

Article

The Impact of ESG Performance and Corporate Governance on Dividend Policies: Empirical Analysis for European Companies

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Abstract

Understanding how ESG performance and corporate governance practices influence financial policies has become increasingly critical for investors, regulators, and other stakeholders. This study specifically examines the simultaneous independent effects of corporate social responsibility (CSR) performance and board characteristics on the dividend payouts (DIV) of European companies. To control for unobserved heterogeneity within firms, we initially used fixed and random effects models (FE and RE). Additionally, to address potential endogeneity issues and capture the dynamic nature of dividend behavior, the System Generalized Method of Moments (SGMM) approach was performed as a robustness check. The analysis is based on a comprehensive panel dataset covering 1376 firms across 23 European countries over the period 2014–2023. Empirical results from both FE and RE models and SGMM indicate that CSR performance, gender diversity, cultural diversity, and financial expertise on the board positively influence dividend payouts, while larger board size, greater board independence, and CEO duality are associated with lower dividend payouts. These findings highlight the critical role of ESG and governance factors in shaping corporate financial policies and provide valuable insights for policymakers, investors, and corporate managers.



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1. Introduction

Given the economic pressures, regulatory requirements, and increasing societal expectations, corporate social responsibility (CSR) becomes one of the most fundamental pillars of corporate strategy (Carroll and Shabana 2010). Therefore, CSR is considered a strategic element of corporate governance due to its major influence on financial decisions such as dividend payments (Javed and Ali 2023; Farooq et al. 2025). According to Li et al. (2023), when companies pay greater attention to social responsibility, they are more likely to develop better connections with their stakeholders. Consequently, they remain financially stable over the long term. Indeed, the growing importance given to the different pillars of CSR, including environmental, social, and governance (ESG), is one of the complex issues that are upsetting traditional financial concepts. Companies are often facing a new challenge. They must not only aim to generate quick profits but also take into account their

social and environmental impacts. In this perspective, [Bilyay-Erdogan et al. \(2023\)](#) and [Jamal et al. \(2025\)](#) suggest that dividend policy can highlight a company's priority either to share profits more with shareholders or to value commitment to CSR.

To reconcile the different objectives of a company, it is essential to have effective internal governance. According to [Farooq et al. \(2025\)](#), the mission of boards of directors attentive to social issues is to ensure a balance between shareholder profitability and the financing of sustainable projects. [Lestari et al. \(2024\)](#) revealed that CSR does not constitute an additional cost, but it is considered a tool aimed at improving the resilience, reputation, and attractiveness of companies among long-term investors. The integration of CSR into corporate strategy aims to achieve social and environmental objectives, but it must meet shareholders' financial expectations in terms of dividends. The way in which CSR affects dividend policies has attracted interest from the literature. Some studies have shown a positive association between CSR and dividend policy. [Dahiya et al. \(2023\)](#), [Sheikh et al. \(2021\)](#), and [Benlemlih \(2019\)](#) have proven that companies more committed to CSR often pay higher dividends to attract investors and reduce conflicts between managers and shareholders.

However, some other studies hold a different view, considering that spending money to be socially responsible reduces profit and makes it harder to distribute dividends ([Saeed and Zamir 2021](#)). Another part of the literature indicates that there is no clear link between CSR and dividends ([Nurfitri et al. 2023](#); [Ariska and Ulum 2024](#)). Indeed, the relationship between dividend payments and CSR is complicated because companies have to choose between paying their shareholders and investing in charities. In a theoretical framework, the theory of signaling ([Bhattacharya 1979](#); [Benlemlih 2019](#)) suggests that paying high dividends indicates to investors that a company is performing well, but this can conflict with CSR objectives.

In the absence of strong corporate governance, this complexity is further compounded by agency problems. Hence, governance mechanisms aim to reduce conflicts between shareholders and management by limiting free cash flow through dividend payments ([Grossman and Hart 1980](#); [Jensen 1986](#)). In markets where investors are protected, [La Porta et al. \(2000\)](#) indicated that companies pay fewer dividends in the absence of strong corporate governance. An effective board of directors, characterized by gender and cultural diversity, financial expertise, adequate size, the presence of independent directors, and separation of functions between the chairman and the CEO, promotes higher dividends by protecting shareholders and curbing the managerial misuse of free cash flow ([Jiraporn et al. 2011](#); [Elmagrhi et al. 2017](#)). Moreover, [Yarram and Dollery \(2015\)](#) show that greater CSR transparency combined with solid governance is correlated with the payment of dividends, attracting additional capital.

Whereas [Hakimi et al. \(2025\)](#) focused on how board characteristics influence CSR in European firms, the current research takes a different perspective by simultaneously investigating the impact of CSR practices and board attributes on firms' dividend distribution policies, an aspect previously unexplored in that study. In addition, prior empirical research provides mixed evidence on the simultaneous independent effects of CSR performance and corporate governance on the dividend payout decision. This gap provided the main motivation for the current study. This study fills this gap by reconceptualizing the research framework: rather than treating board characteristics and CSR in isolation, we analyze their simultaneous independent effect on dividend payout behavior. This approach allows for a more comprehensive understanding of how governance and social responsibility interact, shaping key corporate outcomes. Drawing on these theoretical and empirical frameworks, the current paper aims to answer the following question: How do CSR performance and corporate governance influence dividend distribution policies? More specifically, the im-

plementation of an ESG-focused strategy and an effective board enhances or hinders the ability of companies to reward shareholders.

