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Examining the moderating role of the quality of financial audits and sustainability assurance on the relationship between environmental, social, and governance factors and the payment and growth of company dividends: evidence from Iran

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Abstract

Objectives: This research examines the relationship between environmental, social, and governance scores and dividend distribution decisions of companies, taking into account the moderating role of financial audit quality to ensure sustainability.

Design/methodology/approach: This research is applied, with a causal correlation methodology.
Despite limitations, a sample of 152 firms was selected for the years 2018-2022. Multivariate linear regression based on panel data was used to test the research hypotheses.

Results: Panel regression analyses reveal a positive and significant correlation between ESG scores and dividend payouts. This suggests that companies with strong environmental, social, and governance practices prioritize stakeholders and shareholders, maintaining dividend payments. However, companies that prioritize high-quality ESG practices experience slower dividend growth. Additionally, audit quality negatively moderates the relationship between ESG scores and dividend payouts, particularly for companies audited by A-rated firms. Quality assurance of ESG factors did not yield statistically significant results.

Innovation: The findings have implications for investors, management, analysts, and policymakers, offering valuable insights for companies looking to enhance their sustainability practices.

Keywords: Audit quality, dividend payment, dividend growth, environmental, social, and governance factors.

1. Introduction

The recent international approach to environmental and social issues has had a significant impact on business practices, leading to a departure from traditional methods. This shift has presented new challenges for management and investors, as companies now need to allocate resources towards environmental, social, and governance policies that align with investor and societal expectations. This has shifted the investment priorities from focusing solely on dividends to also considering sustainability practices, as highlighted by Booth and Zhou (2017).

This shift towards sustainable practices can create a financial conflict as companies balance investments in environmental, social, and governance projects with compensating investors through dividend payments. Companies that prioritize sustainability practices are seen favorably by investors and shareholders, reflecting a commitment to long-term success. Mandatory sustainability reporting for large non-profit organizations has become common practice globally since 2017, alongside financial audits.

In Iran, sustainability reporting was previously voluntary, but new guidelines in 2022 now require companies to report on sustainability practices with disciplinary penalties for non-compliance. This research aims to explore dividend payment methods in companies with an environmental, social, and governance focus, examining dividend payment and growth ratios. The study will also analyze the role of financial and non-financial audits in moderating the relationship between environmental, social, governance factors, and dividend payouts.

By understanding how environmental, social, and governance factors influence dividend growth, this research aims to shed light on the impact of sustainability policies on dividend decisions. Additionally, the study will investigate the importance of financial auditing and sustainability assurance in shaping the relationship between these factors and dividend payouts. This research will provide insights into the role of audits in influencing corporate reporting, financial decisions, risk management, and compliance with regulations.

The research will be structured as follows:

Section 2 will cover the literature review and hypothesis development, Section 3 will detail the data collection method and research design, Section 4 will present the experimental results and analysis, and the conclusion will be provided in the final section.

2. Literature review and hypothesis development

Theoretically, non-financial disclosures can impact dividend decisions through two interconnected channels: the debt cost channel and the profit channel. In the debt cost channel, non-financial disclosure reduces knowledge disparities between insiders and investors, increases access to financial resources (Shokrzadeh, 2022), lowers capital costs, and encourages managers to distribute dividends. The cost of capital and dividend payout have an inverse relationship because when financing costs are low, external financing constraints are less burdensome for companies (Cheung et al., 2018). Consequently, without restrictive constraints, companies can distribute dividends (Cao et al., 2017). Non-financial reports on environmental, social, and governance practices offer more insight into the company, aiding investors in evaluating potential environmental and social responsibilities (El Ghoul et al., 2011). Cuadrado-Ballesteros et al. (2016) suggest that reduced information asymmetry due to high disclosure and transparency practices lowers transaction costs and positively influences a company's willingness to pay dividends. Insufficient disclosure and investor uncertainty can lead to limited investments and higher return demands (Dhaliwal et al., 2011), affecting dividend decisions. Signaling theory suggests that increased knowledge boosts investor confidence in managerial decisions, leading them to invest in companies with strong corporate governance reputations. Reports on environmental, social, and governance practices signal to financial markets that a company can manage environmental and social risks.

