)
Age	-0.686 (-0.25)	-0.841 (-0.30)	-0.661 (-0.24)	-0.561 (-0.20)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Constant	-0.846 (-0.03)	5.144 (0.17)	10.271 (0.35)	-0.150 (-0.01)

(Continued **Table 4**)

Observations	10,115	10,115	10,115	10,115
R <sup>2</sup>	0.040	0.040	0.040	0.040
Number of Firms	1,207	1,207	1,207	1,207

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% level respectively.

To test Hypothesis 2, we observed a significant positive correlation between the ESG score and dividend payments in Non-SOE firms through Table 5. Specifically, an increase of one unit in the ESG score is associated with an average increase of 0.247 percentage points in the dividend payout ratio (DIV). This result suggests that higher ESG scores may encourage greater dividend payments among Non-SOE firms. This indicates that, compared to SOEs, Non-SOE firms place greater emphasis on ESG factors. These factors contribute to long-term value and sustainability, leading to stable returns and cash flow.

Additionally, non-SOE firms tend to pay higher dividends to attract investor attention. Furthermore, in non-SOE firms, there is a significant positive correlation between the Environmental Protection Score and dividend payments. This shows that non-SOE firms prioritize resource efficiency and environmentally friendly business models, which in turn ensures higher profitability and dividends for shareholders. In contrast, SOE benefit from policy support and assistance from financial institutions, giving them significant advantages in corporate financing and market operations. Therefore, the impact of ESG scores is not decisive for SOEs. This result is consistent with previous research findings [24-26].

**Table 5.** Regression Results for SOE and Non-SOE Firms.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	SOE	SOE	SOE	SOE	Non_SOE	Non_SOE	Non_SOE	Non_SOE
ESG	0.111 (0.79)				0.247** (2.32)			
E		0.035 (0.33)				0.194** (2.18)		
S			-0.080 (-1.14)	-			0.044 (0.76)	
G				0.226** (2.20)				0.105 (1.45)
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Industry FF	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Constant	15.117 (-0.30)	12.378 (-0.25)	12.880 (-0.26)	-27.284 (-0.54)	18.795 (0.48)	22.525 (0.58)	30.930 (0.80)	25.733 (0.66)
Observations	3,061	3,061	3,061	3,061	7,054	7,054	7,054	7,054
R <sup>2</sup>	0.040	0.040	0.041	0.042	0.050	0.050	0.049	0.049
Number of Firms	395	395	395	395	896	896	896	896

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

**Table 6.** The role of institutional investors for ESG on Dividend payout.

	(1)	(2)	(3)	(4)
VARIABLES	DIV	DIV	DIV	DIV
ESG*MF	0.372*** (2.78)			
ESG*BIS	-0.072 (-0.57)			
E*MF		0.094 (0.90)		
E*BIS		0.057 (0.56)		
S*MF			0.117* (1.73)	
S*BIS			-0.129* (-1.90)	
G*MF				0.205** (2.39)
G*BIS				0.052 (0.65)
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	3.520 (0.12)	8.536 (0.29)	10.616 (0.36)	-0.249 (-0.01)
Observations	10,115	10,115	10,115	10,115
R <sup>2</sup>	0.040	0.040	0.040	0.041
Number of Firms	1,207	1,207	1,207	1,207

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

To test hypothesis 3, we conducted regression analysis based on equations (2) and (3). By observing column (1) in Table 6, we found a significant positive correlation between ESG\*MF and DIV. This indicates that when the proportion of MF is higher and the ESG score is higher, the dividend payout ratio is higher under the interaction of ESG\*MF. In contrast, we did not observe a similar effect in Bank for BIS institutions. Therefore, mutual funds may be more inclined to invest in companies with good ESG performance. If a company performs well in ESG, it may be favored by mutual funds, which may lead to an increase in stock price and market value. Higher stock price and market value typically increase a company’s financial flexibility and shareholder value, enabling it to pay higher dividends. Additionally, more independent investors are among mutual fund holders, who are more concerned about the economic impact of environmental protection, social responsibility, and corporate governance. These benefits are related to higher returns for companies, thereby motivating them to pay higher dividends. On the other hand, BIS institutional investors tend to focus more on company market prospects and financial stability rather than aspects such as dividend distribution. G\*MF and S\*MF are both significantly positively correlated with the dividend