To assess how simultaneous independent effects of CSR performance and corporate governance affect the dividend payout decision, we focus on the following six key governance attributes: gender diversity, cultural diversity, board size, CEO duality, board independence, and financial expertise. We aim to evaluate how these factors and the ESG performance impact the dividend payout decisions. To this end, we used a sample of 1376 firms from 23 European countries from 2014 to 2023, and we applied the SGMM as an empirical approach. Overall, empirical results show that CSR performance and most of the board characteristics positively and significantly influence dividend payouts.

This paper makes several important contributions to the existing economic and financial literature assessing the links between CSR, corporate governance, and dividend policy. First, this study assesses how simultaneous independent effects of CSR performance can influence dividend distribution decisions, suggesting that companies engaged in CSR tend to adopt a more stable and transparent dividend policy. Secondly, this study explores the direct effect of corporate governance on dividend policy, highlighting the key role of internal control mechanisms in protecting shareholders' interests. Thirdly, exploring this relationship in European firms using a large panel and a multi-model approach allows for taking into account the institutional and regulatory differences specific to each national context. Finally, the empirical results provide useful recommendations for managers, investors, and decision-makers seeking to integrate CSR and governance considerations into their financial decisions.

The rest of the paper is organized as follows: Section 2 provides a review of relevant literature and formulates research hypotheses. The sample selection process and empirical methodology are explained in detail in Section 3. The results and a discussion of the findings of fixed and random effect regressions are presented in Section 4. Section 5 checks the robustness of the results. Finally, Section 6 concludes and addresses some recommendations.

2. Review of the Literature and Hypotheses Development

Recent research suggests that corporate social responsibility and corporate governance play a prominent role in dividend payout strategies. According to [Ben Salah and Ben Amar \(2022\)](#), there is a positive relationship between corporate social responsibility (CSR), financial transparency, and increased dividend payouts. Similarly, [Maqbool et al. \(2022\)](#) found that in Pakistan, investment funds with a strong commitment to corporate social responsibility (CSR) pay out larger dividends. According to [de Villiers et al. \(2023\)](#), CSR commitments are associated with higher dividends in Europe, suggesting that investors value CSR initiatives. [Hakimi et al. \(2025\)](#) checked whether board characteristics affect CSR for European firms. Using a sample of 1376 firms over the period 2014 to 2023, the authors found that board characteristics significantly affect CSR performance.

From another perspective, research on board composition has highlighted several important elements. Some studies have shown that larger boards promote a diversity of perspectives, although they can sometimes complicate the decision-making process ([Al-Saidi 2021](#); [Awad et al. 2023](#)). Strategic coherence can be strengthened, but the quality of oversight tends to decrease in cases of CEO duality, when the latter also serves as the chairman of the board ([Tang 2017](#); [Debnath et al. 2021](#)). The independence of board members helps limit conflicts of interest and ensure a more equitable distribution of profits ([Fama and Jensen 1983](#)). Furthermore, corporate governance and dividend policies are also positively influenced by gender and cultural diversity, as well as by the financial skills of directors ([Ye et al. 2019](#); [Candy et al. 2024](#)).

Recent studies have also examined how corporate governance and corporate social responsibility affect dividend distribution across different regions. For instance, [Javed and Ali \(2023\)](#) found that accounting conservatism mediates the relationship between dividend distribution and corporate social responsibility (CSR) in Pakistan and India, offering a framework for boosting shareholder wealth. In the same Asian context, [Tondang and Wedari \(2025\)](#) demonstrated that dividend policies are positively impacted by ESG disclosure, board size, and profitability in Indonesia.

In the European context, [Ktit and Abu Khalaf \(2024\)](#) showed that CSR, firm size, board size, and profitability significantly affect dividend payout in European firms. However, board independence and meeting frequency do not exert any significant effect.

For the Middle East and North African context, [Abdeljawad et al. \(2025\)](#) found that more effective CSR communication increases the likelihood and level of dividend payments in Palestine. According to [Noureldin \(2023\)](#), gender diversity and board size promote dividend distribution in Egypt, even though ESG factors do not significantly lessen the effects of governance. [Ellili \(2022\)](#) found that dividends in the United Arab Emirates are positively impacted by ESG disclosure. Ownership structures and board independence were found to moderate and mediate the relationship, suggesting broader implications for ESG reporting and governance.

The mixed empirical evidence about the relationship between board composition and dividend policy can be explained by agency and stewardship theories. According to agency theory, larger boards promote higher dividends and improve oversight, even though excessive size or CEO duality may erode oversight and decrease payouts. Conversely, stewardship theory views managers as reliable stewards and contends that dual leadership may boost output and promote greater dividends. The following theories result from the ambiguity surrounding the appropriate relationship between board composition and dividend policy.

2.1. CSR and Dividend Payout

Recently, CSR commitments have encouraged companies to act more responsibly. Therefore, companies must consider social, economic, and environmental aspects when making decisions. By improving companies' reputations, CSR promotes their profits and those of shareholders while also impacting their dividend policy. Recent research shows that CSR influences companies' dividend management. Prior research suggests that firms engaging in socially responsible practices tend to be more transparent and equitable in profit distribution, which often translates into higher dividend payouts ([Ben Salah and Ben Amar 2022](#)). Therefore, if companies integrate CSR into their dividend distribution strategies, they can more effectively meet the expectations of investors and other stakeholders.

