



Are Companies with Higher ESG Scores More Likely to Generate Higher Revenue and Pay More Dividends? Evidence from Malaysia

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Abstract. Environmental, Social, and Governance (ESG) criteria are increasingly recognized as vital indicators of a company's sustainability. As stakeholders demand greater transparency and responsibility, ESG metrics have become crucial in evaluating corporate behavior and its broader impacts on society and the environment. This study aims to investigate the effects of ESG on the dividend yield and revenue of listed companies in Malaysia. The findings of this study reveal that a company with better social score pays lower dividends. This finding suggests that companies with higher social scores are more likely to invest in social initiatives and corporate social responsibility activities. These investments can be costly and may reduce the available cash flow that could otherwise be distributed as dividends to shareholders. Consequently, these companies might choose to retain earnings to support ongoing or future social projects rather than distributing them as dividends. The findings of this study underscore the need for policymakers to encourage sustainable business practices through supportive regulations and incentives, fostering a corporate landscape where ESG excellence is not just rewarded but becomes a fundamental expectation.

Keywords: ESG, Revenue, Dividend Yield

1 Introduction

Over the past decade, the idea of sustainability has become central to corporate strategy for achieving long-term financial success. The application of sustainability in business practice is mainly due to factors such as increasing awareness of environmental challenges and social expectations for ethical business behavior [1]. Interestingly, sustainability initiatives can lead to cost savings, better risk management, and new revenue opportunities [2]. For instance, investing in energy-efficient technologies can reduce operating costs, while sustainable supply chain practices can improve reliability and reduce risks. Companies that are seen as socially responsible often enjoy a stronger

brand reputation, which can translate into customer loyalty and higher sales [3]. Furthermore, sustainable companies are often more attractive to investors who prioritize long-term value and ethical considerations. These investors recognize that sustainable companies are well-positioned to navigate the challenges of a changing world and are more likely to generate consistent revenue and financial returns [4].

Another critical aspect to consider is the impact of sustainability metrics on financial reporting and disclosure practices. As companies increasingly incorporate sustainability considerations into their operations, there is a growing demand for transparent and standardized reporting frameworks. This entails not only accurately measuring and disclosing ESG performance but also ensuring that this information is communicated effectively to stakeholders. Implementing robust reporting mechanisms can enhance investor confidence, mitigate risks associated with ESG factors, and foster trust and credibility in the market [5]. From a corporate perspective, sustainability considerations played a crucial role in various financial domains, spanning from investment decision-making to firms' dividend policies [6].

Besides that, ESG scores offer a numerical assessment of the significance of ESG factors in business management. These metrics address value generation as well as the ethical management of ESG elements, which have a direct bearing on businesses' long-term success. Therefore, ESG scores give decision-makers, investors, and stakeholders information about a company's social responsibility, corporate governance, and environmental effect. Moreover, companies can enhance their comprehension and handling of sustainability-related risks and opportunities by integrating ESG indicators into their decision-making procedures [7]. As a result, by incorporating ESG ratings into financial research, stakeholders and investors alike may make better decisions, supporting sustainable and financially viable investment plans.

Furthermore, the role of regulators and policymakers in shaping sustainable finance practices cannot be understated. Governments worldwide are enacting policies and regulations aimed at promoting sustainability and responsible investing [8]. For instance, the European Union's Sustainable Finance Disclosure Regulation (SFDR) and the Task Force on Climate-Related Financial Disclosures (TCFD) framework are significant steps toward standardizing ESG reporting requirements and promoting transparency in financial markets. By aligning regulatory frameworks with sustainability objectives, authorities can incentivize companies to integrate ESG considerations into their business strategies and investment decisions, ultimately driving positive environmental and social outcomes.

Although environmental, social, and governance (ESG) practices are increasingly being incorporated into corporate strategies, there is still a lack of understanding regarding the exact correlation between ESG score and specific financial outcomes, such as revenue and dividend yield. Thus, this study is conducted to explore the relationship between ESG score and the revenue and dividend yield of Malaysian companies using recent data.

