HOW GENDER DIVERSITY SHAPES THE INFLUENCE OF ESG ON DIVIDEND POLICY: INSIGHTS FROM THE CORPORATE BOARDS IN AN EMERGING MARKET

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Abstract

The paper addresses the relationship between environmental, social, and governance (ESG) performance and dividend policy, emphasizing how gender diversity on corporate boards moderates this link. In the context of Indonesia's emerging market, it explores the challenges of balancing financial returns with sustainability objectives. This study contributes to the growing literature on the importance of board diversity for sustainability (Arnardottir et al., 2023; Alotaibi & Al-Dubai, 2024). Using logistic regression on panel data from firms listed on the Indonesia Stock Exchange (IDX) (2017–2022 years), the findings reveal that ESG performance positively impacts dividend policy, with companies demonstrating higher ESG commitments being more likely to pay dividends. However, the positive effect is weakened when boards have greater female representation, as these boards often prioritize reinvestment in sustainability initiatives over immediate dividend payouts. The study concludes that gender-diverse boards encourage a strategic focus on long-term sustainability, balancing the financial implications of ESG practices with broader ethical governance and stakeholder needs. Additional analysis compares ESG practices, board gender diversity, and dividend payments before and after the pandemic, revealing their evolving impact on corporate financial decisions.

Keywords: Environmental, Social, and Governance, ESG, Gender Diversity, Dividend Policy, Corporate Governance, Agency Theory, Stakeholder Theory

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1. INTRODUCTION

The growing emphasis on environmental, social, and governance (ESG) practices in corporate strategy signifies a critical shift in how businesses approach value creation (Hassan et al., 2020). Historically, corporate strategies prioritized financial performance, focusing on maximizing shareholder wealth. However, increasing awareness of global challenges — such as climate change, social inequality, and governance failures — has broadened the understanding of what constitutes business success. Stakeholders, including investors, consumers, regulators, and communities, now demand that companies adopt practices aligned with sustainable development and ethical governance (Zeng & Jiang 2023).

ESG practices provide a framework for addressing these priorities. The environmental (E) aspect focuses on how companies manage their environmental impact, including carbon emissions, resource efficiency, and waste management (Gavalas, 2024). The social (S) dimension examines how organizations treat their employees, customers, and communities, emphasizing human rights, labor practices, and social responsibility (Romano et al., 2020). Governance (G) covers the internal controls and processes that direct and manage companies, highlighting issues like board diversity, executive compensation, and transparency (Romano et al., 2020).

Multiple forces drive the integration of ESG factors into corporate strategy. First, evidence suggests that companies with strong ESG performance achieve more stable financial returns and are better positioned to navigate long-term risks (Chen et al., 2023). Investors increasingly use ESG metrics in evaluating firms, leading to a rise in sustainable investment funds. Regulatory bodies also set stricter guidelines for corporate disclosure of ESG. Additionally, consumer behavior is shifting, with more customers favoring brands committed to sustainability and ethical values (Ogiemwonyi & Jan, 2023).

Incorporating ESG factors into corporate strategy is no longer just about compliance or reputation management; it offers a competitive advantage. Companies proactively embracing ESG can enhance brand value and secure better access to capital, all while mitigating environmental and social risks. Despite these advantages, the relationship between ESG and dividend policy remains complex and somewhat ambiguous (Lucas, 2020; Verga Matos et al., 2020). On one hand, firms with strong ESG practices may prioritize reinvesting profits in sustainable projects, leading to lower dividend payouts (Zahid et al., 2023; Matuszewska-Pierzynka et al., 2023). On the other hand, some companies might use dividends to signal financial stability despite significant ESG investments, creating a potential tension between sustainability initiatives and shareholder returns (Ananzeh et al., 2024; Dua & Sharma, 2024).

Integrating ESG considerations into dividend policy is becoming increasingly important as firms strive to align financial returns with sustainability goals. Dividend policy is a crucial aspect of corporate financial strategy, and firms with strong ESG practices may adopt strategies that balance shareholder payouts with reinvestment in sustainable projects (Vaupel et al., 2023). This balance is vital for companies cause ESG becomes central to corporate strategy, understanding its influence on dividend decisions can offer insights into how firms manage the trade-offs between immediate financial returns and sustainable growth (Bilyay-Erdogan et al., 2023).

Moreover, gender diversity on corporate boards is increasingly recognized as a key factor in shaping dividend policy (García-Meca et al., 2022). Research shows that boards with a higher proportion of female directors often adopt more conservative and strategically balanced approaches to profit distribution, focusing on long-term sustainability and risk management (Hussain et al., 2024; Milojević et al., 2023). Female directors are often associated with more cautious and risk-averse financial strategies, which can influence dividend decisions toward stability and sustainability.

Additionally, gender diversity plays a crucial moderating role in the relationship between ESG performance and dividend policy (Alotaibi & Al-Dubai, 2024). Diverse boards, particularly those with significant female representation, are more likely to prioritize ethical governance and stakeholder engagement, integrating ESG considerations more effectively into financial strategies like dividend policy (Manita et al., 2018; Paolone et al., 2024). By including gender diversity as a moderating variable, this study seeks to clarify how diverse leadership can mediate potential conflicts between ESG investments and financial returns, leading to more resilient and balanced corporate strategies.