[Badru and Qasem \(2024\)](#) also endorsed the existence of a significant link between CSR and dividend policy. [Dahiya et al. \(2023\)](#) stated that this relationship could be influenced by a reduction in financial constraints and an increase in corporate revenues; consequently, CSR exerts a positive impact on dividend payments. [Adiputra and Hermawan \(2020\)](#) found that CSR has a significant impact on wealth distribution. [Farooq et al. \(2025\)](#) established a link between CSR, governance, and cash flows, associating them with improvements in dividend policies. Based on the empirical research analyzed on the link between CSR and dividends, the following hypothesis could be put forward:

H1. *CSR positively influences dividend payouts.*

2.2. Corporate Governance and Dividend Payout

2.2.1. Board Size

As suggested by [Al-Saidi \(2021\)](#), larger boards of directors may better reflect the diverse interests of stakeholders. However, as emphasized by [Jensen and Meckling \(1976\)](#) in their seminal work, this characteristic could also exacerbate agency problems. Indeed, as indicated by [Fama and Jensen \(1983\)](#), larger boards may face challenges in decision-making efficiency. The study by [Saliya and Dogukanli \(2022\)](#) found a positive relationship between board size and dividend payments. [Baker et al. \(2020\)](#) define board size as the total number of members on the board at the end of the fiscal year. Board size can influence decisions related to dividend policies and CSR. A larger board could encompass a wider range of interests and perspectives, which may influence the prioritization of CSR initiatives over dividend distributions. Additionally, a larger board may have greater resources, providing more flexibility in allocating funds to dividend payments. However, recent research by [Awad et al. \(2023\)](#) suggests that larger boards can complicate strategic control and the alignment of priorities, particularly within complex organizational structures.

The inconclusive results about board size and dividends can be explained by the theories of agency and resource dependence. From an agency perspective, larger boards may promote higher dividends, reduce managerial opportunism, and enhance oversight. However, a large board might weaken control and make coordination more difficult, which would lead to less effective decision-making. Larger boards provide more networks and a greater range of experience, which may aid in CSR involvement and dividend stability from the standpoint of resource dependence. Hence, we will explore this relationship further using the following hypothesis:

H2. *Board size negatively influences.*

2.2.2. CEO Duality

The issue of executive duality, the accumulation of the functions of chief executive officer (CEO) and chairman of the board of directors by a single person, has been the subject of much research in the recent literature ([Lin et al. 2022](#); [Oussii and Klibi 2023](#)). Such a concentration of decision-making power gives the manager a position of dominant influence, both over the operational management and the strategic directions of the company, by reducing the role of independent control normally provided by the board of directors. Recent studies have produced divergent results. Researchers such as [Tang \(2017\)](#) indicate that duality promotes organizational unity and accelerates the decision-making process. However, other authors such as [Debnath et al. \(2021\)](#) highlight the dangers of centralized governance, particularly the reduction of the monitoring role. As a result, the relationship between the existence of a dual CEO and a dividend strategy remains complex: While some studies propose that it promotes greater strategic coherence, others ([El Ammari 2021](#)) argue that it could harm the alignment between decisions and shareholder interests. According to agency theory, CEO duality may theoretically reduce oversight and give managers more latitude in deciding whether to pay dividends, which could result in lower payouts. However, combining leadership positions can improve strategic coherence and unity of command, which may support stable dividend policies, according to stewardship theory. Thus, the duality–dividend relationship is shaped by the ratio of efficiency to control. Based on prior research, the following hypothesis can be proposed:

H3. *CEO duality negatively influences dividend payments.*

2.2.3. Independence of Board Members

Board independence is important according to agency theory. This theory says that independent directors should make up most of the board. They do this so they can watch management better. [Fama and Jensen \(1983\)](#) say this. Having independent directors helps the board do its job well. It also cuts down on agency costs. One way it does this is by making management pay more in dividends, which leaves less cash that could cause problems ([Narang et al. 2024](#)). Greater independence has also led to increased corporate social responsibility (CSR) initiatives, which align with strategic sustainability and shareholder interests. Board independence helps maintain a balance between dividends and CSR ([Kanojia and Bhatia 2022](#)). [Kilincarslan \(2021\)](#) indicates that an independent board contributes to improved governance and promotes higher dividend payouts. Similarly, [Khan \(2022\)](#) suggests that when cash reserves are low, managers find it more difficult to appropriate funds from shareholders. This explains why a more independent board of directors is associated with higher dividend payments. Based on previous studies, the following hypothesis can be formulated regarding the relationship between board independence and dividends:

H4. *Board independence positively affects dividend payouts.*

2.2.4. Gender Diversity

More women are sitting on company boards now. That means companies are becoming more open to different kinds of people making decisions. It is important to have women involved, especially when it comes to decisions about giving out profits. Recent research shows there is a strong connection between how companies pay dividends and having women on the board ([Vinjamury 2023](#); [Candy et al. 2024](#)). More women in management leads to better company rules and slower, safer dividend payments. Women directors are often seen as more cautious ([Xuana et al. 2020](#)). That means they tend to support steady and responsible dividends ([Ye et al. 2019](#)). After reviewing studies on the link between gender diversity and dividends, we can formulate the following hypothesis:

