

ESG PRACTICES AND CORPORATE DIVIDEND DECISION: A MODERATED MEDIATING ANALYSIS

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Abstract *The study examines the direct and indirect roles of CEO efficiency and firm reputation respectively, in order to investigate the relationship between ESG practices and corporate dividend decisions of the Indian companies. The data is collected from NSE Nifty 500 and S&P BSE 500 index of the Indian listed firms during the period 2013 to 2022. The study also aims in addressing the drawbacks of the previous literature who assumes the direct relationships of the ESG disclosure on corporate dividend decisions which are inconclusive. Using the fixed effect model and structural equation model, the study demonstrates favourable and substantial correlations between ESG practices and dividend decisions that are conveyed through the corporate reputation. Further, through the application of the Instrument Variable Two Stage Least Square (2SLS IV) regression approach, CEO's efficiency amplifies the insignificant impact of ESG disclosure on the company's reputation. The results report that company reputation is a matter of stakeholders' perceptions and reputation is distinct from the actual character and behaviour of the companies with the longitudinal data. The outcome of the study offers insights into how lack of consideration of factors results in inconsistent findings as reported in the previous literature.*

Keywords: *ESG Practices, Dividend Policy, Instrument Variable Two Stage Least Square (2SLS IV) Regression, Firm Reputation, CEO Efficiency*

INTRODUCTION

The central objective of organisations in finance is dividend decision. Many ideas and a tonne of literature concentrate on how governance and financial characteristics affect dividend distributions (Chae et al., 2009; Kim, 2021; Shah, 2019). Recent tendencies towards social and environmental issues have an impact on corporate practices and tend to represent a significant paradigm shift. ESG (environment, social, and governance) policies that address how corporate resources are allocated recognise the difficulties facing both management and investors. Also, the received appreciation of the ESG policies by investors and society sets new priorities for the corporate and investment goals intended to enhance sustainability practices (Johansson & Fahlen, 2019). In light of this, financial conflicts between companies' decisions to adopt ESG practices and their obligations to pay dividends to investors have emerged.

Furthermore, incentives, ESG policies, rules, social responsibility, and corporate governance measures encourage revolutions in India's ESG practices. Sustainability practices evaluated by the ESG score and its disclosure familiarise investors with the ESG's standard parameters, which in turn encourages the adoption of ESG practices by businesses, investors, and other stakeholders. On the other hand, businesses that are transparent and adhere to stricter requirements for revealing their ESG practices perform better. This will result in the creation of long-term value that helps to draw the quality capital and investment. The latter side critical approach has been observed in the rising spectre of "greenwashing" whereby firms deliberately showcase social services only for better performance which may not be implemented and hide the poor performance (Brooks & Oikonomous, 2018). Burritt and Schaltegger (2010) evidenced that in the voluntary disclosure firm only discloses the information that presents a

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favourable picture. Contrarily, the critical approach also contends that failure by corporations to disclose their ESG policies may harm investors' interests, which means to undermine the company's reputation which results in the omission or reduction of dividend payments to investors. Corporates must therefore carefully consider both the direct and indirect influences on dividend decisions related to ESG policies and how ESG success affects them. The firm's reputation could be harmed by the critical approach to the disclosure of the sustainability practices. Corporates must therefore consider both the direct issues that determine dividend decisions connected with ESG standards and the indirect factors that affect those decisions. The firm's reputation could be harmed by the critical approach on the disclosure of the sustainability practices. Therefore, it is crucial for management to understand how ESG disclosure impacts a company's performance and reputation. The study seeks to understand the connections between ESG performances and corporate dividend policies through the communicated role of company reputation in light of the aforementioned factors as well as the influence of ESG orientation and performance on return to fulfil shareholders' expectations.

A transparent, high-standard ESG disclosure by the top management is essential since a better demonstration of the company's sustainability objectives will enhance value creation by offering the appropriate return. Focussing on the moderating impact of corporate governance on the dividend policy as studied by (Chae et al., 2009; Olud, 2020), impends the importance of strategies, ethical elements of leaders, CEO qualities, etc. Therefore, motivated through the literature, the current study aims to understand the moderating impact of CEO efficiency on the ESG-dividend payout linkages as suggested by (Versimo & Lacerds, 2015) on the mechanism that links the leader's integrity, including the CEO efficiency, with the company's ESG disclosure. The study is novel as it provides the evidence on the direct and indirect role of company reputation and CEO efficiency respectively on the ESG practices – dividend decisions linkages focussing on the Indian market where the literatures are scant. The paper is structured as follows: Section 1 describes the introduction following the context and theoretical framework in Section 2. Section 3 presents the literature review and hypothesis development. Section 4 demonstrates the conceptual framework followed by elaborating the research methodology in Section 5. Section 6 describes the results. Section 7 presents the robustness of the study, and Section 8 has concluded the study.

THE CONTEXT AND THEORETICAL FRAMEWORK

The decision to overinvest is driven by management discretion and free cash flow scenarios. This situation is more critical with limited growth opportunities. Singla and Samanta (2018) indicated that dividend distributions reduce the free cash flow which affects the agency problem. The market has observed a negative reaction to dividend omission and a positive reaction to dividend announcements (Ali, 2022). In light of this, management may increase dividend payments to reduce the agency's operational financial issues (Agarwal & Chakraverty, 2021). Furthermore, the payment of dividends could result in a high cost of debt, which would make it difficult for management and directors to agree on how to distribute profits to shareholders. They may decide on a flexible dividend strategy to stay away from underinvestment and high-interest rates on debt. This assumption, however, is called into question by the pressures of ESG practices as more money and capital are needed for sustainable growth and long-term gains concentrating on the social and environmental goals in India. The study gathers the understanding of the relevant associated theories in order to comprehend the ESG practices-dividend decisions linkages. They are Agency Theory, Stakeholder Theory, and Signalling Theory.

