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## The Role of Profitability in Mediating the Effect of ESG on Dividend Policy in ASEAN-5

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**Abstract:** This study explores the effect of Environmental, Social, and Governance (ESG) practice on the dividend policy across the ASEAN-5 region companies, with return on assets (ROA) as a mediating variable. Based on stakeholder theory and legitimacy theory, this study aims to evaluate the impact of ESG on dividend policy, as well as the mediating role of ROA. This research sample consists of 596 data points from 149 companies across the ASEAN-5 region during 2020-2024. The data was collected using a purposive sampling method and analyzed using the PLS method. The research finds that the environmental pillar shows a positive effect on the dividend policy when profitability is included, and a negative effect when profitability is excluded as a mediator. The governance pillar positively impacts dividend policy both directly and when profitability is considered. Individual ROA doesn't significantly reduce the effect of dividend policy. However, in the relationship between ESG factors and dividend policy, profitability plays a mediating role.

**Keywords:** ASEAN-5 Region, Dividend Policy, ESG, Return on Asset, Stakeholder Theory, Legitimacy Theory.

### 1. Introduction

The expanding need for energy, food, and commodities and services necessitates large-scale manufacturing by numerous enterprises to fulfil market demands (Rozi *et al.*, 2023). Today's air pollution is a long-term killer weapon that can degrade public health over time (Andersen *et al.*, 2021). Sustainability, or sustainable activities, and zero carbon emissions have been integrated into one of the key projects established by many governments, known as Environmental, Social, and Governance (ESG). The ESG described as a company's agreement in activities such as sustaining environmental maintenance, employee welfare, community service, and corporate governance (Adeneye *et al.*, 2023). The capital market is presently focused on the notion of ESG, which was a fundamental change in how market players and investors see sustainability and corporate responsibility. Greater awareness of environmental challenges, human rights, and the significance of good governance in creating long-term value has prompted capital markets to assess company's financial performance and its environmental, social, and governance consequences (Qu & Zhang, 2023; Khan *et al.*, 2024).

A sustainability report can attract investors who are becoming more concerned about sustainability, as well as boost consumer and business partner confidence (Buertey *et al.*, 2025). Companies that successfully apply ESG can obtain a competitive edge in the global market by better managing risks, reducing the chance of conflict, and developing stronger connections with regulators and communities (Garrido-Ruso *et al.*, 2024; Park *et al.*, 2024). Since 2007, ASEAN members have typically agreed on a statement on environmental sustainability. This was expressed in the ASEAN Declaration on Environmental Sustainability on November 20, 2007. The ESG practices reported in the annual reports of ASEAN corporations serve as an example of chosen sustainability practices. The increase in ESG adoption among firms corresponds to stronger and more sustainable economic development in ASEAN (Ahmad *et al.*, 2025).

According to the ASEAN Investment Report 2022 Business Sentiment Survey, 63% of all respondents believe ASEAN would provide the finest economic possibilities in the next five years. ASEAN now receives the second most foreign direct investment behind China, making it one of the driving forces behind the global economic resurgence.



The International Monetary Fund (IMF) predicts that ASEAN's economic growth would be between 5.6% and 6%, above the anticipated world GDP growth rate. The Asian Development Bank (ADB) predicts that Southeast Asian countries' economies would be among the fastest expanding in the world. This research is goal to understand the magnitude of the ESG impact on the distribution emissions in ASEAN- 5 during COVID-19.

Dividend policy behavior in companies in ASEAN countries reflects a transition towards more stable and sustainable payments, despite sectoral fluctuations in some countries (Ismillah & Faisal, 2023; Chokchaisiri, 2023). This situation is partly due to a sectoral slowdown, such as a slight decline in the number of issuers distributing dividends in markets like Indonesia. The ASEAN market is considered competitive due to its resilient cash flow and less reliance on volatile AI technology narratives. Investors are therefore likely to seek out issuers with high dividend payouts in this region. Stable net income and free cash flow tend to maintain dividend payments to maintain investor confidence (Malau *et al.*, 2024). Strong governance standards and institutional ownership have been shown to encourage companies to distribute dividends more regularly to mitigate agency conflicts.

This study focuses on dividend policy in relation to ESG in ASEAN-5 companies with relatively similar dividend policies. The objective is to analyze how ESG influences dividend policy in these ASEAN-5 companies, both directly and through mediation by return on assets. The importance of this study lies in addressing a gap, since most of previous studies emphasizes only on the direct ESG influence to dividend policy.

## 2. Literature Review

ESG represent a comprehensive framework for examining how company effect on the environment, society interaction, and the governance quality, which is increasingly important for investors to gauge long-term sustainability and risk, including issues of climate change, human rights, working conditions, transparency, and corporate leadership. This is a guide for companies in conducting business based on several key criteria. The ESG assessment reflects a transparent evaluation of a company's performance and capacity, which is then integrated and considered for materiality (Refinitiv, 2022).

The rising popularity of ESG has raising the concerns over corporate disclosure practices, particularly in reliable and transparent activities report (Vaihekoski *et al.*, 2023). Dividend policy, historically central of stakeholder trust, become crucial in addressing this challenges. Le *et al.* (2019) shows that higher investor protection associated with higher dividend payouts. Research from Phan & Trand (2019) shows that dividend yields mitigate share price volatility in Vietnam's emerging markets. Meanwhile, research from Junior *et al.* (2024) reveal that dividend payments in developing countries emphasize reducing investors' aversion to risk, this is different from dividend payments in developed countries where payments are determined by agency conflicts. This study adopts three theoretical perspective: legitimacy theory by John Dowling and Jeffrey Pfeffer in 1975 (Suchman, 1995), stakeholder theory by R. Edward Freeman in 1984s (Parmar *et al.*, 2010), and agency theory by Michael C. Jensen and William H. Meckling in 1976 (Chintrakarn *et al.*, (2025).