2 Literature Review

Over the past decade, studies related to the impact of Environmental, Social, and Governance (ESG) performance on corporate financial performance have grown significantly. Numerous studies also suggest that companies with robust ESG strategies often experience enhanced financial performance and reduced risk. For example, companies with strong ESG ratings tend to have better risk management and are less likely to encounter financial distress [1]. These findings underscore the potential financial benefits of integrating ESG factors into corporate strategies, particularly in terms of improved profitability and resilience against economic shocks. However, the relationship between ESG performance and financial outcomes is not universally consistent. Some previous studies even revealed that ESG score adversely affects the financial performance of the companies [9, 10]. These discrepancies can be attributed to varying methodological approaches, differences in ESG rating criteria, and the specific contexts of the firms studied [11]. In the short term, the cost associated with ESG initiatives may outweigh the benefits [2]. This is mainly because of the investor's misperception who prefer the immediate cash flows instead of long-term business sustainable practices [9]. This view is further supported by [12], who found that market preference for short-term gains often overlooks the advantages of long-term ESG efforts. Additionally, the impact of ESG on financial performance may differ across industries and regions, further complicating the ability to draw definitive conclusions [13].

Despite these inconsistencies, there is a growing recognition of the importance of ESG practices in driving companies towards sustainable financial performance. Companies that effectively integrate ESG considerations into their operations not only contribute to broader societal goals but also enhance their own long-term viability. This is particularly evident in sectors that face significant environmental and social risks, where robust ESG practices can lead to improved stakeholder relations, better regulatory compliance, and enhanced market reputation [14]. As the field continues to evolve, further research is needed to clarify the conditions under which ESG investments yield the most substantial financial benefits, as well as to develop more standardized approaches to measuring and reporting ESG performance [15]. Recently, [16] explored the bidirectional relationship between ESG factors and corporate financial performance (CFP). Their research indicates that while strong financial performance can enhance ESG initiatives, the reverse is not necessarily true. They discovered that financial performance supports environmental and social initiatives, but environmental efforts can negatively impact financial performance, and social aspects do not always provide a positive contribution. This suggests that companies may prioritize ESG activities more for improving their public image than for financial gain.

On the other hand, previous studies show that ESG performance can enhance a company's financial value by improving its reputation and stakeholder trust, leading to reduced risks and operational costs [17]. For instance, corporations in environmentally sensitive industries, like energy and mining, are under greater scrutiny and regulatory

pressure to adopt sustainable practices. These companies often see a direct positive impact on their financial performance through enhanced market valuation and reduced financing costs [18]. Further research highlights that the financial benefits of ESG practices are also influenced by firm size, market risk, and regional regulations. Large-scale companies typically experience more pronounced positive impacts from ESG initiatives compared to small-scale firms, as they can leverage these practices for greater stakeholder engagement and cost savings [17]. Additionally, the positive effects of ESG on financial performance are more significant in high-risk environments, where such practices can mitigate risks and enhance corporate stability [19]. These findings underscore the importance of contextual factors in evaluating the financial outcomes of ESG investments, suggesting that both macroeconomic conditions and firm-specific characteristics play critical roles in determining the effectiveness of ESG strategies [20].

The role of economic policy and regulatory frameworks is also crucial in shaping the ESG-financial performance nexus [21]. Developed countries with robust regulatory frameworks tend to show stronger positive correlations between ESG performance and financial outcomes. For example, stringent environmental regulations in developed markets force companies to adopt sustainable practices, which can lead to long-term financial gains through enhanced market reputation and operational efficiencies [22]. In contrast, emerging markets may face challenges due to less stringent regulations and varying levels of enforcement, which can result in inconsistent ESG performance and financial outcomes [23]. This disparity highlights the need for tailored ESG strategies that consider regional regulatory environments and market conditions to optimize financial performance.

3 Data and Methodology

Based on the literature review, this study hypothesized the following:

- H₁: Environment (E) score is positively related to the dividend yield.
- H₂: Social (S) score is positively related to the dividend yield.
- H₃: Governance (G) score is positively related to the dividend yield.
- H₄: Environment (E) score is positively related to the revenue.
- H₅: Social (S) score is positively related to the revenue.
- H₆: Governance (G) score is positively related to the revenue.

Then, Figures 1 and 2 summarize the proposed hypotheses of this study.