H5. *Gender diversity positively influences dividend payouts.*

2.2.5. Cultural Diversity

Cultural diversity on boards promotes more balanced and inclusive decision-making. Boards with people from different countries, jobs, genders, or ideas are more likely to stay committed. They tend to make decisions that are good for the long run, like how they handle dividends. Recent research shows that having this kind of diversity can lead to better governance and more positive dividend policies. [Shehata \(2021\)](#) found that Egyptian companies with more national diversity on their boards tend to give higher dividend yields. [Goyala and Karb \(2022\)](#) looked at how board composition affects the Indian company's dividends. They found that having people from different countries on the board makes a difference. Their study shows that cultural diversity can change dividend policies. Based on previous studies, the following hypothesis can be formulated regarding the relationship between cultural diversity and dividend payouts:

H6. *Cultural diversity positively affects dividend payout.*

2.2.6. Financial Expertise

When it comes to handling dividend policies, it helps if board members know about finance. Research shows that the effects change based on the situation. [Thompson and Manu \(2021\)](#) observed that in China, board financial expertise aligns with the substitution

hypothesis, whereas in Pakistan, it supports the complementarity hypothesis, suggesting that dividends help mitigate agency conflicts. [Sarwar et al. \(2018\)](#) and [Wu et al. \(2021\)](#) showed that dividend decisions in Kenya are largely influenced by the level of financial knowledge within firms. These results suggest the existence of a link between financial literacy and dividend distribution policy. From these studies, we can put forward the following hypothesis:

H7. *Financial expertise positively influences dividend payouts.*

Although previous research from China, Egypt, Pakistan and other countries offers valuable insights into the relationship between ESG, governance, and dividends, the findings may not be directly applicable to the European context due to several differences in institutional, legal, and governance frameworks. These differences also support our focus on European companies, as their corporate governance and regulatory frameworks may influence the relationship between dividend policy and ESG performance in unique ways.

3. Sample and Method

3.1. The Sample

To explore the effect of CSR and corporate governance on the dividend payouts, this study uses a sample of 1376 publicly listed companies from 23 European countries¹, covering 10 years from 2014 to 2023. The presence of headquarters for these companies across different European nations ensures broad and representative geographical coverage at the continental level. Firms were selected based on the availability of ESG scores and financial data. Before analysis, the dataset underwent preprocessing: missing values were handled using the mean imputation method, outliers were winsorized at the 1% and 99% levels, and variables were transformed where necessary to ensure normality and comparability across firms. This process ensures a consistent and reliable dataset for empirical analysis. To assess our model, we gathered financial data along with corporate social responsibility (CSR) scores and dividend payments, all obtained from the Thomson Reuters Refinitiv Eikon database.

3.2. Theoretical Justification of Variables

3.2.1. Dependent Variable

Dividend per share (DIV) represents the amount of profit paid to each shareholder for each share they own. It is an important indicator of performance for investors ([Miller and Modigliani 1961](#)).

3.2.2. Independent Variables

In this study, we proxied CSR performance using the overall ESG scores. It is a composite score reflecting the firm's environmental, social and governance practices. The ESG score, which runs from 0 to 100, offers a comprehensive view of sustainability performance.

Besides the ESG score, board size (BSIZE) is also very important in corporate governance. It refers to the total number of directors on a company's board. A larger board allows for more opinions and expertise, which can help us make better decisions ([Rao and Tilt 2016](#)). Some governance mechanisms, such as CEO duality (DUAL) and board independence (INDP), are directly related to board size. CEO duality refers to a situation where the chairman of the board also serves as the chief executive officer. This concentration of power can lead to conflicts of interest between management and shareholders, making governance more complex ([Birindelli et al. 2018](#)). Board independence reflects the level of independence within the board, based on the share of non-executive directors.

Board gender diversity (BG) indicates the proportion of women serving on the board of directors. Their presence on the board brings new ideas and new ways of making decisions, which can improve decision-making (Kabir et al. 2023). Board culture diversity (BC) measures the diversity of cultural backgrounds among board members. Having members from different cultures on the board leads to better decision-making (Dodd et al. 2023). Finally, board-specific skills (BSS) capture the variety and relevance of the professional skills possessed by board members. Boards composed of individuals with financial skills are better equipped to monitor financial activities, identify potential risks promptly, and ensure the efficient allocation of resources (Alshareef and Sulimany 2024).

3.2.3. Control Variables

Two control variables are included to account for the influence of firm size and profitability. Firm size (SIZE) is measured by the logarithm of total assets, while profitability is assessed by return on assets (ROA).

Table 1 presents the definitions and measurements of all variables. All variables used in this study are defined in Table 1.

Table 1. Variable definition and measurements².

Variables	Acronyms	Type	Definitions
Dividend per share	DIV	Dependent	Represents the amount of dividend distributed per share to shareholders.
Environmental, Social, and Governance	ESG	Independent	Composite score reflecting the firm's environmental, social and governance practices.
Board culture diversity	BC	Independent	Measures the diversity of cultural backgrounds among board members.
Board gender diversity	BG	Independent	Indicates the proportion of women serving on the board of directors.
Size of board of directors	BSIZE	Independent	Denotes the total number of directors on the board.
CEO duality	DUAL	Independent	Dummy variable equal to 1 if the CEO also holds the position of board chair and 0 otherwise.
Board independence	INDP	Independent	Reflects the level of independence within the board, based on the share of non-executive directors.
Board-specific skills	BSS	Independent	Captures the variety and relevance of the professional skills possessed by board members.
Firm size	SIZE	Control	Proxy for firm size, typically measured by the natural logarithm of total assets.
Firm profitability	ROA	Control	Ratio of net income to total assets, used as a measure of firm profitability.