This research examines the link between ESG factors and dividend policy, filling a gap in the literature. It also explores how gender diversity moderates this relationship, highlighting the role of diverse boards in improving governance and creating long-term value.

This research aims to examine how ESG investments influence dividend policy, the impact of gender diversity on dividend decisions, and how gender diversity moderates the ESG-dividend policy relationship.

The paper is structured as follows. Section 2 provides a brief review of the literature on the relationship between gender diversity, ESG performance, and dividend policy, and formulates the hypotheses. Section 3 outlines the methodology used in the study. Section 4 presents the results, while Section 5 discusses the findings. Finally, Section 6 concludes the paper, highlighting the study's limitations and offering suggestions for future research.

2. LITERATURE REVIEW

2.1. Literature review

This research draws on several key theories — stakeholder theory, agency theory, and resource dependency theory — that provide a robust framework for understanding the relationship between ESG practices, dividend policy, and the moderating role of gender diversity.

2.1.1. Stakeholder theory

Stakeholder theory is a concept in corporate governance and business ethics that expands the traditional focus of companies beyond just maximizing shareholder value (Edward Freeman & Phillips, 2002). This theory asserts that businesses should consider the needs and interests of all stakeholders impacted by the company's operations. Stakeholders can include employees, customers, suppliers, local communities, the environment, and shareholders (Seth & Mahenthiran, 2022). The underlying principle is that long-term success and sustainability are best achieved when a company balances these groups' interests. In doing so, companies meet their financial objectives, create broader social value, and build stronger relationships, which can enhance their reputation and resilience in the market (Verga Matos et al., 2020).

Integrating board gender diversity and ESG principles into corporate governance strongly aligns with stakeholder theory. Boards that include a higher proportion of female directors often bring diverse perspectives and a more balanced approach to decision-making (Khemakhem et al., 2022). Research indicates that female board members are more inclined toward cautious financial management, focusing on long-term sustainability rather than short-term profit maximization (Tashfeen et al., 2023). Consequently, such boards adopt more conservative dividend policies, ensuring sufficient resources are reinvested in areas critical to long-term growth and stakeholder satisfaction.

When ESG factors are prioritized in corporate strategy, the company's dividend policy often balances returning profits to shareholders and allocating resources toward sustainable initiatives. Companies committed to strong ESG practices may opt for lower dividend payouts to reinvest in projects that support environmental stewardship, social equity, and robust governance practices (Dua & Sharma, 2024). This approach aligns with the needs of a broader set of stakeholders, as a gender-diverse board that emphasizes ESG considerations is more likely to manage dividends strategically, aiming to meet both shareholder expectations and the broader objectives of sustainability.

2.1.2. Agency theory

Agency theory addresses the conflicts between managers (agents) and shareholders (principals) that arise when managers prioritize their interests over those of shareholders. Managers engage in activities like ESG initiatives for reputational benefits or personal gain, even when these actions don't align with the short-term financial returns expected by shareholders (Treepongkaruna et al., 2024). This misalignment can result in lower dividend payouts or investments focusing more on long-term sustainability than immediate shareholder wealth maximization.

To mitigate these conflicts, agency theory suggests that higher dividend payouts can limit the free cash flow (FCF) available to managers, reducing the likelihood of them investing in projects that do not directly benefit shareholders (Ghosh & Sun, 2014). In this context, gender-diverse boards play a critical role by focusing corporate objectives on management decisions and ensuring that ESG investments are balanced with financial objectives. This leads to governance practices aligning with shareholder interests and sustainability goals. By incorporating diverse viewpoints, gender-diverse boards help bridge the gap between agency conflicts and responsible investing (Amin et al., 2022).

2.1.3. Resource dependency theory

Resource dependency theory posits that boards serve as vital conduits to resources that organizations need to thrive, such as information, connections, and strategic advice. According to this theory, the composition of a board directly influences a firm's access to these resources, ultimately impacting its ability to gain and maintain a competitive advantage (Celtekligil, 2020). Gender diversity on boards is particularly relevant in this context, as diverse groups bring a wider range of perspectives and experiences that can enhance the firm's strategic decision-making.

When navigating the complexities of ESG challenges, gender-diverse boards are especially advantageous. Women on boards often bring unique insights that help firms understand and respond to the social and environmental risks and environmental risks to business (Saleh & Maigoshi, 2024). This broader perspective is crucial for evaluating ESG-related opportunities, as a result, firms with more gender-diverse boards tend to adopt more strategic approaches to ESG investments, prioritizing initiatives that contribute to long-term value creation (Paolone et al., 2024).