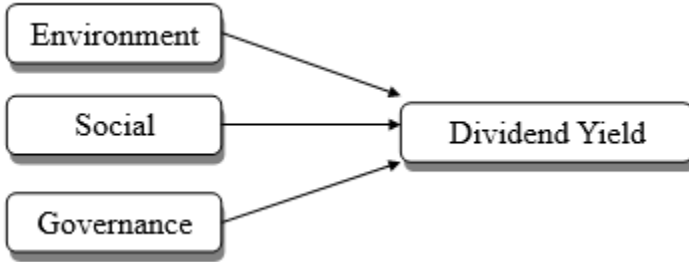


Fig. 1. Conceptual Framework of the Study (Dependent Variable: Dividend Yield)

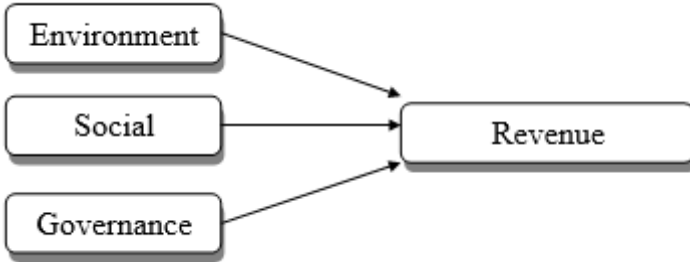


Fig. 2. Conceptual Framework of the Study (Dependent Variable: Revenue)

This study's main objective is to investigate the impact of ESG related factors on revenue and dividend yield. Thus, this study includes the annual data from the thirty-five companies, covering the period from 2015 to 2022 for the analysis purpose. The chosen sample period and countries were selected based on data availability. The dependent variable of this study are revenue and dividend yield, while the independent variables are environment, social, governance (ESG) score, environment score, social score, and governance score. All these data were extracted from Bloomberg terminal.

The empirical model for the determinant of revenue and dividend yield is as follows:

$$\text{Revenue}_{i,t} = \alpha_i + \beta_1 E_{i,t} + \beta_2 S_{i,t} + \beta_3 G_{i,t}$$

$$\text{Dividend}_{i,t} = \alpha_i + \beta_1 E_{i,t} + \beta_2 S_{i,t} + \beta_3 G_{i,t}$$

Where,

Revenue_{*i,t*} refers to revenue generated by company *i* at time *t*.

Dividend_{*i,t*} refers to dividend yield of company *i* at time *t*.

ESG_{*i,t*} refers to the environment, social and governance score of the company *i* at time *t*.

E_{*i,t*} refers to the environment score of the company *i* at time *t*.

$S_{i,t}$ refers to the social score of the company i at time t .
 $G_{i,t}$ refers to the governance score of the company i at time t .

This study applied Ordinary Least Squares (OLS) regression analysis to determine the relationship between Environmental, Social, and Governance (ESG) scores and the financial performance (revenue and dividend yield). OLS was initially chosen because it is a straightforward and widely used method for estimating the parameters of a linear regression model. It assumes that the error terms in the model are homoscedastic (having constant variance) and not correlated with each other, which would result in unbiased and efficient estimates if these assumptions hold true.

Then, diagnostic checks were performed to assess whether the assumptions of OLS were met. If heteroscedasticity and serial correlation are present, this study shall apply Feasible Generalized Least Squares (FGLS). FGLS adjusts for these issues by transforming the data, leading to more accurate and efficient estimates. By accounting for non-constant variance and the correlation between residuals, FGLS provided more reliable results than Ordinary Least Squares (OLS), making it the appropriate analysis method for this study.

4 Result and Discussion

Table 1 shows the descriptive statistics for five variables based on 280 observations. As reported in Table 1, the environment score has a mean value of 5.548 with a high standard deviation of 8.312, indicating significant variability, ranging from a minimum of 0.560 to a maximum of 38.890. The social score has a mean of 1.640 and a standard deviation of 0.889, with values spanning from 0.688 to 7.552. The governance score shows less variability, with a mean of 1.031 and a standard deviation of 0.062, ranging between 0.924 and 1.261. The variable dividend yield, which has a mean of 3.630% and a standard deviation of 2.508%, exhibits a wide range from 0.000% to 22.00%. Lastly, revenue has a mean of RM 8.220 billion and a substantial standard deviation of RM 16.45 billion, indicating a broad spread of values from RM 0.280 billion to RM 102.6 billion.

Table 1. Descriptive Statistics

Variable	Obs	Mean	S. D	Min	Max
E	280	5.548	8.312	0.560	38.890
S	280	1.640	0.889	0.688	7.552
G	280	1.031	0.062	0.924	1.261
DY	280	3.630	2.508	0.000	22.00
Revenue	280	8.220	16.45	0.280	102.6

Notes: *E* refers to Environment Score; *S* refers to Social Score; *G* refers to Governance Score; *DY* refers to Dividend Yield

After the diagnostic checking, this study revealed that there was an issue of heterogeneity and serial correlation. Thus, this study decided to run the Feasible Generalized Least Square to accommodate heteroscedasticity and serial correlation in data.