payout ratio (DIV), indicating that strong corporate governance and social responsibility performance attract mutual fund investments and lead to higher dividend payments. Companies with well-established governance structures and high information transparency are perceived as more financially stable and trustworthy, alleviating investor concerns about management and financial stability, thereby increasing distributable profits. Additionally, firms with high social responsibility enhance brand value, reduce operational risks, and boost investor confidence, further promoting dividend payments. Mutual fund investors are more inclined to invest in such companies and encourage them to maintain stable dividend policies. Therefore, a sound corporate governance framework and strong social responsibility not only enhance corporate reputation and market appeal but also improve shareholder returns, fostering a virtuous cycle between sustainable development and financial performance. These results are consistent with previous studies, such as those conducted by Firth et al. [6, 52-53].

Table 7. Logit regression results.

	(1)	(2)	(3)	(4)
VARIABLES	DIVDM	DIVDM	DIVDM	DIVDM
ESG	0.060*** (9.82)			
E		0.021*** (4.77)		
S			0.015*** (4.62)	
G				0.042*** (9.23)
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	-14.329*** (-13.46)	-12.377*** (-12.16)	-12.130*** (-11.94)	-14.448*** (-13.45)
Observations	10,086	10,086	10,086	10,086

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

#### 5.4. Logistic Regression

Table 7 reflects the results of the logistic regression result, showing that the overall ESG score and its individual dimensions are significantly positively correlated with the likelihood of a company paying dividends. This indicates that if a company achieves good results in environmental protection, social responsibility, and corporate governance, it not only enhances the company’s reputation and brand value but also increases investor trust and attractiveness. This reputation effect strengthens the company’s market competitiveness and profitability, resulting in stable cash flows that enable the company to consistently pay dividends.

#### 5.5. Alternative DIV Measure

In Table 8 (Panel A), the coefficients for the ESG score and the G score remain significantly

positively correlated at the 1% level. These results are consistent with the basic regression analysis results in Table 3, further validating our hypothesis. Active participation in ESG activities can enhance a company's image, create brand value, improve the corporate environment, and ensure the maximization of shareholder equity.

**Table 8.** (Panel A) Robustness check using alternative measures of div.

	(1)	(2)	(3)	(4)
Variable	div	div	div	div
ESG	0.014*** (2.93)			
E		0.001		
(Continued Table 8)				
S		(0.17)	0.002 (0.66)	
G				0.011*** (3.53)
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	-3.543** (-2.19)	-2.889* (-1.79)	-2.907* (-1.81)	-3.670** (-2.27)
Observations	10,115	10,115	10,115	10,115
R <sup>2</sup>	0.130	0.129	0.129	0.130
Number of Firms	1,207	1,207	1,207	1,207

Note: Use another dependent variable (div), cash dividends divided by total assets, to measure the cash dividend payout ratio. Standard errors are in parentheses. \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

According to the results in Table 9 (Panel B), ESG\*MF is significantly positively correlated with the alternative dividend payout ratio (div) and is significant at the 1% level, consistent with the findings of the basic regression analysis. Additionally, G\*MF also shows a significant positive correlation with div, further indicating that in companies with a higher proportion of mutual fund holdings, strong ESG performance and sound corporate governance significantly increase the likelihood of dividend payments. This suggests that mutual fund investments not only enhance corporate attention to ESG matters but also improve governance transparency, reduce agency problems, and strengthen market trust, thereby encouraging companies to adopt more stable dividend policies.