This focus on long-term sustainability can have a direct influence on dividend policy. Boards with a strong representation of women are more likely to advocate for reinvesting profits in projects that support ESG objectives rather than prioritizing high short-term dividend payouts (Gurol & Lagasio, 2023). By prioritizing sustainability-focused investments, these boards ensure that the firm remains resilient and competitive in the long run, even if it means adjusting dividend policies to support these strategic initiatives (Verg Matos et al., 2020). This theory highlights how gender diversity on boards improves firms' responses to ESG challenges and prioritizes long-term sustainability. Ultimately, it strengthens market position and aligns with stakeholder expectations.

2.2. Literature review and hypotheses development

2.2.1. Environmental, social, and governance and dividend policy

Existing studies reveal a positive but nuanced relationship between ESG practices and dividend payout strategies. Firms with strong ESG performance tend to adopt dividend policies aligned with long-term sustainability and stakeholder interests. Companies with high ESG scores are seen as less risky, allowing for stable financial returns and consistent dividends (Lisin et al., 2022). Effective ESG practices enhance reputation, reduce risks, and support reliable dividend payments (Bilyay-Erdogan et al., 2023).

Research also highlights that firms prioritizing ESG may adopt conservative dividend policies to reinvest in sustainability initiatives. This reflects a commitment to long-term value creation over short-term gains. The relationship varies by industry, with sectors facing high ESG concerns adopting lower dividend payouts to allocate more resources toward environmental and social issues. Conversely, firms in less ESG-sensitive industries might maintain high dividend payouts despite their ESG commitments (Matuszewska-Pierzynka et al., 2023).

Some studies suggest firms use dividends as a signaling mechanism, with companies committed to strong ESG practices increasing payouts to communicate financial health and stability. Overall, the literature indicates a generally positive association between ESG practices and dividend policy, though the relationship is influenced by industry, firm size, and strategic priorities (Dua & Sharma, 2024; Zahid et al., 2023; Rastogi & Singh, 2023). Based on the argument above, the hypothesis is:

H1: Environmental, social, and governance scores significantly affect dividend policy.

2.2.2. Gender diversity and dividend policy

The literature consistently highlights the value that gender diversity brings to corporate boards, particularly in enhancing decision-making quality (Khemakhem et al., 2022), strengthening oversight, and fostering ethical (García-Meca et al., 2022), long-term-oriented strategies (Velte, 2016). Research highlights that gender-diverse boards significantly influence firm performance, strategic direction, and governance practices (Milojević et al., 2023). This results in more comprehensive discussions, better risk identification, and more balanced decisions, reducing the risk of groupthink.

A key factor driving the effectiveness of gender-diverse boards is their focus on strong governance and oversight. Studies indicate that female directors are typically more proactive in monitoring and holding management accountable, leading to better adherence to principles like transparency, ethics, and fairness (Amin et al., 2022). This improved governance reduces the likelihood of misconduct and enhances stakeholder trust, benefiting the firm's reputation.

Additionally, gender-diverse boards often prioritize long-term goals over short-term profits, advocating for integrating ESG principles into corporate strategy (Budiyono & Maryam, 2017; Zhu et al., 2022) Female directors tend to be more attuned to sustainability and social impacts, contributing to a firm's resilience and long-term success (Velte, 2016; Zhu et al., 2022). This focus on conservative risk management and ethical governance fosters sustainable financial outcomes.

While much research suggests that gender diversity on boards encourages a cautious approach to dividend payouts, emphasizing sustainability, some studies show contrasting evidence. Some findings suggest gender-diverse boards might support enhanced dividend payments even in ESG-focused firms (Vasconcelos et al., 2022; Ain et al., 2021). The rationale is that female directors may prioritize distributing profits to shareholders to maintain market confidence and ensure financial stability while integrating ESG objectives into the broader strategy. This approach reflects a balanced consideration of both immediate financial returns and long-term sustainability.

In conclusion, gender diversity on boards influences dividend policy by balancing long-term sustainability with short-term financial stability. Female directors tend to prioritize ESG goals, often leading to cautious dividend payouts, but may also support higher distributions to maintain market confidence. The hypothesis is:

H2: Gender diversity significantly affects dividend policy.

2.2.3. Moderating effect of gender diversity on the link between environmental, social, and governance and dividend policy

The presence of women, particularly on corporate boards, positively impacts a company's ESG performance. Women bring perspectives and values that align with sustainability, social responsibility, and ethical governance, driving stronger ESG outcomes (Manita et al., 2018). Female leaders are more likely to prioritize environmental initiatives, focusing on reducing carbon footprints, promoting resource efficiency, and supporting long-term environmental goals (Altunbas & Velliscig, 2022). Women emphasize human capital development, diversity, and corporate social responsibility in the social dimension.

In governance, women strengthen ethical standards and transparency. Gender-diverse boards improve accountability, oversight, and ethical decision-making, leading to better alignment with ESG goals (Amin et al., 2022). Women's holistic approach to strategic thinking and risk management ensures that ESG initiatives are integrated into the business's long-term strategy. Diverse boards tend to approach financial decisions rationally, considering sustainability and profitability. Female directors, in particular, bring perspectives that prioritize ethical considerations and long-term value creation, which can enhance the integration of ESG into corporate strategies, including dividend policies (Saleh & Maigoshi, 2024).