This study fist applied the stakeholder theory, where represent a key stakeholder group and ESG performance across environmental, social, and governance that respect shareholder and stakeholder rights and expectational. Benlemlih (2019) suggests that strong ESG scores with high dividend payouts show corporate commitment to stakeholders and provide clear signals to financial markets. The corporations may strategically limiting the short-term dividends to reinvest earnings and improve ESG performance (Zahid *et al.*, 2023).

In summary, these essential notions may explain how they affect dividend policy in industrialized countries. To improve knowledge of how non-financial disclosures and ESG practices influence-funding decisions, these notions must not compete but rather complement one another. According to Zahid *et al.* (2023), ESG disclosure reduce information asymmetry (agency theory) and demonstrate company commitment to social and environmental concerns, thereby strengthening stakeholders' trust in the company's actions (signaling theory and stakeholder theory).

Second, we use legitimacy theory. Legitimacy theory focusses on the interaction between business and society. This idea proposes that corporations prioritize their usefulness in order to maintain their integrity by matching their actions with social norms and expectations. Companies publish sustainability reports to meet and exceed society's expectations, with the goal of boosting profits (Treepongkaruna & Suttipun, 2024). Societal legitimacy is



crucial to the future growth of businesses, since they rely on social and political approval to exist, regardless of financial success (Lanis & Richardson, 2013). Maintaining healthy links with the environment and society is essential for a company's sustainability.

Third, we use agency theory, which posits that managers are expected to mitigate agency conflict by distributing higher portion of earning to the shareholders through higher dividends (Chintrakarn *et al.*, 2025). Therefore, dividend policy in agency theory regarded as a tool to reduce conflicts of interest between shareholders (principals) and managers (agents), especially regarding free cash flow (Putri & Kusmayadi, 2025). Dividends function as a monitoring mechanism, limiting managers from using company cash for personal interests, and reducing information asymmetry.

Return on assets (ROA) is a financial ratio that measures a company's ability to generate profit from its total assets. This ratio also indicates the financial efficiency of capital utilization for profit. Therefore, ROA plays a crucial role in a company's sustainability. Corporate profits are not solely determined by financial factors, but also by non-financial factors. Environmental, social, and governance factors are also crucial in increasing corporate profits. Several studies on the relationship between ESG and profitability, including those conducted by Velte (2017), who studied German companies, found that ESG positively impacts firm value (Tobin's Q) and profitability (ROA). Meanwhile, Xie *et al.* (2019) examined specific ESG initiatives effecting the financial results of company across the world. They found that the majority of ESG initiatives demonstrated a beneficial relationship with financial performance.

Research examined about how ESG pillars influencing the dividend payout ratio (DPR) through return on assets (ROA) as a mediating variable, are limited. This study aims to fill this gap, while contribute to the financial literature by highlighting the role of ROA as a mediator in influencing the DPR. In general, strong ESG performance improve financial performance supporting firms to pay higher dividend as a signal of stakeholder commitment. A study of the relationship between ESG performance and dividend payouts conducted by Kumar and Ghalke (2025) in G20 countries found a positive correlation between ESG performance and dividend payouts. Saidi *et al.* (2025) examined the impact of ESG performance on dividend policy and found that ESG had a positive effect on dividend policy. In their explanation, Kumar & Ghalke (2025) stated that this positive impact was significantly more pronounced in countries with common law systems, where investor protection is strong.

Higher ESG score (particularly governance) lead to better financial performance due to improved stakeholder engagement, transparency, and risk reduction, which indicating the relationship between ESG and ROA. Meanwhile, the relationship between ROA and DPR indicates that high profitability allows companies to pay larger dividends due to their financial capacity. Thus, the influence of ESG on DPR through ROA as a mediator generally indicates, that strong ESG performance leads to better financial performance, which supports higher dividend payments, signaling commitment to stakeholders (Rudianto *et al.*, 2024).

The social contract refers to the link that exists between corporations, the environment, and society. This social compact is dynamic, requiring corporations to continuously modify appropriate rules and reporting (Deegan & Rankin, 1996). Companies feel that ESG reporting will maintain stakeholder and community loyalty. ESG reporting and a focus on addressing social and environmental issues may boost stakeholder demand, expectations, and reputation. This will improve social recognition and streamline the company's supply chain. Societal legitimacy plays crucial role in determining a company's long-term success, that can be leveraged as a strategic tool to guide the company's growth and position in evolving social environment (Treepongkaruna & Suttipun, 2024).

Stakeholders expect that corporations to integrating environmental care, employee welfare, community services, and strong governance in adopting sustainable strategies. This guides the laws and policies development that promote enduring growth, stability, and value of creation for both company and society. The ESG reports is important to maintaining social approval for the company as explained in Legitimacy theory. ESG reporting serves to elevate societal expectations and build trust in the organization. Treepongkaruna & Suttipun (2024), Desai (2024) and Al-Hiyari 2024, shows the company's dedication to environmental protection. Distributing dividends is another way to maintain the firm's sustainability for stakeholders concerned with environmental matters. This shift towards environmental sustainability offers benefits, such as reducing environmental transaction costs (Adeneye *et al.*, 2023). Research by Ismillah and Faisal (2023) conducted on the ASEAN-5 Countries Stock Exchange from 2017 to 2021 shows that ESG has a positive influence on dividend policy.