Investors link this disclosure to robust corporate governance (Cheung et al., 2018), high social capital, and good credit (Birkey et al., 2016), resulting in lower unsystematic risk (El Ghoul et al., 2011). Lower perceived corporate disclosure risks mean lower excess debt costs and higher capacity for cash dividend payments. The second channel is profit, showing how non-financial disclosures reflect a company's shareholder commitment, crucial for business profitability. Consumers value a company's social and environmental responsibility, impacting market share changes, financial results, and dividend-paying capabilities (Seighali and Amirpanahi, 2020). Profit is a crucial factor in dividend payments (Mitton, 2004). Non-financial disclosure can boost earnings by enhancing brand equity, engaging stakeholders, increasing employee productivity, and improving asset allocation. These benefits contribute to favorable dividend policies and higher earnings, benefiting investors, businesses, and stakeholders (Cheung et al., 2018). El Ghoul et al. (2011) suggest that socially responsible corporate behavior shields companies from market uncertainty, enabling steady income streams for dividend payments. Some studies show a positive link between corporate sustainability responsibility and profit-sharing (Benlemlih, 2019; Cheung et al., 2018; Rakotomavo, 2012), indicating that sustainability practices lead to sustainable profit-sharing policies (Jarboui, Samet 2017). Cheung et al. (2018) found that companies with high sustainability responsibility scores have higher profit-sharing levels due to reduced perceived risk and improved stakeholder relationships, especially in non-financial corporations. Rakotomavo (2012) noted a correlation between CSR efforts and profit-sharing before the 2007 financial crisis in the United States. However, the impact may vary based on organizational, institutional contexts, and country characteristics. Niccolo et al. (2020) and Ni and Zhang (2019) found a negative relationship between environmental, social, governance practices, and dividend payments by Chinese listed companies. Cheung et al. (2018) argue that the debt cost and profit channels can lead to a negative relationship between environmental, social, governance practices, and dividends. Companies benefiting from lower debt costs may reinvest profits or allocate free cash flow elsewhere. Conversely, profitability gains from environmental, social, and governance practices may require time and financial investments in the long term. These investments can reduce liquidity and profitability due to their relatively high costs (Duque-Grisales & Aguilera-Caracuel, 2021).

This is why investors with a longer-term perspective prefer companies with higher environmental, social, and governance scores, while those with a short-term view prefer the opposite (Starks et al., 2017). However, as Pan (2020) suggests, institutional investors should encourage their managers to consider environmental, social, and governance issues in public credit assessments and monitor them to enhance risk management. Dividend policy and corporate governance mechanisms are complementary tools to mitigate agency costs (Farooque et al., 2021). Companies that offer higher dividends are more likely to adopt good governance practices and implement robust monitoring and control systems that improve company performance and dividend payouts (Jan Abadi and Jami, 2020; Elmagrhi et al., 2017; Erdas & Simoes, 2020). Additionally, firms with strong corporate governance tend to pay out more dividends (Adjaoud & Ben-Amar, 2010).

In general, various aspects defining environmental, social, and governance practices have a strategic and significant impact on a company's operations, financial performance, and, consequently, dividend decisions. Companies that prioritize environmental, social, and governance issues, transparency, and disclosure quality exemplify quality reporting, demonstrating their commitment to enhancing governance standards and building a positive reputation (Dhaliwal et al., 2011; Zahid & Simga-Mugan, 2019). By doing so, these firms attract investors and secure debt at a lower cost, which may benefit their dividend policy (El Ghoul et al., 2011). Therefore, these firms are inclined to disclose CSR activities more than others to convey

unobservable firm characteristics (e.g., efforts to reduce opportunism), ultimately helping to lower their cost of capital and, consequently, maintain sufficient liquidity to pay dividends.