Agency Theory

Asymmetrical information presents problems for both insider and outsider stakeholders, according to agency theory. Stakeholders favour dividends over retained earnings as a result. Over time, the solutions to agency problems have evolved to include board independence, debt utilisation, and stringent management. Dividends and the disclosure of both financial and non-financial information are proposed as remedies to the agency dilemma (Lloyd & Page, 1985). Reinvesting profits back into the company rather than paying dividends to shareholders can harm the reputation of the company and only benefit the managers. Therefore, dividend distribution is the organisation's solution for minimising agency problems. More crucially, the non-financial disclosure encourages investors to have faith in the company's reputation. These might produce the low-debt external financing that companies could use to pay dividends. The positive correlations between ESG practices and dividend payouts, therefore, suggest a decrease in agency problems, knowledge asymmetries, and transparency policy.

Stakeholder Theory

Shareholders and stakeholders are the most important parts of any organisation, ESG practices and their high score can meet their expectations. High dividend payment ties to ESG practices show the business's commitment to stakeholders (Benlemlih, 2019). The company can set aside short-term cash flows for dividend payments in order to reinvest profits back into the business, improving ESG performance. In summary, the core idea is how sustainable business practices affect dividend payments and ultimately benefit all stakeholders. However, dividend decisions have contradictory implications in terms of threats, motivations, and benefits for the development of business (Bhattacharyya, 2007). Considering these viewpoints, the current study asserts that ESG practices of the business foster stakeholders' faith in the reputation of the organisation and, as a result, lessen information asymmetry.

Signalling Theory

This theory posits the line of communication that exists between market participants. It also refers to the exchange of signals between participants in the financial market. The management's open communication with stakeholders regarding business-related non-financial issues lowers the expenses associated with information asymmetry and financing while also improving the company's reputation. The management's disclosure of the sustainability report indicates how well-informed stakeholders are, which improves their support for the businesses. Reporting on sustainability is therefore a tool for evaluating managerial behaviour.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The extent of the literature has made on the ESG disclosure and the dividend payout decisions which is affected by the several factors who vary across the emerging markets. Through reviewing the national and international literatures, the study extracted the key variables and has developed the hypothesis.

ESG Practices and Corporate Dividend Decision

Non-financial disclosures can have an impact on the firm's dividend policy in addition to financial indicators (Zahid,

2022; Johansson & Fahlen, 2019). The earning and debt cost channels are the two different routes of nonfinancial disclosures for corporate dividend decisions. According to the earning approach, disclosing non-financial information enhances a company's reputation, which tends to lessen information asymmetry between internal and external investors. Consideration of the non-financial disclosure strategy that builds business reputation improves access to capital from investors and encourages managers to increase dividend payments by lowering the cost of financing. (Zahid, 2022) evidenced the negative relationship between dividends and the cost of debt binds the fewer constraints for the company's results in paying higher dividends. The nonfinancial disclosure by the companies provided possible information about ESG to the investors (Ghoul et al., 2011). And thus, as a result, due to the reduced information asymmetry, the high integrity, transparency and decreasing transaction costs benefit the dividend distributions. The ESG disclosure of the organisation signals the financial market information that the company can control social and environmental risks. Reporting ESG aspects builds strong corporate governance and a good company reputation in the eye of the investors. ESG reporting's perceived risks are lower, which decreases the risk premium and encourages companies to pay out higher dividends. The latter, a learning channel, has a favourable relationship with dividend payments (Mitton, 2004). It serves as an example of how non-financial disclosure conveys the company's dedication to its stakeholders, which is the primary factor in profitability. The company's ESG policies are valued by investors, which leads to a number of benefits including increased employee productivity and strengthening brand equity. By offering the proper return in the form of dividends, these features help stakeholders protect their interests.

Previous research on sustainable practices demonstrated the positive relationship between dividend policy and CSR (Pham & Tran, 2020; Mitton, 2004; Wang et al., 2022). According to Wang et al. (2022), companies with higher ESG rankings pay larger dividends. They discovered that a company's non-financial disclosures reduce the perceived risks of investors, which strengthens stakeholder relationships with the companies and increases investment efficiency (Wang et al., 2022). More so, as shown by (Zahid, 2022) who asserts that dividends and sustainability practices develop simultaneously, indicating that ESG policies do not harm shareholders' expectations for dividends. However, several authors (Niccolo et al., 2020; Ni & Hang, 2019) noted a conflict between the dividend policy and ESG principles. They claim that because of the negative correlation between them, firms may reinvest

profits which have been generated through reducing loan costs. Contradictory parts of their relationship show that in the long run, the profit that has increased as a result of ESG practices needs financial rewards. As a result, investors with longer time horizons favour companies that generate high ESG scores, and vice versa. Therefore, the proposed hypothesis is,

H₁: The ESG practices positively affect corporate dividend decisions.

Intervening Role of Firm Reputation on the ESG-Corporate Dividend Decisions

Zahid (2022) evidenced that a company's involvement in ESG practices would enhance the firm's governance system as well as its reputation. An organisation with a good reputation can raise funds from an external source with less debt, which helps the business keep the external funds for dividend payments. The notion that investors connect an organisation's nonfinancial disclosure with good corporate governance and a positive reputation (Syed, 2018; Pharm & Tran, 2020), therefore, this positive aspect reflects the favourable associations between ESG practices and dividend payment.