3.3. Empirical Approach

In the empirical analysis, we first used both fixed effects (FE) and random effects (RE) models to assess the relationship between CSR, corporate governance, and dividend payouts, taking into account the control for unobserved heterogeneity across firms. The fixed effects model accounts for time-invariant characteristics that would bias our estimates. The random effects model allowed for both the unobserved difference between firms and the within-firm variation, assuming that individual effects are uncorrelated with the explanatory variables, and provided a perspective for comparison.

To check the robustness and reliability of the results, we also estimated the models using the Generalized Method of Moments (GMM) in system specification. Developed by Blundell and Bond (1998), this method effectively addresses the problem of endogeneity,

which can distort results in corporate finance, through the use of internal instruments. Moreover, it produces more reliable and consistent results than ordinary least squares (OLS) models or fixed-effects and random-effects models, which can be biased by missing variables or measurement errors.

Furthermore, the SGMM is useful because it reduces the influence of biased variables and data errors. This technique is popular in financial research, particularly in studies of corporate finance (Arellano and Bover 1995) and how firms decide their capital structure (Wintoki et al. 2012). The econometric model to be tested is given in the following Equation (1):

$$DIV_{i,t} = \beta_0 + \beta_1 DIV_{i,t-1} + \beta_2 ESG_{i,t} + \beta_3 BSIZE_{i,t} + \beta_4 DUAL_{i,t} + \beta_5 INDP_{i,t} + \beta_6 BG_{i,t} + \beta_7 BC_{i,t} + \beta_8 BSS_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} ROA_{i,t} + \varepsilon_{i,t} \quad (1)$$

4. Empirical Results

4.1. Descriptive Statistics and Correlation Matrix

Table 2 presents descriptive statistics for all variables, based on a sample of 1376 companies. It describes the characteristics of companies in terms of governance, CSR, and firm specifics.

Table 2. Descriptive statistics.

Variables	Obs	Mean	Std. Dev.	Min	Max
DIV	13,760	3.021	39.456	0.007	18.807
ESG	13,760	58.265	18.265	0.626	95.766
BSIZE	13,760	9.934	3.684	3.000	30
DUAL	13,760	0.139	0.346	0	1
INDP	13,760	60.599	21.700	3.333	100
BG	13,760	30.982	11.919	4.167	100
BC	13,760	31.811	24.206	4.348	100
BSS	13,760	39.381	20.020	3.571	100
SIZE	13,760	20.084	5.494	8.000	27.132
ROA	13,760	4.544	14.125	−346.069	236.782

Dividend distribution is an important aspect of a company's financial situation and management strategy. A minimum value may indicate higher risk or a long-term growth strategy, while a higher maximum value can attract investors seeking stable income. In this dataset, dividend distribution ranges from 0.007 to 18.807, with an average dividend per share of 3.021. The standard deviation is high at 39.456, indicating significant variability in the values of dividend per share. Turning to ESG performance, a company's score reflects its commitments to environmental, social, and governance factors. The average ESG score is 58.265, indicating a relatively high level of sustainability performance. Scores range from a minimum of 0.627 to a maximum of 95.766. This variation illustrates the diversity of companies' approaches and outcomes in managing ESG factors, which are essential for assessing their social and environmental impacts.

In terms of corporate governance, the average board of directors has 10 members, with a standard deviation of 3.684. Board sizes vary greatly, ranging from 3 to 30 members. This shows that companies adopt different structures: some have smaller boards to make decisions quickly, while others have larger boards to benefit from varied expertise and different perspectives.

CEO duality is another important factor. It is represented by a binary variable ranging from 0 to 1, where 1 indicates that the same person is both CEO and chairman of the board. Board independence is also a key element of good management. On average, 60.6% of board members are independent, which shows a trend towards greater board autonomy. In

addition to the independence of board members, gender diversity on boards is becoming increasingly important. Indeed, the representation of women varies from 4.167% to 100%. On average, 31% of members have a standard deviation of 11.919. This indicates that there is a wide range of commitments to diversity: some boards achieve equality, others remain underrepresented. Cultural diversity within boards ranges from 4.34% to 100%, with an average of 31.81% and a standard deviation of 24.206, indicating substantial variation across firms. Indeed, some companies have strong cultural diversity on the board, while others are more homogeneous. Financial expertise on boards is a key factor in good governance. On average, 39.38% of board members have financial expertise. The standard deviation of 20.02 shows that there are significant differences between boards, which can influence their ability to monitor finances and make informed decisions. Companies with boards with financial expertise are likely better prepared to ensure long-term stability and performance.

Our average sample size is 20,084, with a standard deviation of 5494. This range encompasses companies of various sizes. Return on assets (ROA) also shows a wide variety of financial performance. ROA values range from −346,069 to 236,782, indicating that some companies exhibit high profitability, while others experience significant losses or exceptional gains. The ROA average is 4.54%, with a standard deviation of 14.125, reflecting a wide dispersion in the values of this variable.

Table 3 presents the analysis of multicollinearity among the independent variables, using Pearson’s correlation (PC), which measures the strength and direction of the linear relationship between two variables. Pearson’s correlation is widely used due to its simplicity and ease of interpretation. According to the results shown in Table 3, all correlations between the independent variables are very weak, indicating that there is no issue of multicollinearity in the dataset. Therefore, we conclude that the independent variables are not strongly correlated with one another, confirming the absence of multicollinearity in this study.