However, evidence supporting the relationship between environmental, social, governance, and non-financial disclosure scores and dividend payout practices remains scarce (Verga Matos et al., 2020), and contradictory results may still arise. Based on these arguments, it is predicted that environmental, social, and governance scores will significantly impact dividend payments. Previous empirical research has shown that higher audit quality benefits market participants by ensuring that financial statements accurately reflect a firm's activities (DeFond & Zhang, 2014). Auditors, due to their credibility and professional risks, address client characteristics and potential agency issues in their audit reports (Ali & Lesage, 2013; Griffin et al., 2010). They also advise companies on appropriate disclosure of financial and non-financial information, valuation, and risk assessment. Their influence on a company's financial performance and governance practices affects profit figures, dividend distribution, and resource allocation for sustainability practices.

Lee and Lee (2013) also argue that higher audit quality enhances the value of financial statements, particularly in portraying business success and providing investors with more accurate assessments of business value. Top auditors are typically more effective in preventing earnings manipulation and delivering high-quality audits (Becker et al., 1998). According to agency theory, auditing is a crucial monitoring strategy to reduce information asymmetry, prevent exploitative activities, and enhance the performance and transparency of environmental, social, and governance practices (Jensen & Meckling, 1976). The audit theory literature emphasizes the importance of audit quality for external auditors' success (Knechel et al., 2013). One parameter used in prior research to evaluate auditor quality is the size of the audit firm. DeAngelo (1981) suggests that audit firm quality increases with size or reputation. Larger and more well-known audit firms safeguard their reputations by providing clients with superior yet targeted audits (Bacha et al., 2020). Larger audit firms (such as A-rated firms in Iran or the Big Four audit firms) conduct higher-quality audits due to their extensive experience (Choi et al., 2010) and increased audit efforts (Tahriri and Afsai, 2021; Francis & Yu, 2009). The owners of the top audit firms consistently demonstrate exceptional transparency and sustainability responsibility (Agyei-Mensah, 2019).

Large audit firms provide superior audit quality (Francis, 2011) because they have more resources to utilize during audits, invest significantly in human capital and technology, and enhance the reliability of provided information, including non-financial data. Auditors from major auditing firms, due to their expertise and precision, bolster environmental, social, and governance practices, particularly in governance and environmental initiatives, aligning with international sustainability regulations and efforts. Concurrently, they mitigate earnings manipulation, overestimation of dividends, and underscore confidence in the company's operations. Consequently, audit quality, determined by auditors' type and attributes, becomes a crucial moderating factor in understanding profit-sharing policies and practices. Audit quality plays a vital role in enhancing the credibility of financial statements and financial information, reducing financing costs, and curbing managerial opportunistic behavior (Huguet & Gandía, 2016). Large audit firms are linked to high-quality audit performance (Hammami & Zadeh, 2020), leading to reduced information asymmetry and increased transparency.

Farooque et al. (2021) and Mitton (2004) demonstrate that large audit firms positively and significantly impact dividend policy. In contrast, Deshmukh et al. (2003) argue that higher information asymmetry resulting from poor auditing leads to diminished dividend payouts to shareholders. The success of environmental, social, and governance practices and transparency in corporate activities is associated with higher audit quality, enhancing the

legitimacy and credibility of the company (Hammami & Zadeh, 2020).

External financial audits encompass a thorough risk assessment of all aspects of the business that could influence the accuracy of financial information, including financing, environmental, social, and governance practices, corporate credit risk, resource allocation, and profitability. Financial auditors are implicitly trained in environmental, social, and governance practices and strategies to deter corporate misconduct, aid companies in enhancing performance, and mitigate credit risk (Asante-Appiah & Lambert, 2022). The supervisory and corrective role of dual-quality auditing can enhance the company's financial outcomes, including profit-sharing policies and environmental, social, and governance ratings, while preventing manipulation and financial misconduct that could adversely impact reported profitability and other financial metrics.

Considering the correlation between financial and non-financial audits, environmental, social, and governance ratings reporting, and dividend payments, audit quality serves as a moderating factor that influences the relationship between environmental, social, and governance ratings and dividends. It also elevates the quality of environmental, social, and governance measures concerning financial reporting and trust in the company's financial decisions, emphasizing the financial ramifications of environmental, social, and governance ratings. Therefore, it is anticipated that audit quality moderates the link between environmental, social, and governance ratings and dividend distributions.