However, a company's corporate reputation represents its quality, which stakeholders evaluate by contrasting its actions with those of other companies. According to Pradhan (2016), a company's reputation is how people perceive it, including how well-known or unknown it is. According to the current research, which takes into consideration the many different points of view, the firm's reputation is represented by its enterprise value, which includes its market capitalisation and cash position.

Lai et al. (2010), reported partial mediation between CSR, brand performance, and corporate reputation. Pradhan (2016) evidenced the enhanced firms' performance through the transmitting effects of the firm's reputation. Additionally, according to (Pham & Tran, 2020; Zahid, 2022; Masmoudi & Barhoumi, 2023) research, showing off the company's social behaviour may increase the public's faith in its shareholders, which might help the company's reputation. This study is inspired to investigate the idea of firm reputation as an intervening factor in ESG practices and dividend decisions by the literature concentrating on firm reputation. As a result, the current study assumes the favourable impact of corporate reputation on the ESG-dividend decision relations while focussing on the diverse viewpoints of the literature. Hence, the proposed hypothesis is,

H₂: Firm reputation positively mediates the ESG practices – corporate dividend decision relationship.

ESG Performance - Corporate Dividend Decisions Linkages and the Moderating Role of CEO Efficiency

According to research, management must design its strategy around decisions regarding the appropriate dividend distribution and shareholder retention because the organisation's primary goal is to maximise shareholder wealth (Vihan, 2020). The instances in which managers distribute dividends to shareholders for the benefit of the company attracts the attention of academics as well. The personal key characteristics of the CEO, who is responsible for developing the corporate strategy and may alter the strategic choices made by the company with a focus on dividend policy, are not included in these viewpoints. Despite all of these measures and in an effort to reduce the agency issue, determining the dividend payout results in a showcase of the managers' efficiency (Elyasiani, 2015). Indeed, the research on dividend distribution demonstrated the CEO's crucial role and its power in developing markets like India (Pradhan, 2016). In essence, researchers suggest that a manager's efficiency and degree of confidence have a significant impact on dividend payment decisions, which tend to improve the success of the company. When focused on environmental disclosure, Brockman and Unlu (2011) analysed the agency cost version of the dividend policy lifecycle and found the transparent disclosure results in larger dividend payments. As a result, the management observed that a leader's ethical behaviour improves the company's brand, which encourages investors to place their confidence in the company. Trevio et al. (2000) added that the moral responsibility of the leader is in the same line. Additionally, ethical leaders influence the strategic choices made by the company, such as the dividend payout, which demonstrates their effectiveness, in addition to leading the organisation for ethical ideals. Additionally, the CEO's high efficiency reflects better managerial company judgements. This step results in the business's ESG features being taken into consideration. The firm's involvement in ESG issues would increase investor confidence.

As a result, their work lays out the theoretical framework for considering the potential effects of CEO efficiency on ESG performance, dividend payments, and links with firm reputation. Additionally, a CEO with greater efficiency would improve a company's performance, which would increase the public's faith in the company. This move has the effect of improving the companies' reputation by increasing their positive public image. A firm's reputation is generally impacted by ESG practices when management efficiency is higher. Therefore, the proposed hypothesis is,

H₃: Manager's efficiency positively moderates the relationship between ESG practices- firm reputation.

CONCEPTUAL MODEL

The study aims to examine the indirect and direct roles of firm reputation and CEO efficiency, respectively, in order to investigate the relationships between the ESG practices and corporate dividend decisions of the Indian listed companies.

Apart from these, the selected control variables have also been used which have its potential impact on the linkages which have been discussed further. Fig. 1 proposes a conceptual framework to illustrate the explored relations in the study.