Accordingly, we hypothesis:

*H<sub>1</sub>: Environmental pillar has a positive significant influence on Dividend Payout Ratio*

Moral values are assessed, evaluated, and defined by stakeholders and neighboring communities, resulting in social capital. Corporate social responsibility (CSR) and ESG programmes are examples of corporate social responsibility programs that safeguard social capital. According to (E-Vahdati *et al.*, 2022), firms that engage in more CSR activities pay greater dividends in response to the issues generated by excessive investment in CSR practices. Strong social pillar practices enhance an organization's image of commitment, leading to a more socially responsible corporation. This, in turn, boosts the company's financial performance and dividend payout ratio (Bilyay-Erdogan *et al.*, 2023). Recently, the oversight of corporate CSR activities has become a major concern. Over the past two decades, companies have grown more aware of their environmental and employee responsibilities. There is now a rising expectation for businesses to engage in socially responsible operations (Hamidah & Puspawati, 2023).

Based on these explanation, the following research hypothesis was formulated:

*H<sub>2</sub>: Social pillar has a positive significant influence on Dividend Payout Ratio*

Research by Cheung *et al.* (2018) and E-Vahdati *et al.* (2022) found a favorable association between ESG and dividends. A consistent dividend policy is related with sustainable behaviours. Cheung *et al.* (2018) discovered that firms with high ESG ratings frequently have high dividend yields, which helps improve income by lowering the perceived risks associated with their operations. Companies frequently use strong risk management measures to meet investor expectations excellent risk management is undoubtedly linked to excellent corporate governance. Consequently, certain governance and environmental practice do not always diminish dividend payouts. However, this is not generally true for every corporation. The Governance Pillar scores the highest among the other ESG variables.

Based on this explanation, the following research hypothesis was formulated:

*H<sub>3</sub>: Governance pillar has a positive significant influence on Dividend Payout Ratio*

Strengthening the environmental pillar associated with decisions related to dividend distribution. Companies with a robust environmental focus tend to be more profitable and have better prospects, resulting in higher dividend payouts (Aydoğmuş *et al.*, 2022). Salvi *et al.*, (2024) also found that companies emphasizing social and environmental efforts offer greater dividends to shareholders indicating a concept rooted in legitimacy theory. This made corporations that prioritize social and environmental issues are particularly noteworthy. Enhanced legitimacy led to improve company's reputation, draw in more customers, reducing regulatory risks, and foster stronger connections with stakeholders, including investors. Corporations can invest in environmental sustainability by reducing emissions, improving energy and waste management efficiency. This led to reducing the operational cost, while improving company legitimacy. However, this improvement is often costly and may take long time to recoup expense and recover the profit.

Based on this explanation, the following research hypothesis was formulated:

*H<sub>4</sub>: Environment has a positive influence on Dividend Payout Ratio with ROA as a mediating.*

The use of CSR raises social responsibility, enhances the company's reputation, and supports boost corporate value (Jiraporn *et al.*, 2011). The analysis demonstrates that corporations with high liquidity and low debt, particularly in chaebol conglomerates outperformed non-CSR firm in term of profitability. Supporting this, Zahid *et al.* (2023) found that enhancing social responsibility improve corporate value and fosters voluntary engagement in CSR initiatives. CSR may be improved while also serving the interests of shareholders and other stakeholders. Strong stakeholder connection reduces transaction costs, enhance competitive advantage, reducing financial shocks, and stabilizing company cash flow. Finally, social capital can provide advantages. Liou *et al.* (2023) argue that CSR can enhance profitability by strengthening stakeholder relationships, optimizing asset allocation, implementing effective labor policies, and improving operational management. In addition to boosting earnings, the non-financial



advantages of CSR activities foster an environment where both investors and other stakeholders benefit from a more favorable dividend policy.

Based on these explanation, the following research hypothesis was formulated:

*H<sub>5</sub>: Social has a positive influence on Dividend Payout Ratio with ROA as a mediating*

Non-financial disclosures, particularly ESG reporting, reducing information asymmetry and improve company transparency. Enhancing the company transparency, such as disclosure improve access to financing, lower capital costs, and enable investors to evaluating the firm's potential liability by offering insights across diverse of the company activities, including ESG practices (Zahid *et al.*, 2023). Revenue demonstrates how the sharing of non-financial disclosures affects the stakeholders engagement. Consumers value a company's social and environmental responsibilities influence share sales, improve financial performance, and support higher dividend payments. In this case, earnings play an important role in shaping dividend policy (Rastogi *et al.*, 2023; Samy El-Deeb *et al.*, 2023).

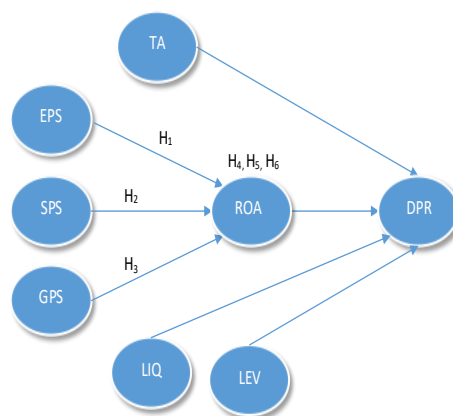
Non-financial information disclosure may boost sales by strengthening brand image, boosting stakeholder relationships, increasing staff productivity, and making better use of assets. These benefits boost the company's interaction with all stakeholders and provide investors with attractive dividend payout policies. Zahid *et al.* (2023) argue that social behaviour can insulate business conduct from market instability. Companies may pay cash dividends because their profits are stable. Substantial business activity combined with high level of disclosure improving operational efficiency and shaping corporate dividend policy by influencing availability and stability of earnings distribution (Liou *et al.*, 2023).