Non-financial reporting assurance, especially when provided by large audit firms, can impact the relationship between environmental, social, and governance practices and profit-sharing decisions, contingent on the extent to which they offer detailed information on environmental, social, and governance ratings. However, since this assurance is a nascent aspect of audits that is still evolving and optional in many countries, its influence may not be as pronounced as that of financial audits on corporate practices and investment decisions.

In addition to serving as an indicator of the company's accountability to stakeholders, ensuring the disclosure of environmental, social, and governance ratings showcases the company's dedication to these practices and enhances the reporting of environmental, social, and governance activities. This aids in comprehending and evaluating the benefits of environmental, social, and governance practices. Del Giudice and Rigamonti (2020) discovered a significant disparity between audited and unaudited environmental, social, and governance practices information, which is notably more substantial in companies utilizing an external auditor to report environmental, social, and governance ratings, reducing information asymmetry between companies and market participants.

Asante-Appiah & Lambert (2022) also elucidate the expertise and professional authority of financial auditors in providing sustainability assurance services. However, their findings from a sample of American companies suggest that the positive relationship between ensuring environmental, social, and governance ratings and a company's financial outcomes can vary based on the predominant component of these practices. Martínez-Ferrero and García-Sa´nchez (2017) and Bacha et al. (2020) highlight the association between audit quality, corporate sustainability performance, reduced debt costs, and increased credibility of sustainability information, which is often insufficient or unreliable without corroborating evidence. They emphasize that auditors from major auditing firms are preferred for sustainability assurance services due to their credibility and expertise. Bacha et al. (2020) demonstrated that heightened audit quality, attributed to top audit firms, instills greater confidence in banks, prompting them to rely on financial and non-financial information when making credit decisions, leading to lower debt costs for socially responsible companies.

Thus, through the cost of debt channel, a reduction in debt costs can facilitate dividend payments (Cheung

et al., 2018), along with diminished information asymmetry due to reliable disclosure of environmental, social, and governance practices, as posited by agency and signaling theories.

2.1. Research hypotheses

According to the theoretical foundations presented in the theoretical framework and research background, the research hypotheses are as follows:

Hypothesis 1. The relationship between environmental, social, and governance scores and dividend payment ratio and dividend growth.

Hypothesis 2. Audit quality moderates the relationship between environmental, social, and governance scores and dividend payment ratio and dividend growth.

Hypothesis 3. Audit quality of non-financial disclosure moderates the relationship between environmental, social, and governance scores and dividend payment ratio and dividend growth.

3. Methodology

3.1. Statistical population and samples

This correlational research involved collecting and analyzing quantitative data longitudinally and retrospectively. The statistical population consisted of all firms listed on the Tehran Stock Exchange from 2014 to 2022, whose shares are publicly traded. To gather and analyze the necessary data, we utilized the information provided by capital market publishers and Rahavard Novin software. A systematic sampling method was employed to select the samples, resulting in 152 firms being chosen as the statistical sample.

1) All data required for the research should be available for the firms under survey;
2) The financial year of the firms should end on March;
3) The financial year should not change in the time frame of the research;
4) It should not belong to investment companies, financial intermediaries, banks, and leasing firms.

3.2. Research Model and Variables

Model of the first research hypothesis

$$Div\_Payout)Div\_Growth(=\alpha+\beta1ESGit +\beta2BSizeit + \beta3BIndeit +\beta4CEODit + \beta5FLit+\beta6Size(TA)it + \beta7SGit + \beta8ROAit + \beta9REit +\beta10FCFit +\beta11iTaxit +\varepsilon it$$

Model (1)

Model of the second research hypothesis

$$Div\_Payout)\ Div\_Growth(\ =\alpha+\ \beta1ESGit +\beta2Big4it +\beta3Big4\times ESGit + \beta4BSizeit + \beta5BIndeit + \beta6CEODit + \beta7Flit +\beta8Size(TA)it +\beta9SGit + \beta10ROAit + \beta11REit +\beta12FCFit + \beta13iTaxit +\varepsilon it$$

Model (2)