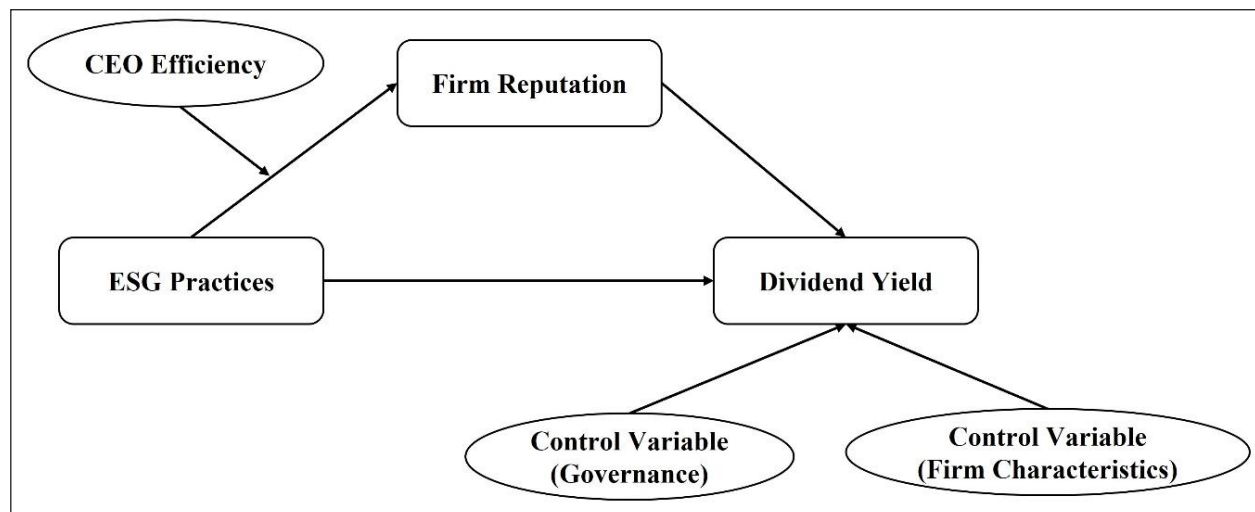


Fig. 1: Conceptual Model

RESEARCH METHODOLOGY

Research Design

The present study aims to examine the ESG-dividend decision linkages transmitted through corporate reputation while incorporating the moderating role of CEO efficiency on the Indian listed companies. The study is motivated by the literature made on ESG practices and its reporting by corporations across the globe and also takes into account its popularity. As a result, the study identifies Indian listed companies on the National Stock Exchange (NSE) 500 Nifty index that consistently disclose ESG information using data obtained from Bloomberg and Prowess IQ for the years 2013 to 2022. After eliminating the missing data from each of the variables that has been chosen, 98 companies are taken as samples from the study's overall dataset. The topic of multicollinearity among the independent variables has been examined in the study. The endogeneity problems have also been evaluated using a variety of tools. Regression techniques have been used including the Hausman test for the baseline model, the 2SLS IV (instrument variable) regression method and the SEM technique to determine the mediation effect of the firm reputation on the ESG - dividend payment linkages of the study.

Variables Descriptions

Dependent Variable

The present study has used the dividend yield to measure the dividend decision of the firms. The dividend yield (Chae, 2009; Kim, 2020) is representing the consistent measures of the corporate dividend.

Independent and Moderating variable

The yearly aggregated ESG disclosure is the main independent variable of the study. As suggested in the prior literature (Zahid et al., 2022; Pham & Tran, 2020) that the ESG disclosure score ranges from the scale of 0 to 100 determined based on the corporates' financial and nonfinancial indicators considered as a proxy variable to represent the main independent variables of the study to know it's the effect on the dividend decisions.

In particular, the literature on CEO efficiency in developing markets like India is less developed. The purpose of this research is to measure the moderating impact of CEO efficiency in order to understand the relationships between ESG practices and the dividend decision policy of Indian companies. This is done in light of the need for the

development of such practices in the emerging market and inspiration from prior literature (Eisenbeiss et al., 2015; Pharm & Tram, 2020) that used CEO integrity, including CEO efficiency as a proxy a variable as the core role as a moderator. The majority of the literature has employed surveys of employee perceptions of CEOs to gauge CEO integrity, the authors note while examining the literature. In addition to these, the studies undertaken also looked at the impact of CEO power (Sheikh, 2022) and CEO traits (Wood & Vilkinas, 2005; Chu et al., 2022) on dividend policy. However, these methods have a few drawbacks, such as the provided information is objective because it was dependent on the CEO's personality as well as the employee's perspective. More specifically, it emphasises on cross-sectional statistics while ignoring longitudinal components like the CEO's change, awareness, and attitude. The present study has used CEO efficiency as a moderating variable, which is proxied by the sales-to-asset ratio and sales-to-expenditure ratio, which are calculated by taking into account the reported accounting financial data of the firms, in order to capture the ethical leadership focussing on his efficiency impact on the dividend payout policy and to overcome the shortcomings of the prior literature. It is calculated as management efficiency is correlated with both the manager's capability and internal governance structure. $CEO\ efficiency = (Sales\ to\ asset\ ratio / board\ independence)$ and $(Sales\ to\ expenditure\ ratio / board\ independence)$.

Selected proxy variables' calculations are consistent with (Pham & Tran, 2020). Since the current study is only focused on one country (India), it makes the assumption that the firm reporting elements comply with local regulations. As a result, the reporting standard of auditing is not taken into account when calculating CEO efficiency.

Mediator Variable

The mediating relationship between ESG and dividend decisions has been examined using firm's reputation (Sayed et al., 2018; Pharm & Tram, 2020; Pradhan, 2016). Enterprise value has been used as a proxy variable to gauge the firm's repute which is calculated as $(market\ capitalisation + total\ debt - cash\ equivalent)$.

Control Variables

Following the recent literature and empirical studies made on the determinants of the dividend policy, the study identifies the number of control variables that may have a potential impact on the dividend payout policy of the firms. The identified firm and corporate governance characteristics of the firms that isolate the ESG practice's impact on the dividend payout policy are as under:

Firm Characteristics

Firm performance (proxied by return on assets ratio), firm size (logarithm of total assets), free cash flows (logarithm of free cash flows), leverage (proxied by total debt to equity ratio), profitability, and free cash flows are the main determinants of the dividend policy of the firm who are having the positive correlations with the dividend payout policy (Boshnak, 2021; Amahalu et al., 2017; Shah, 2020; Mehndi et al., 2017).

Corporate Governance Characteristics

The three recognised control variables of corporate governance that influence the company's dividend payment policy are board size (the number of board members), board independence (the percentage of independent directors), and CEO duality (the CEO's dual position measures "1" otherwise "0"). (Mehdi et al., 2017; Najjar & Kilincarlan, 2016; Boshnak, 2021).

Dummy Variable

Crisis Period

The study period spans the Pandemic-related crises, which has an impact on the company's financial standing and reputation. As a result, the crisis period (i.e., 2020 and 2021 as it reached its peak) has been utilised as a dummy variable in the analysis to account for any potential effects it may have on ESG practices and dividend payment choices. It indicates "1" for the crisis time and "0" otherwise to reflect the same to gauge how it affects dividend payment.