Specifically, in firms with strong ESG performance, gender-diverse boards tend to adopt dividend policies that align with long-term objectives rather than short-term shareholder demands (Gupta et al., 2023). This moderation occurs because female directors are generally more risk-averse and inclined to balance financial returns with the broader impacts of ESG initiatives. Gender-diverse boards can help mitigate the tension between ESG investments and dividend payouts, ensuring that financial strategies align with corporate sustainability goals and shareholder interests (Huang & Li, 2024). The rationale is that female directors, while risk-averse, might prioritize consistent shareholder returns to maintain financial stability and market confidence. This approach aligns dividend policies with stakeholder expectations while balancing ESG goals. For instance, studies on firms in the USA and Europe indicate that boards with more women may prefer distributing profits rather than retaining earnings, especially in well-governed companies with stable ESG practices (Mulchandani et al., 2021; Ain et al., 2021). In conclusion, gender diversity moderates the ESG-dividend relationship, promoting responsible strategies that balance sustainability and financial stability. Therefore, the hypothesis is:

H3: Gender diversity significantly moderates the link between environmental, social, and governance score and dividend policy.

3. METHODOLOGY

3.1. Research data and method

The population for this study consists of publicly listed companies in Indonesia with consistent annual reports, ESG, and board composition data for the period 2017–2022 years. The dataset, sourced from the Bloomberg Database, includes 53 companies spanning various sectors, such as financial services, industrials, healthcare, and energy, resulting in a total of 318 observations. This study also adopts a longitudinal design, dividing the dataset into two periods: pre-COVID-19 (2017–2019 years) and post-COVID-19 (2020–2022 years). The aim is to analyze the evolution of ESG practices, gender diversity, and dividend policy over time, particularly in the context of the crisis, examining differences before and after its impact on companies.

3.2. Variables and measurement

This research explores several key variables relevant to the study's objectives. These variables encompass ESG factors, *Gender diversity*, *Profitability*, *Firm size*, *Company growth*, and *FCF*. Each variable is carefully defined and measured to ensure the accuracy and consistency of the data analysis. The table below provides detailed definitions and measurement criteria for each variable.

Table 1. Definition operational variable

Variable	*Variable name*	*Measurement*
Dependent	Dividend policy (*DIV*)	Dummy variable: 0 = does not pay dividends, 1 = pays dividends
Independent	*ESG*	ESG disclosure score
Independent/moderating	*Gender diversity*	Number of women on the board of directors
Control variable	*Profitability*	Return on equity (ROE) = Net income / Total equity
	Firm size	Natural logarithm of total assets (TA)
	Company growth	% asset growth
	Free cash flow (*FCF*)	FCF ratio = FCF / Operating cash flow
	Company age	The difference between the observation year and the initial public offering (IPO) year

3.3.1. Dependent variable

The dependent variable is *DIV*, a binary outcome variable indicating whether the firm pays dividends (1) or does not (0).

3.3.2. Independent variable

The *ESG* score is the key independent variable, measured using an aggregate *ESG* score that includes environmental, social, and governance dimensions. A higher score indicates stronger *ESG* practices.

3.3.3. Moderating variable

Gender diversity on the board is the moderating variable, measured as the proportion of female directors on the board. It reflects gender equality and the presence of diverse leadership within the company. *ESG * Gender diversity* is the interaction term representing the moderation effect of *Gender diversity* on the relationship between *ESG* and *DIV*.

3.3.4. Control variables

Including *Profitability*, *Company growth*, *Firm size*, *FCF*, and *Company age* as control variables ensures that the analysis isolates the impact of *ESG* factors on dividend policies. Recent studies have explored the interplay between these financial variables, *ESG* performance, and dividend policies. Verga Matos et al. (2020) examined how *ESG* factors affect the stability of dividend policies in European firms, emphasizing the importance of considering financial performance metrics when analyzing *ESG* impacts on dividends (*DIV*). Incorporating these control variables enables the model to more accurately assess the relationship between *ESG* factors and dividend policies while accounting for potential confounding financial characteristics.

3.3.5. Model specification

Logistic regression estimates a firm's likelihood of paying dividends based on *ESG* performance, *Gender diversity*, and other control variables. The coefficients in logistic regression indicate the firm's log odds of paying dividends. The logistics model is divided into two parts to avoid multicollinearity:

Model 1

$$Log_{it}\big(P(DIV=1)\big) = \beta_0 + \beta_1(ESG) + \beta_2(Gender\ diversity) + \beta_3(ROE) + \beta_4(TA) + \beta_5(Company\ growth) + \beta_6(FCF) \tag{1}$$

Model 2

$$Log_{it}\big(P(DIV=1)\big) = \beta_0 + \beta_1(ESG) + \beta_2(Gender\ diversity * ESG) + \beta_3(ROE) + \beta_4(TA) + \beta_5(Company\ growth) + \beta_6(FCF) \tag{2}$$

In regression analysis, multicollinearity arises when two or more independent variables are highly correlated, making it challenging to assess the individual effect of each variable on the dependent variable. This issue can lead to unreliable coefficient estimates and inflated standard errors (Senaviratna & Cooray, 2019). To address multicollinearity, scholars frequently opt for separating the model into distinct components. This approach involves creating separate models for different groups of variables, thereby reducing the correlation among predictors within each model. By doing so, the individual effects of variables can be more accurately estimated, and the overall model becomes more interpretable.