Model of the third research hypothesis

$$Div\_Payout)\ \ Div\_Growth(\ \ =\alpha+\ \ \beta1ESG_{it} +\beta2Big4CSR_{it} + \beta3Big4CSR_{it} \times ESGit + \beta4BSize_{it} + \beta5BInde_{it} + \beta6CEOD_{it} + \beta7Fl_{it} +\beta8Size(TA)_{it} +\beta9SG_{it} + \beta10ROA_{it} + \beta11RE_{it} +\beta12FCF_{it} + \beta13iTax_{it} +\varepsilon_{it}$$

Model (3)

Table 1 - Definitions of Variables (Vander Bauwhede & Van Cauwenberge, 2022؛ Zahid et al ،2022a, Ould Daoud Ellili ، 2020؛ Sheikh et al ،2021؛ Yilmaz et al ،2022).

Meaning	*Category*	*Name*	*Symbol*
ratio of dividends paid to total assets	Dependent	dividend	Div_Payout
percentage growth in the difference between the current year's and last year's dividends over last year's dividend	Dependent	dividend	Div_Growth
It is measured based on the environmental, social, and governance points determined in the annual reports of Tehran Stock Exchange companies on the Kodal website. The score is a combination of corporate disclosure based on corporate, social, and environmental governance. These scores are determined based on numerous financial and non-financial indicators collected from companies' disclosures in annual reports. The ESG index, whose name is made from the combination of the first three letters of the words' environment (Environment), social concerns (Social), and corporate governance (Governance), measures aspects of the activities of companies and businesses.	Independent	Environmental, social, and corporate governance disclosure	ESG
The Securities and Exchange Organization classified the trusted institutions of the exchange into four classes: "first", "second", "third" and "fourth". According to this rating, the institutions of the "first" group should probably have a higher audit quality than the certified auditors of other groups. Therefore, the audit of large owners has been assigned to the trusted audit institutions of the "first" group. It can be said that in the absence of any criteria for the quality of auditors in Iran, the Securities and Exchange Organization has proposed a rating as a criterion for distinguishing the quality of auditors in the country. Big4 is the quality rating variable of audit institutions, which is measured as a dummy variable that is measured as 1 if the audit institutions have a quality rating of A and 0 otherwise.	Moderator	Quality rating of audit institutions	Big4
The variable of the sustainability responsibility audit of the company by an independent auditor, a member of the audit institutes with a quality rating A, in companies that provide a sustainability assurance report for their non-financial information by an independent auditor, a member of the audit institutes with a quality rating A, takes the value of 1, and 0 otherwise	Moderator	The audit of the company's sustainability responsibility by an independent auditor, a member of audit institutes with a quality rating of A	Big4CSR
control		refers to the total number of directors in the corporate boards	BSize
Control		the number of independent directors in corporate boards	BInde
Control		Financial Leverage	FL
Control		depicts the dual role of the CEO as a director of the board	CEOD
Control		company size	Size(TA)
Control		sales growth	SG
Control		the return on assets	ROA
Control		the natural logarithm of retained earnings	RE
Control		the natural logarithm-free cash flows available	FCF
Control		the effective income tax rate	ITax

4. Research Findings

4.1. Descriptive statist

Table 2 presents descriptive statistics for the primary variables used in the analyses. These indicators mainly include information about central indicators such as mean and median, as well as information about dispersion indicators such as standard deviation. The most important central indicator is the average, which is a good indicator to show the centrality of data. For example, the ESG Index has an average value of 1.44, indicating that most data is focused around this point. In general, the dispersion parameters are the criteria for determining the dispersion of each variable or their dispersion relative to the mean. One of the most important dispersion parameters is the standard deviation. The value of this parameter for the financial leverage (FL) variable is 0.29.