Empirical Models

To test H₁, the following is the model estimation whereby, the dividend yield and dividend to sales ratio are used respectively as the dependent variables and the ESG practices have been used as a predictor. The model includes the control variables to evaluate its potential effects on dividend payout policy.

$$\text{Dividend yield} = \alpha + \beta_1 \text{ESG} + \beta_2 \text{firm size} + \beta_3 \text{free cash flows} + \beta_4 \text{leverage} + \beta_5 \text{profit} + \beta_6 \text{board size} + \beta_7 \text{board independence} + \beta_8 \text{CEO duality} + \beta_9 \text{crisis} + e \quad \text{-----} \\ \text{---- (1)}$$

Following Pharm and Tram (2020), the study has developed models (2) and (3) applying the structural equation modelling techniques. In model (2) the ESG practices are the predictors whereas company reputation is the dependent variable. In model (3) company reputation is the predictor whereas

dividend yield is the dependent variable alternatively. Few control variables are used to evaluate its potential impact on a firm’s dividend policy.

$$\text{Company Reputation} = \alpha + \beta1\text{ESG} + \beta2 \text{ firm size} + \beta3 \text{ free cash flows} + \beta4 \text{ leverage} + \beta5 \text{ profit} + e \text{ ----- (2)}$$

$$\text{Dividend Yield} = \alpha + \beta1 \text{ company reputation} + \beta2 \text{ firm size} + \beta3 \text{ free cash flows} + \beta4 \text{ leverage} + \beta5 \text{ profit} + \beta6 \text{ board size} + \beta7 \text{ board independence} + \beta8 \text{ CEO duality} + \beta9 \text{ crisis} + e \text{ ---- (3)}$$

For testing hypothesis (3), and evaluating the moderating impact, the study has applied the interaction variable which is the product of CEO efficiency with the ESG practices on company reputation. The equation covers the ESG practices, CEO efficiency and intersection variables are the predictors and also the control variables to capture its impact on the firm reputation.

$$\text{Company Reputation} = \alpha + \beta1 \text{ ESG practices} + \beta2 \text{ CEO integrity} + \beta3 \text{ ESG*CEO integrity} + \beta4 \text{ free cash flows} + \beta5 \text{ leverage} + \beta6 \text{ profit} + \beta7 \text{ firm size} + \beta8 \text{ board size} + \beta9 \text{ board independence} + \beta10 \text{ CEO duality} + \beta11 \text{ crisis} + e \text{ ----- (4)}$$

EMPIRICAL RESULTS AND DISCUSSIONS

This section discusses the results of the estimated equations.

Descriptive Statistics and Correlation Matrix

The overall descriptive statistics for the variables provided are shown in Table 1. The dividend yield and dividend to sales has an overall mean and standard deviation of 1.4572, -4.6116 and 1.72449, 7.03943 respectively. The ESG’s high-level means (37.8156) with a standard deviation of (11.91690) reflects its consistent role in corporate dividend policy. The mean average of the companies’ total assets is 11.0935. Furthermore, the mean average for profitability, leverage, and free cashflows is 9.5135, 20.6139, and 5.0446 respectively, reflecting their consistency in supporting the stable dividend policy.

Table 1: Descriptive Statistics

	Mean	Std. Deviation
Dividend Yield (percentage)	1.4572	1.72449
ESG Disclosure (score)	37.8156	11.91690
Enterprise Value (in INR)	4.2941	.84641
Free Cash Flows (ratio)	5.0446	10.47909
Firm Size (in INR)	11.0935	1.20049
Profitability (in INR)	9.5135	7.87159
Leverage (ratio)	20.6139	20.28001
Board Independence (in %)	5.8539	1.85376
CEO Duality	.8227	.47333
Crisis (time period)	.2000	.40014
CEO Efficiency 1	.1646	.15013
CEO Efficiency 2	.1761	.10003
ΔESG	2.2372	19.87361
Dividend to Sales (ratio)	-4.6116	7.03943

Source: Calculated by authors.

The correlations between the dependent and independent variables are shown in Table 2. The outcome indicates a positive correlation of dividend yield with the ESG disclosure, firm size, corporate reputation, leverage, profitability, CEO duality and crisis period. It shows

the negative correlations of dividend yield with board independence and ΔESG. Moreover, the dividend yield and CEO efficiency 1 and 2 are positively correlated. Moreover, the negative correlations of dividend yield and dividend to sales is representing the market volatility effects.

Table 2: Correlations of the Variables

	DY	ESG	ΔESG	EV	FCF	FS	LV	PR	BI	BS	CRISIS	CEOD	CEOINT1	CEOINT2
DY	1.000000													
ESG	0.181485	1.000000												
ΔESG	-0.027146	0.348845	1.000000											
EV	0.148841	0.542763	0.171250	1.000000										
FCF	0.047009	0.084250	0.004037	0.078266	1.000000									
FS	0.334561	0.496245	0.119541	0.764165	-0.230302	1.000000								
LV	0.103822	-0.053120	-0.004988	0.146230	-0.515024	0.461206	1.000000							
PR	-0.016581	0.003004	-0.049839	0.110301	0.690609	-0.357439	-0.573138	1.000000						
BI	-0.232198	-0.127114	-0.140814	-0.083193	-0.037836	-0.097176	0.036318	-0.003252	1.000000					
BS	0.135027	0.315267	0.114035	0.370893	-0.002633	0.364300	-0.015624	-0.006565	-0.159679	1.000000				
CRISIS	0.098203	0.243248	0.078474	0.132762	-0.029121	0.104155	-0.001927	-0.040927	-0.104393	0.083938	1.000000			
CEOD	0.135191	0.165964	0.073724	0.107742	0.042879	0.099834	-0.050613	0.021791	-0.072378	0.068413	0.081312	1.000000		
CEOINT1	0.066874	0.069384	0.047979	-0.091084	0.238449	-0.228800	-0.266351	0.298515	-0.405448	-0.024260	-0.017825	-0.040875	1.000000	
CEOINT2	0.169882	0.205808	0.101285	-0.019445	0.164042	-0.104837	-0.397168	0.238602	-0.613092	0.144899	0.073195	0.038617	0.462198	1.000000

Source: Calculated by authors.