Table 2. Result of Data Analysis, Dependent Variable: Dividend Yield

Variable	Pooled OLS		FGLS	
	Coefficient	P-value	Coefficient	P-value
E	-0.003	0.880	0.009	0.489
S	-0.380	0.046*	-0.259	0.034*
G	-2.699	0.291	-2.624	0.114
Constant	7.052	0.006	6.767	0.000

Notes: E refers to Environment Score; S refers to Social Score; G refers to Governance Score; DY refers to Dividend Yield

Table 2 shows the result for the relationship between E, S, and G scores and dividend yield. Table 2 indicated that the social score (S) had a significant negative impact on dividend yield. Specifically, the social score coefficient was -0.380 with a p-value of 0.046 in the Pooled OLS model and -0.259 with a p-value of 0.034 in the FGLS model. This result suggests that companies with higher social scores tend to have lower dividend yields. In contrast, the environment score (E) and governance score (G) do not show statistically significant effects on dividend yield. Hence, hypothesis 2 is supported, while hypotheses 1 and 3 are not supported.

These findings contradicted the results of [17] and [19], who found the positive relationship between the ESG performance and the financial performance of the companies. However, the significant negative impact of the social score (S) on dividend yield observed in Table 2 might be attributed to several reasons. Companies with higher social scores are likely to invest more in social initiatives and corporate social responsibility (CSR) activities. These investments can be costly and might reduce the available cash flow that could otherwise be distributed as dividends to shareholders. As a result, these companies may opt to retain earnings to support ongoing or future social projects rather than distributing them as dividends.

Table 3. Result of Data Analysis, Dependent Variable: Revenue

Variable	Pooled OLS		FGLS	
	Coefficient	P-value	Coefficient	P-value
E	0.070	0.577	0.031	0.128
S	-4.022	0.001*	-0.158	0.425
G	18.68	0.263	1.119	0.582
Constant	-4.830	0.772	4.065	0.050

Notes: E refers to Environment Score; S refers to Social Score; G refers to Governance Score; DY refers to Dividend Yield

Table 3 shows the result of data analysis for the relationship between E, S, and G scores and revenue. Table 3 shows that the social score (S) had a significant negative impact on revenue in OLS model. However, this relationship is not significant in the FGLS model, where the social score's coefficient is -0.158 with a p-value of 0.425, indicating no significant effect. The environment score and governance score do not significantly impact revenue in either model. Hence, hypothesis 5 is supported, while hypotheses 4 and 6 are not supported.

These findings also contradicted the results of [17] and [19], who found the positive relationship between the ESG performance and the financial performance of the companies. Notably, the discrepancy in the results for the social score on revenue between the Pooled OLS and FGLS models in Table 3 could be attributed to difference in model specification. Pooled OLS does not account for heteroscedasticity and potential correlations within the data, whereas FGLS adjusts for these issues. The significant negative impact of the social score on revenue observed in the OLS model might be driven by outliers or specific conditions within the sample that are not properly accounted for, leading to potentially biased estimates. The FGLS model's adjustment for heteroscedasticity and correlation might provide more robust and reliable estimates, revealing that the relationship is not actually significant when these factors are considered.

5 Conclusion

This study aims to examine the impact of ESG scores on the dividend yield and revenue of the Malaysian companies. By using the annual data of thirty-five companies over the period 2015-2022. This study revealed that there were issues of heterogeneity and serial correlation. Thus, this study applied the Feasible Generalized Least Square (FGLS) to examine the impact of ESG scores on the dividend yield and revenue. The results show that social score plays important role in affecting the dividend yield of the Malaysian companies. Such companies might reinvest profits into initiatives that enhance their social impact, improve stakeholder relations, and strengthen their overall corporate reputation. This long-term strategic focus can lead to lower immediate dividend yields as the company allocates resources to areas that are expected to generate value over a longer horizon. The findings of this study contribute to the existing literature by providing the impact of each component from ESG concept on the financial performance of the companies. This study also recommended that companies clearly communicate the long-term benefits of their social initiatives to investors. They need to emphasize how these initiatives contribute to sustainable growth and enhanced corporate reputation. From an investor's perspective, they should consider the broader implications of ESG scores, particularly the potential long-term value creation associated with high social responsibility. However, this study has several limitations. The analysis is based on data from only thirty-five companies over a specific period (2015-2022), which may limit the generalizability of the results. Further study should expand the sample size and period to generalize the findings. Moreover, future research may include other factors that might

affect the link between ESG scores and financial performance. This could offer deeper insights into how these factors interact across different industries or regions.

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