Based on these explanation, the following research hypothesis was formulated:

*H<sub>6</sub>: Governance has a positive influence on Dividend Payout Ratio with ROA as a mediating*

A mediating variable serve to clarify the indirect relationship between the independent variable and the dependent variable. In this context Return on Assets (ROA) is a psychological indicator of a firm's performance, that reflecting an ability to generate profits with it capital. Improving ESG performance fosters stability and improve investor confidence. Company with higher ESG score indicate better risk management and better long-term profit stability.

Increased environmental activities (E) reduce the risk of environmental and operational fines, leading to more stable net income. Increased social activities (S), which focus on employees and the community, enhance reputation and sustainability, contributing to stability and attracting long-term investors. Meanwhile, good governance (G), such as transparency and honesty, also tends to impact profit stability, thus increasing investor confidence. Therefore, profitability can be seen as a crucial bridge to encourage management to distribute higher dividends to investors. Based on stakeholder, legitimacy, agency, profitability theory, and previous research, this study examines the relationship between ESG and dividend policy, with the profitability as a mediating variable. This study proposes an empirical model, as shown in Figure 1.



**Figure 1.** Empirical research model

### 3. Research Methodology

This research was conducted in Indonesia, Singapore, Thailand, Malaysia, and Philippines, known as ASEAN-5 countries. These five countries were selected because they have comparable ESG characteristics and reporting frameworks, dividend policies, and business environments. The selected sample comprised all companies located and operating in the ASEAN-5. These companies had complete ESG indexes and reporting from 2020 to 2024. In this study, we use SEM-PLS (structural equation modeling through partial least squares) with the regression equation model:

$$ROA = \beta_{10} + \beta_{11}EPS + \beta_{12}SPS + \beta_{13}GPS + \epsilon_1 \tag{1}$$

$$DPR = \beta_{20} + \beta_{21}EPS + \beta_{22}SPS + \beta_{23}GPS + \beta_{24}TA + \beta_{25}LEV + \beta_{26}LIQ + \beta_{27}ROA + \epsilon_2 \tag{2}$$

Where:

DPR = Dividend Payout Ratio

EPS = Environment Pillar Score

SPS = Social Pillar Score

GPS = Governance Pillar Score

TA = Total Assets

LEV = Leverage

LIQ = Current Ratio

ROA = Return on Assets

$\beta_{10}; B_{20}$  = Regression intercept (constant)

$\beta_{11}... \beta_{13}; \beta_{21}... \beta_{23}$  = coefficients of independent variables

$\beta_{24}... \beta_{26}$  = coefficients of control variables

$\beta_{27}$  = coefficients of moderating variable

$\epsilon_1; \epsilon_2$  = Error

**Table 1.** Variables’ Definitions and Measurements

Variables	Abbreviations	Measurement
Dependent Variable		
Dividend Payout Ratio (DPR)	Corporate dividend payments are related to firm size as a consistent measure that is not biased by financial reporting manipulation or stock market shocks and strategies	Proxy: D P/O Data was collected on Bloomberg (Cheung <i>et al.</i> , 2018; E-Vahdati <i>et al.</i> , 2022)
Independent Variable		
ESG	The overall environmental, social, and governance score.	Friede <i>et al.</i> , 2015.
Environmental Pillar Score (GPS)	Environmental Pillar Score measures an impact of company on living and non-living natural being	Proxy: Environmental Disclosure Data was collected on Bloomberg (Hassel <i>et al.</i> , 2005; E-Vahdati <i>et al.</i> , 2022)
Social Pillar Score (SPS)	Social Pillar Score measures capacity of the company to generate trust and loyalty with its workforce, customers, and communities, through the use of best management practices.	Proxy: Social Disclosure Data was collected on Bloomberg (Lins <i>et al.</i> , 2017; E-Vahdati <i>et al.</i> , 2022; Zahid <i>et al.</i> , 2023).



Governance Pillar Score (GPS)	Governance Pillar Score measures system and processes of a company, which ensure that its board members and executives act in the long-term interests of shareholders.	Proxy: Governance Disclosure Data was collected on Bloomberg (Gompers <i>et al.</i> , 2003; E-Vahdati <i>et al.</i> , 2022; Salvi <i>et al.</i> , 2024)
Control Variabel		
Total Assets (TA)	Natural logarithm of assets owned	Proxy: Log TA (Clarkson <i>et al.</i> , 2008; Tri widodo <i>e al.</i> , 2021; Utami, 2022) Data was collected on Bloomberg
Leverage (Lev)	Debt-to-equity ratio of total debt divided by total equity	Proxy: Total Debt/Total Assets (Jiang <i>et al.</i> , 2019; Mahmood, 2023) Data was collected on Bloomberg
Liquidity (Liq)	The ability of a business or organisation to easily meet short-term obligations	Proxy: Current Ratio (Utami, 2022). Data was collected on Bloomberg
Intervening Variable		
Profitability (ROA)	Net income divided by total assets	Proxy: Return on Assets (Demerjian <i>et al.</i> , 2012; Triwododo <i>et al.</i> , 2021; Utami, 2022) Data was collected on Bloomberg

Table 1 explains the description of the variables used in the research model, which consists of dependent variables, independent variables, control variables, and intervening variables.

The outer model is evaluated to assess instrument validity, and the inner model is evaluated to assess the strength of the relationships between variables. The outer model is evaluated to ensure that their indicators accurately measure the latent variables (constructs). Table 2 below shows the validation matrix for the outer model evaluation.