Table 3. Pearson correlation coefficient results.

	BSIZE	DUAL	INDP	BG	BC	BSS	SIZE	ROA
BSIZE	1.0000							
DUAL	0.1531 *	1.0000						
	0.0000							
INDP	−0.2944 *	−0.1640 *	1.0000					
	0.0000	0.0000						
BG	−0.0264 *	0.0584 *	0.0968 *	1.0000				
	0.0175	0.0000	0.0000					
BC	−0.2514 *	−0.0093	0.2262 *	−0.0921 *	1.0000			
	0.0000	0.5224	0.0000	0.0000				
BSS	−0.2448 *	−0.0263 *	−0.0063	−0.1267 *	0.1280 *	1.0000		
	0.0000	0.0176	0.4776	0.0000	0.0000			
SIZE	0.4216 *	0.1692 *	0.0236 *	0.0295 *	0.0247	−0.1089 *	1.0000	
	0.0000	0.0000	0.0329	0.0079	0.0900	0.0000		
ROA	−0.0753 *	0.0193 *	−0.0005	0.0065	0.0135	0.0640 *	0.0612 *	1.0000
	0.0000	0.0298	0.7662	0.5598	0.3555	0.0000	0.0000	

* indicates the level of significance at 5%.

4.2. Discussion of the Empirical Findings of the Fixed and Random Effect Models

In this subsection, we analyze the empirical results for the full sample. Specifically, we discuss the outcomes of the empirical strategy, which examines the relationship between CSR, corporate governance, and dividend payouts. Before interpreting the results from the Random and Fixed Effects models, we conducted endogeneity checks to ensure the reliability of our estimates. Endogeneity was checked using the Durbin–Wu–Hausman (DWH) test, yielding *p*-values greater than 5% (0.61 and 0.52), indicating no evidence of

endogeneity. Therefore, the model estimates can be interpreted as consistent and reliable. The empirical findings of the fixed and random effects are reported in Table 4.

Table 4. Fixed and Random effect Regression results.

DIV	Fixed Effect		Random Effect	
	Coef.	T-Statistic	Coef.	Z-Statistic
ESG	0.016	2.10 **	0.013	2.12 **
BSIZE	−0.020	−1.74 *	−0.023	2.24 **
DUAL	−0.819	−0.93	−0.796	−1.07
INDP	−0.007	−0.44	−0.010	−0.73
BG	0.001	2.05 **	0.002	2.09 **
BC	0.035	1.82 *	0.026	1.92 *
BSS	0.004	0.21	0.002	0.09
SIZE	0.023	0.35	0.075	1.25
ROA	0.095	3.65 ***	0.101	4.44 ***
Cons	−0.016	−0.01	−0.795	−0.680
Fisher	2.89		—	
Prob > F	0.0021		—	
Wald chi 2	—		34.18	
Prob > chi 2	—		0.001	
Durbin–Wu–Hausman test	6.421		7.14	
(<i>p</i> -values)	(0.61)		(0.52)	
Hausman test		6.50		
<i>p</i> -value		0.6892		
Obs		13,760		

***, ** and * indicate significance levels at the 1%, 5% and 10%.

The empirical findings show that ESG performance positively and statistically significantly affects the dependent variable for both models (fixed and random effects), suggesting that firms with superior environmental, social, and governance practices tend to achieve better performance as a result of possibly higher reputation, stakeholder trust, and risk management. This outcome is in line with signaling theory and stakeholder theory, which contend that companies with more robust ESG practices improve their reputation, foster stakeholder trust, and reduce informational asymmetries. The positive impact of ESG on dividends can also be explained through both signaling and resource-based perspectives. Strong ESG performance signals lower information asymmetry and financial risk, encouraging managers to maintain higher dividends as a positive signal to investors (Benlemlih and Girerd-Potin 2017). From a resource-based view, ESG fosters valuable intangible assets that enhance firm profitability and cash-flow stability (Hart 1995; Surroca et al. 2010). Consequently, ESG-oriented firms are better positioned to sustain generous dividend policies. Hence, we accept the hypothesis H1. This result is consistent with the findings of Adiputra and Hermawan (2020), Ben Salah and Ben Amar (2022), and Farooq et al. (2025).

In both models, the board size variable shows a negative and statistically significant relationship. This means that larger boards may face challenges regarding coordination or be slower to make decisions, both of which are likely to be detrimental to the performance of the firm. This result is consistent with agency theory, which contends that larger boards may have trouble coordinating and making decisions quickly, which could lower monitoring effectiveness and impair company performance. This result leads to accept the hypothesis, H2. It also confirms the results of Saliya and Dogukanli (2022) and Awad et al. (2023).

On the contrary, for both models, board gender diversity shows a positive and statistically significant effect, suggesting that gender-balanced boards are likely to add value toward performance by providing various perspectives and improving governance quality.

This outcome is in line with stakeholder and resource dependence theories, which contend that gender-balanced boards bring diverse perspectives, improve decision-making, and improve the standard of governance. Similarly, board culture diversity is positively related to the outcome. This suggests that having directors from different cultural backgrounds helps improve performance by enhancing creativity, strategic vision, and responsiveness to global issues. These findings support the hypotheses H5 and H6, and are consistent with the works of [Shehata \(2021\)](#) and [Goyala and Karb \(2022\)](#).