3.3.6. Alternative and additional method

Incorporating mixed-effects logistic regression into this study's analysis is particularly advantageous for handling longitudinal data, where repeated observations are made on the same entities over time — such as annual *DIV* decisions of companies across multiple years. Unlike standard logistic regression, which assumes independence among observations, mixed-effects logistic regression effectively addresses the nested structure of such data, accounting for correlations within clusters (e.g., multiple observations within the same company) (Caillebotte et al., 2023).

By introducing both fixed effects (to assess the impact of predictors like *Gender diversity* and *ESG* scores) and random effects (to capture unobserved heterogeneity across companies or sectors), this model mitigates limitations inherent in standard logistic regression (Parzen et al., 2011). It allows for a more accurate estimation of relationships by considering the hierarchical nature of the data, thereby providing robust and valid insights into how factors such as *Gender diversity* and *ESG* performance influence *DIV*.

4. EMPIRICAL RESULTS

4.1. Descriptive statistics

The dataset comprises 318 observations that analyze the relationship between *DIV* and several financial and governance variables, including *ESG*, *Gender diversity*, *ROE*, *Company growth*, *FCF*, and *TA*. The descriptive statistics reveal some key insights.

Table 2. Descriptive statistics

Measurement	*DIV*	*ESG*	*Gender diversity*	*ROE*	*Company growth*	*FCF*	*TA*	*Company age*
Mean	0.833333	39.47945	0.141215	0.146401	0.099022	6.302453	157.0694	50.8019
Median	1.000000	39.70713	0.100000	0.103500	0.071500	1.400000	41.65000	46.0000
Maximum	1.000000	73.86581	0.666667	2.384000	1.676000	126.3680	1992.500	40.0000
Minimum	0.000000	16.70959	0.000000	-1.503000	-0.250000	-35.25600	0.217000	2.0000
Std. dev.	0.373265	11.58858	0.166452	0.265145	0.171433	17.81234	326.2549	8.9252
Skewness	-1.788854	0.119499	1.328498	3.037001	3.960078	3.903720	3.418649	0.2079
Kurtosis	4.200000	2.247753	4.351478	29.93057	29.10514	21.85875	14.69247	1.7093
Jarque-Bera	188.6800	8.254687	117.7411	10098.48	9860.744	5520.065	2430.879	120.58
Probability	0.000000	0.016126	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000
Sum	265.0000	12554.47	44.90647	46.55560	31.48900	2004.180	49948.08	204.180
Sum sq. dev.	44.16667	42571.55	8.782863	22.28565	9.316379	100577.6	33742202	10353.3
Observations	318	318	318	318	318	318	318	

The dividend variable (mean: 0.833, median: 1.0) shows most firms pay dividends with moderate variability and a left skew. (-1.79). *ESG* scores (mean: 39.48, median: 39.71) have a slight positive skew. (0.12), indicating near-symmetry. *Gender diversity* (mean: 0.141) is right-skewed, reflecting low female board representation. *ROE* (mean: 0.146) and *Company growth* (mean: 0.099) show high variability and right skew. *FCF* (mean: 6.302) and *TA* (mean: 157.069) are highly skewed, and dominated by large firms. *Company age* (mean: 50.8) suggests a mature sample. Despite skewness, these distributions are suitable for logistic regression.

4.2. Hypotheses testing

The logistic regression model was used to test the hypotheses regarding the relationship between *ESG* performance, *Gender diversity*, and *DIV*. The analysis involved evaluating the significance of the coefficients and determining whether the data supported the hypotheses. Below is a discussion of the results based on the estimated coefficients and their associated p-values.

Table 3. Logistics regression of dividend policy

Variable	*Model 1*			*Model 2*		
	Coefficient	*Standard error*	*p > |Z|*	*Coefficient*	*Standard error*	*p > |Z|*
	Dependent variable: DIV					
C	-0.2534	0.8028	0.7523	-0.5576	0.7306	0.4453
ESG	0.0434**	0.0181	0.0169	0.0555***	0.0175	0.0017
Gender diversity	-2.0717**	0.8806	0.0186			
*ESG * Gender diversity*				-0.0741***	0.027	0.0063
Company growth	0.1444	1.1181	0.8972	0.1155	1.1189	0.9177
ROE	7.8106	2.1837	0.0003	7.7839	2.1735	0.0003
TA	0.0004	0.0011	0.7137	0.0004	0.0011	0.6689
FCF	0.017	0.0206	0.4101	0.0176	0.0208	0.3979
Company age	-0.0004	0.0008	0.6261	-0.0050	0.0082	0.5450
Observation	318	318	318	318	318	318
Firms	53	53	53	53	53	53
McFadden R-squared	0.1777					0.1836
LR stats.	51.08					52.60
Prob. (LR stats.)	0.0000					0.0000