**Table 2.** Evaluation of Measurement Model

Variable Type	Main Matrix	Rule of Thumb
Convergent Validity	Outer Loading	> 0,7
	Average Variance Extracted (AVE)	> 0,5
Reliability	Composite Reliability (CR)	> 0,7
	Cronbach's Alpha	> 0,7
	Rho_A	> 0,7
Discriminant Validity	Cross Loading	The correlation value of an indicator to its construct must be higher than to other constructs.
	Fornell-Larcker Criterion	The square root of the AVE of a construct must be greater than the correlation with other constructs.
	HTMT Ratio	< 0,85 atau < 0,90

From Table 2 above, it can be explained that the outer loading value > 0.7 indicates that the indicator (question item) is valid and strong in measuring the construct or latent variable it represents, this shows a high correlation between the indicator and the construct. An Average Variance Extracted (AVE) value > 0.5 indicates that



the construct (latent variable) in the model has good convergent validity, meaning the construct is able to explain at least 50% of the variance in its indicators. This indicates that the indicators measure the same concept well and that the construct is valid. A Composite Reliability (CR) value  $> 0.7$  indicates that the constructs or variables in the model are reliable and consistent. This indicates that the constituent indicators measure the same concept in a stable manner. A Cronbach's Alpha value  $> 0.7$  indicates that the research instrument (questionnaire) is reliable and has adequate to good internal consistency, and the resulting data is consistent and trustworthy. This indicates that the items in the scale measure the same construct stably, making it suitable for use in research. A Rho\_A value  $> 0.7$  indicates that the construct or latent variable being measured has good and consistent internal reliability. This indicates that the items (questions) that make up the variable are closely related and effectively measure the same concept, making it reliable for further analysis. Cross loading shows that the indicator actually measures the construct it is supposed to. The Fornell-Larcker criterion indicates that a construct is sufficiently unique and conceptually distinct from other constructs. This means that the construct is able to explain the variance in its own indicators better than other constructs. HTMT (Heterotrait-Monotrait Ratio) values  $< 0.85$  or  $< 0.90$  indicate that the latent constructs in the model are quite different.

#### 4. Results

In this study, the variable focus on company across the ASEAN-5 region, where the estimation performed using PLS (Partial Least Squares). The results show that the average Environmental Pillar value from companies in ASEAN-5 country is 37.11, the average Social Pillar is 33.25, and the Governance Pillar score average from companies located in Malaysia is 80.98.

**Table 3.** Research Variable Description

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
<i>Environmental Disclosure</i>	596	0.42	85.50	37.1123	18.6142
<i>Social Disclosure</i>	596	5.05	61.52	33.2548	11.5194
<i>Governance Disclosure</i>	596	51.51	98.62	80.9770	9,638
<i>Dividend Payout Ratio</i>	596	0.00	190.54	52.2534	30.6705
<i>Liquidity</i>	596	0.03	24.27	2.0963	1,9134
<i>Return on Asset</i>	596	-0,27	83.96	7.5368	6.4120
<i>Ln Total Asset</i>	596	17.08	25.31	21.2307	1.46846
<i>Leverage</i>	596	0.00	74.73	26.2069	17.6435

Source: data processed, 2024

Table 3 shows the minimum, maximum, mean, and standard deviation of the statistical data for the variables in this research model. The mean environmental disclosure was 0.42 (min) and 85.50 (max), with an average of 37.1123 and standard deviation of 18.6142. The mean social disclosure is 5.05 (min) and 61.52 (max) with an average: 33.2548 and standard deviation of 11.5194. The mean governance disclosure is 51.51 (min) and 98.62 (max) with a an average : 80.9770 and standard deviation: 9.639. The mean dividend payout ratio is a minimum of 0.00 and a maximum of 190.54 with a mean of 52.2534 and a standard deviation of 30.6705. The mean liquidity is a minimum of 0.03 and a maximum of 24.27 with a mean of 2.0963 and a standard deviation of 1.9134. The mean return on assets is a minimum of -0.27 and a maximum of 83.96 with a mean of 7.5368 and a standard deviation of 6.4120. The mean ln total assets is a minimum of 17.08 and a maximum of 25.31 with a mean of 21.2307 and a standard deviation of 1.46846. The mean leverage is a minimum of 0.00 and a maximum of 74.73 with a mean of 26.2069 and a standard deviation of 17.6435.

Table 4. Regression Results Direct Effect

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic ( O/STDEV )	P-value	Signifikan
<b>Direct Effect</b>						
<b>EPS → DPR</b>	-0.097	-0.100	0.049	1.995	0.047**	Signifikan
<b>SPS → DPR</b>	0.132	0.136	0.055	2.418	0.016**	Signifikan
<b>GPS → DPR</b>	0.151	0.151	0.040	3.774	0.000***	Signifikan
<b>LIQ → DPR</b>	-0.068	-0.067	0.038	1.776	0.076*	Signifikan
<b>LnTA → DPR</b>	0.133	0.133	0.046	2.927	0.004***	Signifikan
<b>LEV → DPR</b>	-0.061	-0.060	0.049	1.244	0.214	Tidak Signifikan
<b>ROA → DPR</b>	0.083	0.084	0.062	1.357	0.175	Tidak Signifikan

Source: data processed, 2024 (sign 1%)\*\*\*, (sign 5%)\*, (sign 10%)\*

The regression results indicate that the governance pillar and total assets influence the DPR with a 1% error rate, the environmental pillar and social pillar influence the DPR with a 5% error rate (Table 4). Liquidity influences the DPR with a 7.6% error rate, total assets influence the DPR at a significance of less than 1%, leverage and ROA have a positive effect at error rates of 21.4% and 17.5%. Thus, hypothesis 1 (H1) is rejected even though it is less than 5% significant because its effect is negative, hypothesis 2 (H2) is accepted at a significance of less than 5%, and hypothesis 3 (H3) is accepted at a significance of less than 1%. Meanwhile, the control variables are total assets, liquidity and leverage do not act as control variables. The environmental pillar indicating negative impacts on DPR. The EPS value in the data obtained is the lowest compared to other ESG values. This is consistent with the statement (Adeneye *et al.*, 2023), which states that this element is rated the lowest among other ESG criteria. The negative EPS value is due to increased taxes and costs incurred by the company due to transforming its environmental operations. This is consistent with the statement (Niccolo *et al.*, 2020), which indicates that EPS is considered a long-term investment by the company. Based on these results, Hypothesis 1 (H1) is rejected.