Finally, the positive and statistically significant coefficient of the return on assets (ROA) indicates that firms with higher profitability are better positioned to achieve superior outcomes, consistent with theoretical expectations on financial performance.

5. Robustness Check: The Use of the SGMM Approach

As a robustness check, we applied the SGMM to account for potential endogeneity and dynamic bias in the model. The SGMM estimator is based on lagged levels and differences in the variables as internal instruments, which increases the robustness of the results. The use of SGMM then provides consistent and unbiased estimates of the parameters of interest, enhancing the robustness of the empirical results. The results of the SGMM regression are given in Table 5³.

Table 5. SGMM Regression results.

DIV	Coef.	Std. Err.	Z-Statistic	p-Values
DIV (−1)	−0.312	0.109	−2.86	0.000 ***
ESG	0.044	0.014	3.18	0.001 ***
BSIZE	−0.170	0.077	−2.20	0.027 **
DUAL	−3.551	0.511	−6.95	0.000 ***
INDP	−0.044	0.009	−4.87	0.000 ***
BG	0.033	0.015	2.27	0.023 **
BC	0.172	0.011	15.14	0.000 ***
BSS	0.049	0.007	6.57	0.000 ***
SIZE	0.098	0.066	1.47	0.140
ROA	0.343	0.024	14.21	0.000 ***
Cons	−3.403	1.336	−2.55	0.011 **
AR(1)		0.21223		
Prob		0.8319		
AR(2)		0.58821		
Prob		0.5564		
Sargan test		26.13947		
Prob		0.9995		
Obs		13760		

*** and ** indicate significance levels at 1% and 5%.

Findings indicate that the lagged dividend per share, DIV (−1), shows a coefficient of −0.312. This relatively strong negative relationship suggests that a high dividend per share in the previous period is closely associated with a decrease in the current dividend per share. This may be due to factors such as prudent cash management, adjustments in earnings, or changes in financial priorities. The negative lagged DIV also reflects dividend smoothing, meaning firms adjust payouts gradually to maintain stability and avoid abrupt changes that could unsettle investors ([Lintner 1956](#)).

Regarding the ESG performance effect, it has a positive coefficient of 0.044, indicating that higher ESG scores are associated with higher dividend payouts. Companies that adopt more sustainable and responsible practices are more likely to distribute their profits to their shareholders. This positive sign confirms the hypothesis H1 and is consistent with

the findings of [Adiputra and Hermawan \(2020\)](#), [Ben Salah and Ben Amar \(2022\)](#), and [Farooq et al. \(2025\)](#).

For the board size effect, results show a negative coefficient of -0.170 , indicating that large boards tend to have lower dividends per share. Large boards are more prudent in their dividend plans due to the complexity of the decision-making process, and they have different strategic priorities. This result supports our second hypothesis, H2, and confirms the results of [Saliya and Dogukanli \(2022\)](#) and [Awad et al. \(2023\)](#). Similarly, a negative association is observed between CEO duality and dividend, with a coefficient of -3.551 . This means that when the roles of CEO and chair of the board are combined, companies are likely to reduce dividend payments. Centralizing decision-making may encourage more conservative financial approaches and a tendency to protect profit margins. This inverse effect confirms the third hypothesis, H3, and is consistent with the work of [El Ammari \(2021\)](#).

The coefficient of board independence is -0.044 , which means that when the board is composed of more independent directors, companies tend to pay smaller dividends. This suggests that independent boards might prefer long-term investment plans over focusing on short-term returns for shareholders. This outcome may reflect contextual factors, such as effective governance mechanisms, strong legal protection of shareholders, or a preference for retaining earnings to finance growth. All these factors can reduce the need for high dividends. To reconcile the negative SGMM coefficient (Table 5) with the insignificant fixed-effects estimate (Table 4), we emphasize the following explanations. First, the divergence might result from an endogeneity issue with board independence, since firms adjust the structure of their boards in response to their performance or risk levels, which are better captured by SGMM than Fixed Effect. Second, there could be a substitution effect that lowers the marginal value of more independent directors between internal governance and external oversight. Third, according to stewardship theory, independence may occasionally restrict managerial discretion that is necessary for long-term value creation rather than improving monitoring. The inconsistent outcomes across models are explained by these insights. Surprisingly, contrary to expectations, this result does not support our fourth hypothesis H4. On the other hand, the link between gender diversity on the board and dividend policy is positive, with a coefficient of 0.033 . Having more women on boards might lead to fairer and more balanced decisions, which can have a positive effect on dividend policies. This confirms the fifth hypothesis H5, and aligns with the findings of [Xuana et al. \(2020\)](#), [Vinjamury \(2023\)](#), and [Candy et al. \(2024\)](#).

Furthermore, results reveal a positive relationship between cultural diversity and dividends, with a coefficient of 0.172 . Boards of directors composed of administrators having heterogeneous cultures are more likely to implement generous dividend policies. This is due to a greater diversity of perspectives and a positive signal to shareholders' expectations at the international level. This finding supports our sixth hypothesis, H6, and is consistent with the work of [Shehata \(2021\)](#) and [Goyala and Karb \(2022\)](#). The financial experience of board members has a positive effect on the dividend per share, with a coefficient of 0.049 . This suggests that boards composed of members having financial knowledge are better at creating effective dividend strategies. This result confirms the hypothesis H7, and aligns with the studies by [Sarwar et al. \(2018\)](#), [Thompson and Manu \(2021\)](#), and [Wu et al. \(2021\)](#).