Strategy Estimation

The highest values of the variance inflation factor (VIF) for each model are shown in the respective tables. The study uses this measure to evaluate the multicollinearity among the explanatory variables. The highest VIF for each variable has been found lower than the threshold value of 10. The results of the study have not evidenced the multicollinearity problem with the dataset.

The study then evaluated the major predictor's possible endogeneity (i.e., ESG disclosure). When a variable and an error term are correlated, the variable is endogenous (Pharm & Tran, 2020). The pooled OLS model with dividend yield as the dependent variable has been used to get the necessary residual R1. No strong associations between the residuals and the dependent variable were found in the study ($P > 0.05$). The study uses the Wald test and F statistics of endogeneity for the ESG disclosure to evaluate the loop causality between the dependent and independent variables. Large ($P > 0.05$) values suggest that the base equation has not serious endogeneity problem.

To estimate equation (1) using dividend yield as the dependent variable, the Hausman test has been performed. An appropriate suitable model (i.e., fixed or random effect) for analysis purposes has been selected through the P – Values. Obtained results of the Hausman test for the selection of the appropriate model has mentioned in Table 3. To know the indirect effect of firm reputation, the study has framed the SEM equations (2) and (3). To assess the robust impacts, bootstraps with 1000 replications at a 95% confidence level have been run (Pharm & Tran, 2020). Table 4 displays the outcome.

Further, to examine the moderating impact of CEO efficiency on company reputation, equation (4) has been developed. To assess the loop causality between the dependent and independent variables, the study conducts the Wald test and F statistics of endogeneity of the ESG disclosure. ($P < 0.05$) indicates the endogeneity issue between the dependent (company reputation) and independent variable (ESG disclosure). The study has therefore employed the instrument variable Two-stage least square regression method to fix the endogeneity problem. (Pham & Tram, 2020) Δ ESG has been employed as the instrument variable to measure ESG practices (Zahid, 2022). Next, the study has also run the Wald test and F statistics to measure the endogeneity issues with the instrument variables. The ($P > 0.05$) shows no endogeneity issue with the instrument variable. The result is presented in Table 5.

ESG Practices and Corporate Dividend Decisions

Table 3 demonstrates the outcome of equation 1 which depicts the impact of ESG practices on the dividend yield of Indian firms. The result shows that the adjusted R^2 of model 1, which measures the fitness of the model is 61% which is relatively good. Results of the model 1 reflect the positive and significant influence of ESG practices on the dividend yield. Accordingly, the study accepts hypothesis 1. More so, the results report the negative significant impact of board size on dividend yield. It also reflects the positive and significant impact of the crisis period on dividend yield. It also indicates the negative impact of free cash flows on dividends which reflects the serious agency issue.

Table 3: Influence of ESG Practices on Dividend Policy
(Baseline regression results)
Dependent Variable: Dividend Yield

Variables	Co-Efficient	T-Statistics	P-Value
ESG Disclosure	0.020046	2.798460	0.0052
Free cash flows	-0.373424	-0.670758	0.5026
Firm size	0.093907	0.251610	0.8014
Leverage	0.004473	0.725883	0.4681
Profit	0.008660	0.719945	0.4718
Board independence	0.008709	1.512758	0.1307
Board size	-0.040081	-2.045845	0.0411
CEO duality	0.033996	0.236257	0.8133
Crisis	0.330386	3.185119	0.0015
Constant	-0.058898	-0.058898	0.9530
Adjusted R-squared	0.609477		
Prob(F-statistic)	0.000000		
Hausman Test	0.0000		
Max. VIF	2.249		

Source: Calculated by authors

The positive effect of ESG practices on dividend decisions demonstrates that shareholders' expectations of dividend returns are not negated by Indian companies' adoption of ESG practices. Thus, it is evident that dividend payments are a top priority for Indian companies. They help in decreasing agency conflicts while lowering information asymmetry and sending a positive message to the financial market. The study's results are supported by (Zahid, 2022; Wang et al., 2022). Continuing the ability of the ESG practices in boosting the dividend generating through the firm's profitability ($P > 0.05$), the present study shows an

insignificant impact on dividend yield with the profitability. It supports the argument that the firm may reinvest the profit for further expansion (Boshnak, 2021; Mehndi et al., 2017; Shah et al. 2024). Additionally, it also supports the critical approach who describes the opportunistic behaviour of the management who may utilise the profit for their own benefit. With the exception of the enterprises choosing to adopt ESG practices, the model's results show no variations in dividend values over time. The results imply that Indian firms may use their profits towards ESG initiatives rather than dividend payments. Contrary to the outcome, it also demonstrates that Indian companies' dividends are increased by disclosing their ESG practices. The study's findings lend credence to the claim that Indian corporations report ESG policies, which are extremely admirable despite their voluntary disclosure. Additionally, it can make the regulatory body more concerned about the disclosure issues while demotivating shareholders to support companies' ESG projects. Even more so, the observation that free cash flows have a negative impact on dividend yields suggests that Indian company managers act opportunistically by using profits for their personal gain rather than paying dividends to shareholders. The study indicates that firm size has an insignificant effect on dividend yield and concludes that firm size has no impact on payout decisions (Boshnak, 2021; Shah & Paliwal, 2022). It implies that the company can decide how to distribute dividends regardless of its size. As a result of their investment in ESG practices, large-size companies typically distribute lesser dividends. Due to low monitoring costs and the effect of information asymmetry,

which tends to lessen agency difficulties, small companies may distribute greater dividends. Furthermore, leverage has little to no effect on dividend yield. The study's findings are in line with the Indian corporations' priorities of retaining dividends regardless of debt levels.