The positive SPS score demonstrates that ASEAN-5 enterprises have produced positive results for their actions and initiatives aimed at improving employee wellbeing. This is consistent with the statement (Bilyay-Erdogan *et al.*, 2023), which argues that the actual value of SPS can influence dividend distribution by lowering future risks. Companies are concerned about the value of SPS because to the stringent scrutiny of investors. This is consistent with the statement (Glossner *et al.*, 2020), which claims that investors monitor the SPS value, and if the SPS value is lower, investors lose trust in the firm. This decreases the company is worth and prevents it from providing the desired dividend. Based on the study result, the hypotheses is accepted.

According to the results, Governance Pillar Score show a favourable influence on DPR. This is consistent with the conclusion (Nazarova & Lavrova, 2022), which concludes that the GPS value yields favourable outcomes due to firms choose to invest in ESG concerns rather than paying dividends. This demonstrates that enterprises in the ASEAN-5 area are beginning to understand ESG by paying attention to corporate governance. The study's findings also reveal that these organisations have solid governance and stakeholder relationships. This is consistent with the perspective of (Bilyay-Erdogan *et al.*, 2023), who argue that stakeholder representatives such as boards, independent commissioners, auditors, and so on are trusted by investors, allowing firm performance to improve and deliver higher dividends. Based on the study result, the hypotheses is accepted. The governance pillar show more significant direct influence than the ROA since it intervenes.

As measured by the current ratio index, the results indicate that a company's liquidity has negative impact to the DPR. The test shows a coefficient of -0.068 with a p-value of 0.076\*, implying  $\alpha < 10\%$ . This supports (Vo, 2021), who argued that liquidity negatively impacts DPR, as firms with high liquidity often prefer to retain cash for various reasons rather than distribute large dividends. Due to the significant risks posed by COVID-19, companies have delayed dividend payments to build up cash reserves.

As measured by the logarithmic index of total assets, the result shows that total assets positively affect the DPR. The test results indicate a coefficient of 0.133 with a p-value of 0.004\*\*\*, suggesting  $\alpha < 1\%$ . This supports



(Zhong *et al.*, 2024), who claim that total assets positively influence the dividend payout ratio. By maintaining substantial assets, companies can safeguard themselves against bankruptcy risks and showcase their stability through increased liquidity, especially given the impact of COVID-19 between 2019 and 2022.

**Table 5.** Regression Results with Intervening

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic ( O/STDEV )	P-value	Signifikan
<b>With Intervening</b>						
EPS → ROA → DPR	0,271	0,266	0,092	2,944	0,003***	Signifikan
SPS → ROA → DPR	-0,213	-0,184	0,110	1,933	0,054**	Signifikan
GPS → ROA → DPR	0,103	0,100	0,055	1,868	0,062*	Signifikan

Source: data processed, 2024 (sign 1%\*\*\*, (sign 5%)\*\*, (sign 10%)\*

Based on Table 5, the governance pillar influences the DPR, with ROA as the mediating variable have a significant effect (6.2%). The social and environmental pillar, with ROA as the intermediary variable, influences the DPR at the 1% and 5% levels of significance. Thus, hypothesis 4 (H4) is accepted at a significance level of less than 1%, hypothesis 5 (H5) is accepted at a significance level of 5%, and hypothesis 6 is accepted at a significance level of less than 10%.

The findings suggest that in the relationship between EPS and DPR, ROA act as an intervening factor. Investors are likely to be satisfied when a higher EPS is reported. This aligns with (Grewal *et al.*, 2019), who argue that reporting on EPS enhances investors' ability to monitor by revealing potential risks, thus reducing the chances for companies to harm investors. Similarly, (Chen & Xie, 2022) assert that empowering investors to monitor more closely is an effective way to limit managerial opportunities to extract excessive profits and reduce dividends. The findings support the stated hypothesis, which is that the environmental pillar has a beneficial influence on DPR; hence, the accepted theory is that ROA intervenes in the interaction between the environmental pillar and DPR. ROA, as an intervening variable, influences the link between the environmental pillar and DPR through full mediation.

The findings suggest that profitability (ROA) may serve as an intervening variable in the relationship between the social pillar score (SPS) and the dividend payout ratio (DPR). Thus, ROA affects the relationship between the social pillar and the DPR as a mediating factor. The hypothesis is rejected because its not sync with the hypothesis, social pillar have a positive influence for DPR.

The findings suggest that profitability (ROA) may serve as an intervening factor in the relationship between the Governance Pillar Score (GPS) and the Dividend Payout Ratio (DPR). As companies' assets grow, this likely leads to increased dividend payments. Firms with high GPS provide investors with reliable information to improve operations (Merza Radhi & Sarea, 2019). This also indicates that investors have confidence in ASEAN-5 companies. (Bilyay-Erdogan *et al.*, 2023) similarly note that companies with strong stakeholder relationships reduce profit risk and boost profitability. ROA acts as an intervening variable, and its effect on the link between the environmental pillar and DPR is partial mediation, weakening the association between the two variables. Thus, the hypothesis is accepted.