*Note: This table presents the result of estimating the baseline equation using logistics regression. DIV is a dummy variable: 0 = does not pay dividends, 1 = pays dividends; ESG * gender diversity = the interaction term that represents the moderation effect of gender diversity on the relationship between ESG and DIV; TA = natural logarithm of total assets; LR — likelihood ratio. ***, **, * indicate statistical significance at 1%, 5%, and 10% levels, respectively.*

The analysis finds that *ESG* performance positively influences *DIV* (coefficient: 0.0434, p = 0.0169), supporting stakeholder theory's view on balancing stakeholder interests beyond shareholder returns (Parmar et al., 2010; Treepongkaruna et al., 2024). The analysis shows *Gender diversity* negatively impacts *DIV* (coefficient: -2.0717, p = 0.0186), suggesting more female directors reduce dividend payouts. Agency theory helps explain this influence. In Model 2, the interaction term (*ESG * Gender diversity*) is significant (-0.0741, p = 0.0063), indicating *Gender diversity* weakens the *ESG*-dividend relationship.

Tables 4a and 4b divide the research data into two periods: the pre-COVID-19 period and the period when companies experienced the impact of COVID-19. During the pre-crisis period, the presence of women on the board played a role in weakening the influence of *ESG* on *DIV*. This is evident in Table 4a, where the interaction coefficient is significantly negative. Both *ESG* and the presence of women on the board had a significant impact on *DIV* during this period, with *ESG* positively affecting the probability of dividend payments, while board diversity had the opposite effect. The presence of women on the board reduced the likelihood of companies paying dividends.

Table 4a. Logistics regression of dividend policy (2017–2019)

Variable	*Model 1*			*Model 2*		
	Coefficient	*Robust std. error*	*p > /Z/*	*Coefficient*	*Robust std. error*	*p > /Z/*
Dependent variable: DIV						
C	0.4793	0.9563	0.2869	0.0238	0.7973	0.9761
ESG	0.0418*	0.0242	0.0775	0.0783	0.0255**	0.0021
Gender diversity	-4.0690**	0.2741	0.0014			
*ESG * Gender diversity*				-0.1594	-3.7597**	0.0002
Company growth	-0.8873	1.6038	0.5801	-1.1298	1.6733	0.4996.
ROE	3.8097	2.7579	0.1672	3.1725	2.3394	0.1751
TA	0.0012	0.0018	0.4515	0.0016	0.0020	0.4099
FCF	0.0420	0.0516	0.4155	0.0400	0.0529	0.4448
Company age	0.0009	0.0136	0.4779	0.0074	0.0141	0.5979
Observation	159			159		
Firms	53			106		
McFadden R-squared	0.1949			0.2331		
LR stats.	26.9762			32.257		
Prob. Chi^2	0.0003			0.0000		

*Note: ***, **, * indicate statistical significance at 1%, 5%, and 10% levels, respectively.*

Table 4b, focusing on the 2020–2022 period when companies faced the impact of the 2019 pandemic, reveals a shift in the relationship between *ESG* practices, board diversity, and *DIV*. While *ESG* continues to positively influence *DIV*, *Gender diversity* no longer significantly moderates this relationship.

Table 4b. Logistics regression of dividend policy (2020–2022)

Variable	*Model 1*			*Model 2*		
	Coefficient	*Robust std. error*	*p > /Z/*	*Coefficient*	*Robust std. error*	*p > /Z/*
Dependent variable: DIV						
C	-0.8648	0.9533	0.3643	-0.7702	0.8532	0.3666
ESG	0.0566***	0.0213	0.0080	0.0539***	0.0201	0.0073
Gender diversity	0.5313	1.1927	0.6560			
*ESG * gender diversity*				0.0165	0.0337	0.6235
Company growth	1.5220	2.4750	0.5386	1.5014	2.4473	0.5445
ROE	2.4493**	2.1448	0.0117	2.5479	2.1454	0.0109
TA	0.00002	0.0018	0.9898	0.00005	0.0018	0.9764
FCF	0.0156	0.0292	0.5928	0.01557	0.0292	0.5948
Company age	-0.0143	0.0116	0.2185	-0.0144	0.0116	0.2135
Observation	159			159		
Firms	53			106		
McFadden R-squared	0.2313			0.2317		
LR stats.	34.23			34.29		
Prob. Chi^2	0.0000			0.0000		

*Note: ***, **, * indicate statistical significance at 1%, 5%, and 10% levels, respectively.*

5. DISCUSSION

5.1. The effect of environmental, social, and governance performance on dividend policy

Companies that emphasize ESG principles, responsible business practices, and sustainable operations drive long-term value creation. By maintaining or increasing dividend payouts, these companies fulfill shareholder expectations while upholding ESG commitments. The positive coefficient suggests that firms with high ESG ratings align their financial policies, such as dividend distributions, to signal to investors firms have strong financial performance and sustainable growth.