The present study implies that individual components of corporate governance practices reflect the mixed results of the study. While observing the P-values, the study reports no significant impact of board independence and CEO duality on the dividend yield. The only component of the governance structure (i.e., board size) implies a negative and significant effect on dividend yield. Supporting the current study results, (Boshnak, 2021) reported that due to coordination issues larger board sizes tend to pay lower dividends and vice versa. More so, the insignificant effect of board independence suggests that the involvement of outside directors apprehends the quality of internal monitoring which tends to improve the governance structure of the business (Mehdi et al., 2017; Boshnak, 2021). Moreover, the dual role of CEO and chairman is an ineffective tool to reduce expropriation risk in the Indian markets and less effective for board control. Contradictory to the result, the study does not support the argument that duality affects poor financial performance and in turn lower dividend payments. While observing the crisis period ($P < 0.05$) effect, the study implies the positive and significant impact of the crisis period on dividend yield. The results evidence that the crisis period affects the financial position of the business and in a way affects the dividend decisions.

Intervening Role of Firm Reputation on ESG - Dividend's Relationship

Table 4: Mediating Role of Firm Reputation in the ESG Disclosure - Corporate Dividend Decision Relation

Variables	Estimates	CI 95%		P-Value
		Lower Bound	Upper Bound	
Direct Effects				
Dividends <--- ESG disclosure	.029	.015	.048	0.013
Indirect Effects				
Firm reputation <--- ESG disclosure	--	.028	.077	.003
Dividends <--- Firm reputation	--	.070	.928	.025
Control Variables				
Free cash flows	1.000	.000	.000	...
Firm size	-3.513	-4.344	-2.773	.003
Leverage	-163.514	-190.684	-136.348	.004
Profit	84.356	77.962	90.466	.003
Board independence	-1.226	-8.785	6.665	.812
Board size	-1.403	-4.290	1.716	.409
Dummy Variables				
CEO duality	.130	-.147	.453	.288
Crisis	-.215	-.548	.150	.266

Source: Calculated by authors.

The results of equations (2) and (3) obtained from the SEM bootstraps are presented in Table 4. Bootstraps offer an empirical approximation to the sample approximation for the indirect effects in order to obtain the confidence interval of estimates. Model 3 displays the solutions to equations (2) and (3), where dividend yield is used as the dividend representatives. The firm’s reputation is used to evaluate the links between ESG and dividends. Table 5 demonstrates the significance and insignificant status of the direct and indirect effects. The results observe the significant relationship between ESG practices on dividend yield ($P < 0.05$). The table then extracts the results when firm reputations intervene between the dividend and the ESG relationship. It reports the significant impact of ESG practices on firm reputation ($P < 0.05$; equation 2) along with the significant impact on dividend yield ($P < 0.05$; equation 3). After that to check the robustness of the results the study has run bootstraps with 1000 replications at 95% confidence (Pham & Tram, 2020). The result observes the bootstrap’s upper bound and lower bound values along with the two-tailed significance level reflecting that zero does not fall within the limit which verifies the significant impact of the firm reputation on the ESG disclosure and dividends decision.

Accordingly, the outcome concludes that the ESG-dividend decision relationship is mediated through firm reputation. Hence, the outcome of the study accepts the developed hypothesis 2 which reports that the ESG practices and

dividend decision relationship is mediated through firm reputation. The result is supported by (Pham & Tram, 2020; Pradhan, 2016). The significant impact indicates that ESG practices affect dividend decisions which are transmitted through the company’s reputation. A similar number of studies identify the direct relationship which is inconclusive. The study’s findings are consistent with Pham and Tram (2020); Pradhan (2016) who look at the indirect effects of a company’s reputation with an emphasis on CSR and business performance. Since ESG practices are optional in India, the study’s findings confirm that ESG practices, which are spread through a company’s reputation, have an impact on the choice to declare a dividend by an Indian listed company.

ESG-Dividend Nexus: Moderation of CEO Efficiency through Intervening Role of Firm Reputation (2SLS IV Regression Results)

Table 5 shows the moderating effect of CEO efficiency using the 2SLS IV regression technique. The findings show that the company’s reputation is positively and significantly impacted by CEO Efficiency 1 (as measured by the sales to asset ratio) and CEO Efficiency 2 (as measured by the sales to expenditure ratio). As a result, hypothesis (3), which shows that the company’s reputation is enhanced by the CEO’s increased efficiency, is accepted.