Table 2. Descriptive statistics of the observed research variables

Sd	Min	Max	Middle	Mean	variables
0.113518	0.000003	0.415728	0.020215	0.059336	Div_Payout
0.787634	-0.76188	0.496405	0.227059	0.242762	*DivGrowth*
0.299674	0.722222	2.166667	1.444444	1.445041	*ESG*
0.163971	0	1	1	0.972393	*Big4*
0.262803	3	6	5	4.992331	*BSize*
0.171634	0.2	1	0.6	0.660251	*BInde*
0.128888	0	1	0	0.016871	*CEOD*
0.294402	0.031295	0.618298	0.498538	0.514443	*FL*
0.669201	4.953914	9.145192	6.674136	6.741931	*Size*
0.900044	2.925828	8.699528	5.899295	5.882162	*RE*
10.17701	-1	2.515417	0.479699	0.480624	*SG*
0.223115	-0.00147	0.495477	0.224649	0.249711	*ROA*
0.840195	2.792392	8.668921	5.673711	5.685226	*FCF*
5.184226	-0.79391	0.48071	0.130253	0.148342	*TAX*
0.32657	0	1	1	0.878834	*Big4CSR*

4.2. The results of the first research hypothesis:

Table 3 shows less than 5%, so we conclude that the model is generally statistically acceptable, and the high value of the Fisher statistic indicates that there is a strong relationship between variables in this model. As the coefficient of determination and the adjusted coefficient of determination indicate, it confirms the high power of the model explanation. Based on the value provided by the Watson-Durbin statistic, which can be confirmed by the lack of correlation in the model, there is no need to review this statistic due to the short period. Now, considering the significant confirmation of the whole fitted model, the meaningful analysis of each of the explanatory variables is discussed. As shown in the table below, for each coefficient variable, the t statistic, and finally, the value of p, each of the variables in the model is referenced to the p column or the same level of significance. Now, concerning the value of p, if the arbitrary error α is compared with the values of p, one can consider the meaning of each of the variables. Also, considering that the value of the variance inflation factor (VIF) for all research variables is less than five, there is no problem with collinearity in the model. The first hypothesis model shows the effect of environmental, social, and governance scores on dividend payments and dividend growth. The results

show that the environmental, social, and governance score and its components have a significant positive effect on the dividend payout ratio and prove that participation in environmental, social, and governance practices does not cancel the interests of shareholders, but rather limits agency conflicts. It reduces information asymmetry and sends positive signals to financial markets. This finding supports and complements the studies of Verga Matos et al. (2020) and Salah & Amar (2022). This study, on the other hand, emphasizes and investigates the ability to pay dividends from the internal aspect of the company and measures the dividend payout ratio by the amount of dividends paid divided by total assets, thus showing how much of the shareholders' interest is related to the size of the company. Despite increasing dividends as part of the potential profitability created by environmental, social, and governance practices, environmental, social, and governance scores have a negative effect on dividend growth, which reflects the small changes in dividend amounts over time and the fact that the cost of environmental, social, and governance activities becomes a cost for shareholders and reduces the growth rate of dividends. Thus, they may prefer dividend distributions due to investment efficiency, but environmental, social, and governance practices change the variation in dividend amounts over time. This is a new finding because dividend growth has not been studied in terms of its relationship with environmental, social, and governance scores. As Ni & Zhang (2019) stated in the context of China, considering the dividend payment criteria in the form of dividends divided by assets or dividends divided by sales of a period, this new finding shows a negative relationship between environmental, social, and governance, and It shows dividend distribution. The main reasons for the negative relationship between the environmental, social, and governance score and dividend growth can be a decrease in profitability, debt costs and payments resulting from environmental, social, and governance investment, higher current costs of maintaining environmental, social, and governance measures, or agency problems. Apart from the warnings that this result raises for shareholders and management, more research questions are raised about the long-term environmental, social, and governance implications for companies' financial results. Therefore, it is possible that if there are significant changes in the views of profit sharing, the legislators are concerned about the possible reduction of investors' incentives to support environmental, social, and governance projects. Like Yarram (2015), in a study on Australian companies, it can be concluded that corporate governance practices reflected by environmental, social, and governance components have a significant positive effect on the decision to pay dividends. This suggests that in an environment characterized by high levels of investor protection and well-developed stock markets, governance mechanisms work well to contribute to business sustainability and protect shareholder interests through a generous dividend policy.Guizani (2018) also found out. However, among the specific governance characteristics that are controlled in the model, such as board size, board independence, and CEO duality, it seems that only board size significantly affects the dividend payout ratio. Hence, apart from all other factors, a large board size leads to higher profit allocation.