The integration of ESG into dividend policy reflects stakeholder theory in practice. By committing to consistent dividend payments, firms enhance their image as responsible, reliable companies, building trust among shareholders and ensuring continued capital access. This balance between shareholder returns and other stakeholder interests, such as communities and employees, demonstrates that high-ESG firms can meet both sets of expectations, reducing conflicts.

From a stakeholder theory perspective, consistent dividend payments in high-ESG firms mitigate risks of stakeholder dissatisfaction. Neglecting shareholder returns in favor of ESG initiatives may erode investor confidence and reduce firm value. By aligning dividend policy with ESG goals, companies manage these risks, satisfying shareholders while advancing sustainability objectives.

In summary, the positive influence of ESG on dividend policy can be deeply understood through the lens of stakeholder theory. Companies with strong ESG performance strategically use dividend payments to maintain shareholder trust while advancing their sustainability goals. This approach exemplifies the core principles of stakeholder theory, where the needs of diverse stakeholders are integrated into corporate decision-making, ultimately supporting long-term value creation that benefits both society and investors. The findings of this study support the research conducted by (Ananzeh et al., 2024; Vasconcelos et al., 2022).

5.2. The effect of gender diversity on dividend policy

Agency theory highlights the inherent conflicts between shareholders (principals) and management (agents) due to differing objectives. Shareholders typically seek higher returns and prefer decisions that maximize immediate payouts, such as dividends (Ghosh & Sun, 2014). In contrast, management may prioritize actions that enhance the firm's long-term stability and growth, sometimes at the expense of short-term gains. The inclusion of more women on the board tends to shift decision-making toward a more cautious and risk-averse approach, aligning closely with the principles of agency theory.

Female directors are associated with a governance style that emphasizes ethical decision-making and comprehensive risk management. These characteristics lead to decisions that focus more on reinvestment and resource allocation for future growth, rather than on high dividend policy. This conservative approach can result in lower dividend payments as female directors might prioritize using retained earnings for sustainable projects, or building financial reserves. By doing so, they aim to secure the firm's resilience against future uncertainties.

The negative relationship between gender diversity and dividend policy can be further explained by the stakeholder theory principles. Female board members are more likely to consider the needs of a diverse group of stakeholders such as employees, communities, and the environment — when making financial decisions. As a result, they might advocate for allocating resources to initiatives that support social responsibility and long-term sustainability, rather than distributing excess profits as dividends. This focus on stakeholder welfare aligns with a broader and more inclusive view of value creation, where financial decisions are not solely driven by immediate shareholder demands.

Furthermore, from an agency theory perspective, the presence of female directors can mitigate agency problems by enhancing transparency and accountability. Their emphasis on ethical governance and stakeholder engagement ensures that the interests of shareholders and management are better aligned. However, this alignment may come at the cost of reduced dividend payments, as the board's focus shifts toward prudent financial management and long-term strategic goals (Saeed & Sameer, 2017).

In conclusion, the negative impact of gender diversity on dividend policy is deeply rooted in both agency theory and stakeholder theory. Female directors bring a governance style that prioritizes long-term sustainability, risk management, and ethical decision-making. This approach often leads to a reduction in dividend payouts, as resources are redirected towards initiatives that align with broader stakeholder interests and long-term goals. By integrating these considerations into dividend policy, gender-diverse boards contribute to a more balanced and sustainable approach to value creation that aligns management actions with both shareholder expectations and broader societal responsibilities. The results of this study are consistent with the findings of previous research conducted by (Saeed & Sameer, 2017; García-Meca et al., 2022).

5.3. The Moderating role of gender diversity in the ESG–dividend policy relationship

The shift in the ESG coefficient from Model 1 to Model 2 shows how gender diversity affects the ESG-dividend relationship. In Model 1, stronger ESG performance increases dividend likelihood. In Model 2, the negative interaction suggests that more women on the board reduce dividends despite strong ESG performance. This aligns with agency and stakeholder theory, where gender-diverse boards focus on long-term stability and sustainability over short-term returns.

In conclusion, gender diversity moderates the ESG-dividend relationship by emphasizing long-term sustainability and ethical governance. While ESG performance typically aligns with shareholder interests, gender-diverse boards prioritize cautious, socially responsible decisions. This reflects agency and stakeholder theory, highlighting the value of diverse perspectives for balanced, sustainable growth.

5.4. Longitudinal analysis

Before the pandemic crisis, the regression results in Table 4a largely confirm the findings from Table 3, reinforcing the positive impact of ESG performance on dividend policy and the moderating role of gender diversity on corporate boards. However, in the post-crisis period, while ESG continues to positively influence dividend payments (see Table 4b), the diminished significance of gender diversity in moderating this relationship can be attributed to several factors.

ESG serves as a signal of sustainability and stability. Companies with strong ESG commitments typically demonstrate better governance, broader access to funding, and stronger stakeholder relationships. These factors encourage firms to maintain dividend payments as a sign of financial stability and long-term sustainability, even during crises. Investors view ESG as an indicator of sound risk management, reinforcing its role in driving dividend payments.