#### 5.6. IV Regression Results

We employ the average ESG score of firms in the same province and industry (ESG\_IV) as an instrumental variable, which meets two key conditions: first, it is significantly correlated with ESG performance; second, it does not directly influence the dividend payout rate [63]. As shown in Table

10, the first-stage regression results indicate that the coefficient of ESG\_IV is significantly positive at the 1% level, confirming the validity of the instrumental variable. In the second-stage regression, after replacing the endogenous variable with its predicted values, ESG remains significantly positively correlated with both DIV and the dividend payout ratio at the 1% level. These findings further reinforce that even after addressing endogeneity concerns through instrumental variables, ESG scores continue to play a prominent role in promoting dividend payouts.

**Table 9.** (Panel B) Robustness check using alternative measures of div.

	(1)	(2)	(3)	(4)
VARIABLES	div	div	div	div
ESG*MF	0.022*** (2.99)			
ESG*BIS	-0.001 (-0.10)			
E*MF		0.005 (0.91)		
(Continued Table 9)				
E*BIS		-0.004 (-0.67)		
S*MF			0.002 (0.64)	
S*BIS			-0.003 (-0.70)	
G*MF				0.017*** (3.67)
G*BIS				0.005 (1.13)
Controls	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	-3.370** (-2.09)	-2.849* (-1.77)	-2.863* (-1.78)	-3.799** (-2.35)
Observations	10,115	10,115	10,115	10,115
R <sup>2</sup>	0.130	0.129	0.129	0.131
Number of Firms	1,207	1,207	1,207	1,207

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

### 5.7. PSM effect of regression result

We adopt propensity score matching (PSM) to address potential sample selection bias and endogeneity issues. First, we use the median ESG score of other firms in the same industry and year as the threshold to construct a binary variable (ESG\_D). Samples with ESG scores above the median are assigned a value of 1, while the remaining samples are assigned 0. Subsequently, we select all control variables as matching variables and calculate the propensity scores using a logit model. We

employ the nearest neighbor matching method with a caliper value of 0.05, based on 1:1 propensity score matching. The results in Table 11 show that the matched sample maintains a significant positive correlation between ESG score, ESG\*MF, and dividend payout ratio, confirming the effectiveness of our conclusions after PSM.

**Table 10.** 2sls regression results.

	First Stage	Second Stage
VARIABLES	DIV	DIV
ESG_IV	0.860*** (46.17)	
ESG		0.665*** (2.90)
Size	1.023*** (17.14)	0.151 (0.26)
LEV	-0.031*** (-10.11)	-0.210*** (-8.72)
(Continued <b>Table 10</b> )		
CF0	-0.001 (-0.50)	0.101*** (5.76)
ROA	0.092*** (10.89)	0.446*** (7.34)
Top1	0.001 (0.28)	0.169*** (4.86)
PB	-0.001*** (-3.64)	-0.010*** (-6.48)
Age	-0.040*** (-4.87)	-0.534*** (-4.29)
Industry FE	YES	YES
Year FE	YES	YES
Constant	-11.147*** (-6.19)	-28.149* (-1.75)
Observations	10,115	10,115
R <sup>2</sup>	0.342	0.111

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

## 6. Conclusion and Discussion

This study explores the impact of ESG scores on dividend payments and the moderating role of institutional investors in this relationship, using data from non-financial listed companies in China's A-share market. The analysis is conducted through robust regression analysis and PSM methods. The results indicate a significant positive relationship between ESG scores and dividend payments, suggesting that companies with higher ESG performance are more likely to pay higher dividends. Further analysis reveals that this relationship is more pronounced in firms with a higher proportion

of mutual fund holdings, whereas it is less significant in firms with a higher proportion of BIS institutional holdings.