Table 3: Estimation of the coefficients of the model.1

$Div=\alpha+\beta1ESGit+\beta2BSizeit+\beta3BIndeit+\beta4CEODit+\beta5FLit+\beta6Size(TA)it+\beta7SGit+\beta8ROAit+\beta9REit+\beta10FCFit+\beta11iTaxit+\varepsilon it$								
Div_Growth				***Div_Payout***				**Variables**
VIF	**Probability**	**t-statics**	**Coefficient**	***VIF***	**Probability**	**t-statics**	**Coefficient**	
1.028395	0.0424	2.032085-	0.00001-	1.022294	0.0493	1.968269	0.018221	*ESG*
1.017877	0.7387	0.333668	0.003062	1.019374	0.0491	1.970175	0.017494	*BSize*
1.464873	0.5622	0.579710	0.028149	1.110465	0.3186	0.997804-	0.191574-	*BInde*
1.032614	0.8577	0.179319-	0.000445-	1.181204	0.7756	0.285085-	0.000226-	*CEOD*

$Div=\alpha+\beta1ESGit+\beta2BSizeit+\beta3BIndeit+\beta4CEODit+\beta5FLit+\beta6Size(TA)it+\beta7SGit+\beta8ROAit+\beta9REit+\beta10FCFit+\beta11iTaxit+\varepsilon it$								
Div_Growth				*Div_Payout*				**Variables**
VIF	**Probability**	**t-statics**	**Coefficient**	***VIF***	**Probability**	**t-statics**	**Coefficient**	
1.078883	0.1271	1.527082-	0.071350-	1.025285	0.0903	1.695436-	0.015519-	*SIZE*
1.086373	0.0026	3.020043	0.228389	1.149605	0.6291	0.483131-	0.005673-	*FL*
1.018751	0.4743	0.715855	0.006412	1.023217	0.1859	1.323907-	0.011812-	*SG*
2.268569	0.0000	13.66604	0.054824	1.131136	0.0209	2.314435	0.144995	*ROA*
1.403321	0.0466	1.992499	0.104649	1.025110	0.9116	0.111090	0.000981	*RE*
-1.056224	0.0000	13.75640-	75.38245-	1.210504	0.3137	1.007927	0.021444	*FCF*
1.019961	0.0000	42.19668	0.806232	1.025168	0.8139	0.235477	0.00002	*ITax*
-	0.0000	13.49365	75.74855	-	0.0000	13.75640	75.38245	*C*
0.740981				0.741045				R-squared
0.736917				0.737513				Adjusted R-squared
206.9155				238.0991				F-statistic
0				0				F-probability level
2.170381				2.206488				Durbin-Watson

4.3. The results of the second hypothesis

As shown in Table 4, the quality of financial audits significantly moderates the relationship between environmental, social, and governance indicators and profit-sharing values. The comparison of models 1 and 2 shows that the influence of environmental, social, and governance factors on dividend payments is affected by the inclusion of the variable of an A-rank auditor in the equation. The audit of financial statements by A-rank auditors has a negative effect on the impact of environmental, social, and governance activities on the company's dividends. Therefore, environmental, social, and governance factors, along with an increase in audit quality, reduce dividend payment and growth during the analyzed period. In other words, when companies are audited by audit institutions with a quality rating of A and have high environmental, social, and governance scores, they tend to pay less in dividends. Due to their supervisory role, financial auditors influence the company's resource allocation decisions through their signal to shareholders (Hammami & Zadeh, 2020), which affects the relationship between environmental, social, governance, and dividend factors. Additionally, audit quality is generally associated with higher earnings quality (Asante-Appiah and Lambert, 2022), prudence in financial estimates, and a lower risk of misstatement, resulting in safer profit-sharing decisions in the context of increased environmental, social, and governance activities. This benefits shareholders.