Table 5: Moderating Role of CEO Efficiency

Variables	Model 5 (CEO INT 1)			Model 6 (CEO INT 2)		
	Co-Efficient	T-Statistics	P-Value	Co-Efficient	T-Statistics	P-Value
ESG disclosure	0.023464	4.256335	0.0000	0.039490	3.639177	0.0003
CEO Efficiency 1	10.97176	2.755889	0.0060	-	-	-
CEO efficiency 1*ESG disclosure	-0.318879	-3.047381	0.0024	-	-	-
CEO efficiency 2	-	-	-	30.03428	2.462437	0.0140
CEO efficiency 2* ESG disclosure	-	-	-	-1.014471	-2.992069	0.0028
Free cash flows	-0.321354	-2.248719	0.0248	-0.447425	-3.018940	0.0026
Firm size	0.696546	19.53566	0.0000	0.743031	28.27647	0.0000
Leverage	0.001370	1.494601	0.1353	0.000535	0.516176	0.6058
Profit	0.034169	16.82697	0.0000	0.035959	17.84099	0.0000
Board independence	0.000267	0.211570	0.8325	-0.004945	-2.984505	0.0029
Board size	0.000714	0.184887	0.8534	0.002150	0.559966	0.5756
CEO duality	-0.022231	-0.764434	0.4448	-0.020454	-0.703601	0.4819
Crisis	-0.000878	-0.027394	0.9782	0.008415	0.271714	0.7859
Constant	-4.510443	-15.92191	0.0000	-5.223926	-15.54285	0.0000
Adjusted R-squared	0.727024	-	-	-	0.723015	-
Prob(F-statistic)	0.000000	-	-	-	0.000000	-
Max. VIF	7.757	-	-	5.590	-	-

Source: Calculated by authors.

Furthermore, the study's findings highlight the critical role of the CEO's efficiency as a moderator as ESG practices are used to boost a company's reputation. The findings of the study are consistent with (Abernathy et al., 2017), who discussed the relationship between ESG disclosure and company performance in their literature review study. With improved managerial efficiency, the company may be able to perform effectively, which in turn results in a dividend distribution that meets the expectations of the shareholders. This is indicated by the positive and significant influence of CEO integrity1 and CEO integrity2 on the firm's reputation. The study makes use of the interacting variables to better comprehend the effects of outliers (the product of CEO integrity and ESG). The conclusions are also supported by the intersecting variables' positive and significant influence. The study's findings are consistent with the claim that corporate reputation plays an intermediary role in how much risk assessments and governance standards influence dividend

decisions (Zahid, 2022; Mukherjee, 2024). Furthermore, it supports the claim that non-financial disclosure has improved investor confidence which in turn has improved the firm's reputation, by demonstrating the positive and significant impact of ESG practices. Additionally, the results show free cash flows, firm size, and profit have a significant impact on the firm reputation for Indian listed companies, which helps to minimise the agency problem through asymmetry of information that spreads good news in the financial market.

ROBUSTNESS OF THE STUDY

Using the lag values for the independent variables, the study evaluates the robustness of the finding (Brockman & Unlu, 2011; Pham & Tran, 2020). The process has utilised the baseline model with the independent variable values for the equation (4) having a one-year lag. Table 6 shows the result, which is almost consistent with the earlier findings.

Table 6: 2SLS Regression Results

Variables	Model 5 (CEO INT 1)			Model 6 (CEO INT 2)		
	Co-Efficient	T- Statistics	P-Value	Co-Efficient	T- Statistics	P-Value
ESG disclosure	0.023196	3.754356	0.0002	0.033120	3.531426	0.0004
CEO efficiency 1	7.609675	2.126772	0.0337	-	-	-
CEO efficiency1 *ESG disclosure	-0.250341	-2.498308	0.0127	-	-	-
CEO efficiency 2	-	-	-	13.48331	1.751126	0.0803
CEO efficiency2 *ESG disclosure	-	-	-	-0.691348	-2.768362	0.0058
Free cash flows	-0.422417	-2.349332	0.0190	-0.576153	-3.200726	0.0014
Firm size	0.683856	15.84327	0.0000	0.715692	20.46110	0.0000
Leverage	0.001302	1.233877	0.2176	-0.000521	-0.520265	0.6030
Profit	0.034995	14.19285	0.0000	0.036972	15.53469	0.0000
Board independence	-0.000106	-0.072473	0.9422	-0.007547	-3.555003	0.0004
Board size	8.29E-06	0.001807	0.9986	0.002922	0.685304	0.4933
CEO duality	-0.032616	-0.980805	0.3270	-0.032845	-1.003444	0.3159
Crisis	-0.035324	-0.881385	0.3784	-0.024280	-0.644133	0.5197
Constant	-4.301320	-12.10231	0.0000	-4.447940	-15.13770	0.0000
Adjusted R-squared	0.686129			0.692718		
Prob (F-Statistic)	0.000000			0.000000		

Source: Calculated by authors.

CONCLUDING REMARKS

The study's objective is to investigate the connections between ESG practices and corporate dividend decisions while evaluating the indirect influence of firm reputation. The dearth of Indian-specific literature serves as the driving force behind the study. The study's findings show a positive and

strong correlation between ESG practices and dividend yield, which is communicated through a company's reputation and tends to increase investor trust. This will contribute to the creation of low-debt investments that firm may use to pay dividends to satisfy the expectations of their shareholders. Therefore, the results of the study provide the channel which is beneficial to ESG practices – dividend decisions.

Furthermore, there can be certain superfluous aspects that have a detrimental effect on the dividend decision when evaluating the advantages of ESG practices with dividend decision. As a result, the study has noted the moderating effect of CEO efficiency on the relationships between ESG practices and dividend policy. The findings show that the CEO's efficiency has a positive and significant impact on ESG practices and the company's reputation. The study's findings show how important the CEO's efficiency is in enhancing the company's reputation as a result of ESG practices.

The study is limited to the proxy variable of the CEO efficiency as it covers the only efficiency aspects which may cause bias. Future research may extend while considering the individual aspects and other variables that can represent CEO integrity while showing the effect of management on the dividend policy.

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