**Table 11.** PSM effect of Regression result.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	DIV	DIV	DIV	DIV	DIV	DIV	DIV	DIV
ESG	0.310** (2.45)							
E		0.201* (1.95)						
S			0.036 (0.53)					
G				0.192** (2.16)				
(Continued Table 11)								
ESG*MF					0.567*** (2.79)			
ESG*BIS					-0.272 (-1.41)			
E*MF						0.222 (1.41)		
E*BIS						-0.072 (-0.47)		
S*MF							0.244** (2.42)	
S*BIS							-0.271*** (-2.65)	
G*MF								0.193 (1.44)
G*BIS								0.061 (0.50)
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Constant	3.338 (0.08)	15.043 (0.35)	21.581 (0.50)	6.780 (0.15)	15.276 (0.35)	23.740 (0.55)	25.857 (0.60)	10.559 (0.24)
Observations	5,024	5,024	5,024	5,024	5,024	5,024	5,024	5,024
R <sup>2</sup>	0.048	0.047	0.046	0.047	0.048	0.047	0.048	0.047
Number of Firms	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174

Note: We construct an indicator variable High ESG that equals one if ESG Score is higher than the industry-year mean and zero otherwise. Firm year observations with High ESG = 1 are treated sample and those with High ESG = 0 are the control sample. \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively.

This finding suggests that mutual funds, as key institutional investors, play a positive moderating role between ESG and dividend payments, as companies with higher mutual fund ownership are generally perceived as more stable and credible, attracting ESG-friendly investors. Moreover, in terms of ownership structure, the positive impact of ESG scores on dividend payments is more significant in Non-SOEs, which may be due to Non-SOEs' greater reliance on external investors. First, this study fills the research gap between ESG activities and dividend policies, providing empirical support for the improvement of ESG systems. Second, it reveals the moderating role of institutional investors, particularly how mutual funds influence corporate dividend payment decisions through ESG. Third, it provides policy and practical implications, emphasizing the positive impact of ESG performance on corporate governance, investor confidence, and long-term financial stability. However, this study has certain limitations. For instance, it does not fully explore the specific mechanisms through which ESG affects dividend payments. Additionally, the ESG data source is limited, and future research could incorporate multiple data sources or conduct cross-country comparative studies to enhance the robustness and generalizability of the findings.

The findings of this study are largely consistent with existing literature while also offering new insights. Regarding the relationship between ESG performance and dividend payments, the results align with Ammar et al. [22], who found that companies with higher ESG scores in European markets tend to pay higher dividends. However, unlike Maquieira et al. [4], who found a negative moderating effect of institutional investors on the ESG-dividend relationship in the UAE market, our study finds that institutional investors in China, particularly mutual funds, play a positive moderating role between ESG and dividend payments. This could be attributed to the unique characteristics of China's capital market, where mutual funds prefer ESG-friendly companies and encourage stable dividend payments.

In terms of ownership structure, our findings support the conclusions of Xu et al. [62], which suggest that SOEs, benefiting from policy support and easier access to financing, are less reliant on ESG scores. In contrast, Non-SOEs rely more on ESG performance to enhance market competitiveness and investor confidence. In Non-SOEs, ESG scores not only serve as a signaling mechanism to attract investors but may also be closely linked to long-term strategic decision-making by management, thereby influencing dividend payments. Additionally, the results of this study have important policy and practical implications. For policymakers, the findings suggest that regulatory authorities can enhance capital market recognition of ESG by encouraging ESG disclosure, improving ESG rating systems, and promoting ESG-friendly investment policies, ultimately fostering the long-term sustainable development of firms. For corporate managers, particularly those in Non-SOEs, this study highlights the role of ESG performance in improving corporate governance and investor confidence. Firms can strengthen ESG management to optimize their capital market performance and attract more institutional investors. For investors, especially mutual fund managers, our results indicate that companies with high ESG performance are more likely to pay stable dividends, suggesting that ESG-friendly investment strategies may positively contribute to optimizing investment returns and reducing risks. Future research could further explore how ESG influences corporate dividend decisions through factors such as profitability, capital structure, and market competitiveness. Additionally, cross-country comparative studies could analyze how ESG performance affects dividend policies under different market conditions. Furthermore, future studies may consider audit quality, earnings management, and economic uncertainty to further expand the

understanding of how ESG impacts corporate financial decisions.

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