**Table 6.** F<sup>2</sup>, v<sup>2</sup> and n R<sup>2</sup>

	F <sup>2</sup>	VIF	Adjusted R <sup>2</sup>
EPS to ROA	0.24	1.561	
SPS to ROA	0.15	1.756	
GPS to ROA	0.12	1.222	
ROA to DPR	0.16	2.451	
ROA			0.184
DPR			0.120

In this study, the indirect relationship was tested using two-way booting. The analysis shows that hypotheses 4, H5, and H6 are accepted. Hypothesis 4 (H4) is accepted with a t-value of 2.944 and p-value of 0.003, H5 is accepted with a t-value of 1.933 and p-value of 0.054, and H6 is accepted with a t-value of 1.868 and p-value of



0.062. However, according to Hair *et al.* (2019), hypothesis H6 is rejected because the p-value is  $> 0.05$ , while H5 can still be accepted because the p-value of 0.05 is still within the threshold. This condition indicates that ROA partially mediates the effect of EPS at a significance of less than 1%, mediates SPS at a significance of 5%, and mediates GPS at a significance of less than 10% (see Tables 5 and 6).

The  $f^2$  values for EPS, SPS, and GPS are 0.24, 0.15, and 0.12, respectively, indicating a moderate effect (Cohen, 1988). As shown in Table 6, ROA also has a moderate effect on DPR with an  $f^2$  value of 0.16, indicating a substantial effect. Although among the independent variables, it has a moderate effect, statistically the largest effect is on EPS with an  $f^2$  value of 0.24, followed by ROA with an  $f^2$  value of 0.16, then SPS with an  $f^2$  value of 0.15, and the lowest effect is GPS with an  $f^2$  value of 0.12.

The adjusted  $R^2$  represents the percentage of variance in endogenous variables explained by exogenous variables. The adjusted  $R^2$  for ROA is 0.18, indicating that the independent variables explain 18% of the variance in ROA. For DPR, the adjusted  $R^2$  is 0.12, meaning 12% of the variance in DPR can be explained, and the results of the structural model are illustrated in Figure 2.

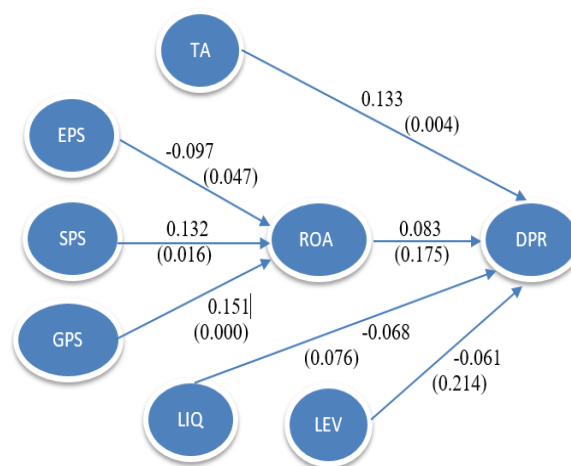


Figure 2. Research method flowchart.

## 5. Discussion and Managerial Implications

In the context of dividend policy, this study examines how EPS, SPS, and EGS influence profitability and dividend policy. The results indicate that the proposed model performs less than satisfactorily, explaining only 18% of the variance in profitability (ROA) and 12% in dividend policy. This result is due to the presence of several independent variables that do not significantly impact profitability and dividend policy. These independent variables are leverage and profitability (ROA), while liquidity is significant at a significance level of less than 10%.

This study did not find that leverage had an effect on dividend policy, which is considered an interesting finding. This condition indicates that companies prioritize the use of retained earnings to pay off debt and fund operations rather than distributing dividends. Generally, companies with high debt levels tend to withhold dividends to maintain liquidity, thus making dividend decisions unaffected by their capital structure. In some cases, debt is also used for operational purposes; generally, high debt levels hinder a company's ability to distribute dividends, thus making the impact insignificant. Furthermore, return on assets also has no impact on dividend policy, as companies prioritize using profits to strengthen their capital structure, pay down debt, or fund future growth rather than distribute them as dividends. Dividend policy is often determined by free cash flow and investment needs, not solely by current profitability.

Profitability also had no impact on dividend policy. This is also considered an interesting finding, as some companies prioritize profits for strengthening their capital structure, paying down debt, or funding future growth rather than distributing them as dividends. Dividend policy is often determined by free cash flow and investment needs, not solely by current profitability. Some companies choose to retain earnings to fund future operational growth

and investment projects, despite high profitability. Similarly, some companies choose to use profits to pay off long-term or short-term debt, reducing the cash available to pay dividends. On the other hand, theoretically, management chooses to follow a stable dividend policy (smoothed dividend), where dividends are still paid even though profits fluctuate high, and medium and low, so that this policy has no direct relationship with the amount of dividends paid.

Liquidity often has little or no impact on dividend policy. This is because companies prioritize using cash for operations, fixed asset investments, or debt repayment over distributing dividends. Despite high liquidity, management prefers to retain these funds to maintain operational stability for the company's growth and business continuity. Existing cash is focused more on funding future investments and operational needs, rather than being distributed as dividends. Cash is also sometimes used to pay current liabilities and maturing long-term debt rather than being distributed as dividends. Companies in the growth phase often retain cash, despite having high liquidity levels, to maintain capital expenditures.

When determining dividend payment policy, many factors must be considered, as this policy will impact a company's share price. In this study, several factors were considered, including environmental, social, governance, and return on assets. This study focuses on dividend payout policy, specifically the role of return on assets as a mediator in determining dividend payout policy. This study adds value to the existing literature on dividend policy, revealing that the environmental pillar has a negative influence on dividend payout policy. This finding is supported by [Niccolo \*et al.\* \(2020\)](#) assertion that EPS is considered a long-term investment by companies. However, by including profitability as a mediator, the effect becomes positive. The social pillar has a direct positive impact on dividend payout policy, and this finding is supported by [Glossner \*et al.\* \(2020\)](#) who found that investors monitor the SPS value, and if the SPS value is lower, investors lose confidence in the company. However, the impact becomes negative when profitability is used as a mediator. The governance pillar has a positive impact on dividend policy, and this finding aligns with the statement by [Nazarova & Lavrova \(2022\)](#), who stated that GPS value produces beneficial results both directly and when profitability is considered as a mediator. While individual asset returns do not significantly mitigate the influence of dividend policy, profitability plays a significant role as a mediator of environmental, social, and governance factors in determining dividend policy. Thus, this study supports the profitability theory, which argues that profitability increases dividend payouts.