In summary, these results provide compelling arguments regarding the impact of CSR and corporate governance systems on dividend distribution. The consistency of our results with several previous studies ensures the credibility of our model and highlights the importance of internal governance systems and sustainability in the design of corporate financial policies.

6. Conclusions and Policy Recommendations

To examine how simultaneous independent effects of CSR performance and board characteristics affect dividend distribution, we used a dataset of 1376 firms from 23 European countries over the period 2014–2023. To control for unobserved heterogeneity within firms, we initially used the FE and RE models. To ensure reliable results and to avoid potential problems related to the link between variables, the SGMM was used to check the robustness of the results.

Empirical results indicate that CSR positively and significantly affects dividends per share in Europe, suggesting that firms with stronger CSR commitments tend to adopt more generous dividend distribution policies. In other words, companies with higher environmental, social, and governance performance generally tend to pay higher dividends. This trend can also be observed in terms of internal corporate governance. Regarding the effects of board composition, the results reveal that gender diversity has a positive impact on dividend distribution. Women on boards promote more balanced decision-making that is more aligned with shareholder expectations, leading to more generous dividend policies.

Similarly, the analysis reveals that cultural diversity has a positive and significant impact on dividend payments. The directors on the board come from a variety of cultural backgrounds, generally offering large and more diverse perspectives that lead to inclusive and dividend-beneficial decision-making. Additionally, cultural diversity promotes the board's ability to respond to stakeholder needs and changes in the international marketplace. Moreover, financial expertise is positively correlated with dividends per share. Directors with superior financial experience have more skills to develop and implement effective dividend strategies. Furthermore, their expertise leads to a better balance between the company's growth aspirations and the expectations of shareholders and ensures strategic alignment with solid financial governance.

Nevertheless, the results showed an opposite association between board size and dividend payments, implying that lower dividends per share are related to larger boards, most likely due to more prudent dividend policies. Additionally, when the CEO is also the chair of the board, there is a downward trend in dividend payments. This centralization of decision-making power may reflect a strategic priority focused on preserving profits for future investments or improving financial strength through risk management, rather than on short-term profits for shareholders. Moreover, board independence is also negatively correlated with dividend distribution. The most independent boards support long-term development projects, rather than favoring short-term returns for shareholders. While this strategy may encourage sustainable development, it does not necessarily coincide with the short-term interests of some investors. The negative coefficients for board size, CEO duality, and board independence are explained by agency theory. The inability of larger boards to coordinate, the possibility that CEO duality will weaken oversight and the possible preference of independent boards for cautious payouts to protect capital could all reduce dividends.

The findings of this study shift the focus to the simultaneous effect of CSR and board features on dividend behavior, an area previously overlooked. By reconceptualizing these factors as interdependent rather than separate determinants, the analysis advances the literature with a more holistic understanding of how governance and social responsibility interact to shape firms' financial decisions. This study addresses inconsistencies in previous research by clearly demonstrating how board characteristics and CSR performance simultaneously influence dividend policy. Combining FE/RE estimations with SGMM provides more reliable insights into endogeneity and heterogeneity problems. The findings support current theory by demonstrating that while larger boards, greater independence, and CEO duality lower payouts, board diversity and expertise increase them.

Several scholarly and professional recommendations are derived from these findings. To support sustainable and shareholder-aligned financial practices, policymakers should encourage CSR standards within corporate governance frameworks. Since diversity improves transparency, decision-making, and dividend alignment with long-term stakeholder interests, regulations may encourage boards to include members from a variety of professional, cultural, and gender backgrounds. Conversely, firms should assess the possible inefficiencies arising from excessively large boards or CEO duality and implement governance frameworks that avoid an undue concentration of power. To align financial returns with responsible management principles, corporate managers and investors should incorporate ESG performance and governance quality into strategic and investment decisions.

Despite the valuable insights provided by [Hakimi et al. \(2025\)](#), their study was limited to examining the effect of board characteristics on CSR performance, without addressing how CSR and governance mechanisms simultaneously affect the dividend payout decision. While this gap has been studied in this research, some limitations of this study are worth mentioning. For example, regulations also vary by country, which may affect the relevance of our results. Furthermore, during the COVID-19 pandemic, profits and dividends were affected, but this aspect was not taken into account. This suggests the need for scalable and adaptable policies. In this regard, integrating sustainability standards into financial strategy is becoming an increasingly important issue. In addition, another aspect of governance has been brought to light. A thorough understanding of these dynamics could reveal the link between dividends, governance, and sustainable performance. Thus, these fields of study pave the way for future research, which is essential for understanding and predicting companies' strategic choices in an environment marked by rapid economic change and ever-changing regulations.

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Notes

- ¹ Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, and United Kingdom
- ² The same dataset was used in the study of [Hakimi et al. \(2025\)](#). Both studies were conducted as part of a broader research project examining the relationship between corporate social responsibility (CSR), corporate governance, and dividend payout policies in European countries.
- ³ The empirical findings show that the residuals do not exhibit significant autocorrelation at the first-order AR (1), with a value of 0.212 and a probability of 0.831, or at the second-order AR (2), with a value of 0.588 and a probability of 0.556. According to the Sargan test, the instruments used are valid, with a value of 26.139 and a high probability of 0.999, confirming their lack of correlation with the error terms.

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