Firms that invest in ESG tend to have stable and structured dividend policies, often prioritizing consistent dividend payments to uphold their reputation among sustainability-focused shareholders. Even in financial downturns, high-ESG firms may continue paying dividends to sustain investor confidence and demonstrate their commitment to responsible financial management. Decision-making priorities shift during crises. Under normal conditions, women on boards may balance ESG and dividend policies by advocating for conservative financial strategies, such as reducing dividends to support long-term investments. However, during crises, companies prioritize business continuity and investor relations. As a result, dividend decisions become more influenced by external pressures, such as market conditions, regulatory requirements, and shareholder expectations, rather than board composition.

During crises, dividend decisions become centralized under the chief executive officer (CEO) and chief financial officer (CFO) authority, reducing the board's impact. Shareholder pressure, particularly from ESG investors, heightens, making market conditions and investor expectations more influential than board diversity. As liquidity and investor trust take precedence, board influence weakens. While high-ESG firms sustain payouts, the moderating role of women diminishes due to market constraints and executive dominance.

5.5. Effect of control variables

Return on equity positively influences dividend policy, reflecting profitability's role in distributions. In contrast, growth, TA, FCF, and company age show no significant impact, suggesting ESG and gender diversity play a more nuanced role.

5.6. Practical implications

This study offers practical insights into corporate governance, emphasizing the balance between sustainability and financial decision-making. It suggests that companies should incorporate ESG into long-term planning to maintain resilience during crises. ESG continues to influence dividend policy in such times, signaling financial stability. The study also highlights the shifting role of female board members, whose influence wanes in crises as executive control tightens. Firms should ensure gender diversity remains impactful across economic conditions.

The study highlights the need for dynamic board composition, urging policymakers to foster inclusive leadership strategies. This includes leadership development programs, more women in financial committees, and governance frameworks that ensure diverse perspectives are not marginalized in key decisions.

Firms should proactively appoint female board members with expertise in both sustainability and financial resilience, beyond meeting diversity quotas. This approach balances ESG objectives with shareholder expectations. While ESG is crucial in dividend policy during crises, gender diversity should be strategically integrated into financial decision-making roles to enhance governance and sustainability.

Female board members face structural and cultural barriers that limit their influence on financial decisions and sustainability strategies. Traditional corporate norms and biases hinder their participation, especially in male-dominated leadership. This issue is worsened in firms where *ESG* is not a priority, as gender diversity and sustainability are often overlooked in favor of short-term financial goals.

A major challenge is the lack of mechanisms to ensure gender diversity leads to meaningful contributions. Female board members are often appointed for regulatory compliance or image, rather than integrating their insights into strategy. Without policies like mentorship and leadership development, the benefits of diversity remain underutilized. Firms in regions with weaker ESG regulations may struggle to prioritize gender diversity, limiting progress in inclusive leadership and raising doubts about replicating the benefits seen in sustainability-driven firms.

A challenge is resistance from existing leadership, which may see gender diversity initiatives as a threat. Some male executives view efforts to increase female board representation as tokenistic, limiting meaningful integration of diverse perspectives. Overcoming this requires fostering a culture that values diversity. Additionally, industry type, firm size, and corporate culture affect the success of diversity initiatives, with male-dominated industries and smaller firms facing more resistance.

To address these challenges, companies should increase female representation in decision-making roles, redefine board structures, and implement policies that foster inclusive leadership. Strengthening ESG frameworks to support gender diversity and setting clear performance metrics will ensure that diversity initiatives lead to meaningful improvements in governance and financial performance.

6. CONCLUSION

The study highlights gender diversity's role in balancing sustainability and financial returns. Female directors moderate the ESG-dividend relationship, prioritizing long-term sustainability. This leads to ethical decision-making, better risk management, and reduced agency costs, fostering stakeholder trust and ensuring long-term success.

The findings suggest that female board members help balance sustainability and financial returns. While gender diversity improves decision-making and risk management, its impact on financial policies like dividend distribution varies with economic conditions and external pressures.

Gender-diverse boards enhance ESG performance by prioritizing ethical governance and long-term value creation. While they reinforce ESG in stable conditions, their influence on financial decisions, like dividends, may weaken during crises due to centralized decision-making by top executives.

In conclusion, the appointment of female board members has the potential to enhance both sustainability objectives and financial stability, but its effectiveness depends on the firm's governance framework, ESG maturity, and external economic conditions. To maximize the benefits of gender diversity, companies must go beyond simply increasing female representation and instead focus on integrating diverse perspectives into key decision-making processes, particularly those related to financial strategy and sustainability initiatives.

The study's limitations include its focus on Indonesia Stock Exchange (IDX)-listed companies from 2017–2022 years, limiting applicability to other regions and time periods. Future research could expand to diverse regions and explore how ESG adoption impacts the relationship between gender diversity, ESG performance, and dividend policy. Additionally, using only female director proportion may overlook other factors, suggesting a more nuanced approach for future studies.

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