According to the Comparative Analysis of ESG Performance (2025) report, Thailand and Singapore are leading the way in integrating ESG pillars, while Indonesia has shown significant improvement through new regulations. Table 6 below shows a visualization of the comparison of the influence of ESG pillars based on countries in ASEAN-5.

**Table 6.** Comparison of ESG Pillars in ASEAN-5

State	Environmental Pillar (E)	Social Pillar (S)	Governance Pillar (G)	Dominant Status
Thailand	● Height	● Height	● Height	Regional Leader; has the most uniform regulatory and reporting framework.
Singapore	● Height	● Medium	● Height	Strong focus on Governance and international reporting standards (GRI/TCFD).
Malaysia	● Medium	● Medium	● Medium	Shows high variability; there is a downward trend in scores in some sectors.
Indonesia	● Medium	● Medium	● Medium	Rapid progress on Sustainable Finance instruments (Green Sukuk) and OJK's Green Taxonomy
Philippines	● Low	● Medium	● Medium	Still facing major challenges in managing unmanaged environmental risks.

Source: Sustainalytics

At the 2025 Asia ESG Positive Impact Awards, Indonesian companies performed well, winning the most gold awards. This demonstrates the increasing standards of ESG implementation among Indonesian companies. Meanwhile, Thailand and Singapore have the best ESG risk management capabilities, while Indonesia and the Philippines still have relatively high levels of unmanaged risk. In the environmental pillar (E), Thailand remains the



best in environmental risk management, while Indonesia excels specifically in its issuance of green bonds (Green Sukuk), becoming a global pioneer. In the social pillar (S), the regional focus has shifted to gender diversity on boards of directors and community impact. In Indonesia, this pillar is heavily influenced by mandatory corporate social responsibility (CSR) programs. Furthermore, the governance pillar (G) is the most mature in Singapore and Thailand. In Indonesia, the Financial Services Authority (OJK) Green Taxonomy policy encourages greater transparency in public companies.

## 6. Conclusions, Limitations, and Future Research

This study provides important information regarding the socio-environmental governance pillar's influence on dividend payment policy. The results of the direct effects regression test indicate that the socio-environmental governance pillar has an influence on dividend policy. Environmental pillar score (EPS), social pillar score (SPS), and governance pillar score (GPS) have a positive effect on dividend payout ratio (DPR) at a significance level of less than 5% (EPS and SPS), and 1% (GPS), respectively, while return on assets (ROA) has a positive effect at a significance level of 17.5% so that the effect is not significant. These results indicate that the better the social and environmental governance pillars, the greater the dividends distributed to shareholders. These results demonstrate the importance of the social and environmental governance pillar as a basis for determining dividend policy. Furthermore, the results of the indirect effect test, with return on assets (ROA) as an intervening factor, show that the environmental pillar score (EPS) and governance pillar score (GPS) have a positive effect on the dividend payout ratio (DPR) at significance levels of 1% and 6%, respectively, while the social pillar score (SPS) has a negative effect at significance levels of 5%. The results of the control variable tests show that liquidity has a negative effect, and total assets have a positive effect at a significance of 7.6% and 1% respectively, while leverage has a negative effect at a significance of 21.4% so that the influence is not significant. Thus, the results of this study generally indicate that companies in the ASEAN-5 are beginning to implement Environmental, Social, and Governance (ESG) principles. Return on assets (ROA) has been able to mitigate the impact of ESG on the dividend payout ratio (DPR).

Although this research has made a positive contribution to dividend policy theory, it still has limitations that need to be addressed in future research. First, this study only used a compilation of all points contained in each environmental, social, and governance (ESG) component. Therefore, there are still shortcomings in this study, such as which components have the highest value in environmental, social, and governance within ESG. Environmental, Social, and Governance (ESG) is also crucial for realizing global sustainable development. Many companies did not meet the assessment criteria because they did not meet every ESG component in the blank data provided on Bloomberg. Second, this study only examines the elements influencing the DPR in terms of ESG principles; additional variables in the context of dividend philosophy have not been discussed. Third, dividend payment decisions can be influenced by company-specific factors not included, so these policies often have a reciprocal relationship. The PLS-SEM static modeling approach is less robust against endogeneity. The dynamics of environmental, social, and governance (ESG) dividends can involve lagged effects, which may not be well captured by static PLS-SEM models. Therefore, in future research, the authors can use Dynamic Panel Data Analysis techniques, such as GMM (Generalized Method of Moments) or Dynamic PLS-SEM.

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### Authors' Contributions

Putri Nur Syarifah: Methodology, Investigation, Data collection, Data Curation, Formal Analysis, Writing, Review & Editing, Writing original manuscript. Hersugondo Hersugondo: Conceptualization, Methodology, Investigation, Supervision, Data collection, Data Curation, Formal Analysis, Writing, Review & Editing, Writing original manuscript. Formal Analysis, Writing, Review & Editing. Both authors read approved the final version of the manuscript.

### Does this article screen for similarity?

Yes

### Conflict of Interest

The authors have no conflicts of interest to declare. There is also no financial interest to report. The author certifies that the submission is original work and is not under review at any other publication.

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