Table 4: Estimation of the coefficients of the model.2

$Div=\alpha+\beta1ESG_{it}+\beta2Big4_{it}+\beta3Big4\times ESG_{it}+\beta4BSize_{it}+\beta5BInde_{it}+\beta6CEOD_{it}+\beta7Fl_{it}+\beta8Size(TA)_{it}+\beta9SG_{it}+\beta10ROA_{it}+\beta11RE_{it}+\beta12FCF_{it}+\beta13iTax_{it}+\varepsilon_{it}$								
Div_Growth				*Div_Payout*				**Variables**
VIF	**Probability**	**t-statics**	**Coefficient**	***VIF***	**Probability**	**t-statics**	**Coefficient**	
2.039862	0.0490	1.968746-	0.031250-	1.052058	0.0358	2.102619	0.050313	*ESG*
1.240685	0.4295	0.790424	0.00001	1.240685	0.4295	0.790424	0.00001	*Big4*
1.015112	0.0524	1.941886-	0.044640-	3.115765	0.0035	2.925649-	0.004757-	*Big4*ESG*

$Div = \alpha + \beta 1ESG_{it} + \beta 2Big4_{it} + \beta 3Big4 \times ESG_{it} + \beta 4BSize_{it} + \beta 5BInde_{it} + \beta 6CEOD_{it} + \beta 7Fl_{it} + \beta 8Size(TA)_{it} + \beta 9SG_{it} + \beta 10ROA_{it} + \beta 11RE_{it} + \beta 12FCF_{it} + \beta 13iTax_{it} + \varepsilon_{it}$								
Div_Growth				***Div_Payout***				**Variables**
VIF	**Probability**	**t-statics**	**Coefficient**	***VIF***	**Probability**	**t-statics**	**Coefficient**	
1.016508	0.5700	0.568320-	0.013232-	3.162338	0.0484	1.976249-	0.000126-	*BSize*
1.589586	0.5650	0.575614	0.066420	1.023647	0.7811	0.277902-	0.006307-	*BInde*
1.072356	0.4183	0.809722	0.003174	.806691	0.0406	2.050206	0.088698	*CEOD*
1.065951	0.0703	1.811863-	0.202537-	1.146182	0.0159	2.414543	0.004263	*SIZE*
1.109467	0.4030	0.836567-	0.162057-	1.024256	0.4336	0.783360-	0.018242-	*FL*
1.016691	0.0619	1.869191-	0.042617-	1.204068	0.3405	0.953744-	0.028610-	*SG*
1.696604	0.0094	2.604225-	0.021155-	1.027797	0.1097	1.601259	0.036472	*ROA*
1.526682	0.1642	1.392239-	0.161879-	1.161914	0.0637	1.856699-	0.280355-	*RE*
1.680245	0.0096	2.596090-	0.020954-	1.032941	0.1093	1.603065	0.036324	*FCF*
1.532695	0.1586	1.410730-	0.164595-	1.277477	0.6078	0.513449	0.027130	*ITax*
-	0.0090	2.618851	29.10980	-	0.0083	2.643806	29.56996	*C*
0.350992				0.361261				R-squared
0.336795				0.345193				Adjusted R-squared
24.72285				22.48204				F-statistic
0				0				F-probability level
2.010738				2.001338				Durbin-Watson

4.4. The results of the third hypothesis

As indicated in Table 5, the results of the estimations for the third hypothesis model in this research show that the correlation between environmental, social, and governance scores and profit-sharing values is not influenced by the assurance of non-financial disclosures. The assurance of non-financial environmental, social, and governance information, regardless of the auditor's type or presence, does not significantly impact the company's dividend policies. This demonstrates trust and confidence in environmental, social, and governance practices and is unrelated to the auditor's involvement in the process. This finding aligns with the research findings of Thompson et al. (2022).

Stock investors seek investment opportunities when positive environmental, social, and governance factors suggest future growth. Ni and Zhang (2019) suggest that the majority of investors may be driven by financial rather than ethical reasons when using environmental, social, and governance data. An alternative perspective can further elucidate these new findings regarding the role of audit quality in dividends and information quality as signaling mechanisms. Dividends serve as a resolution to agency conflicts, and environmental, social, and governance practices, particularly those supported by financial audits, help reduce information asymmetry, better safeguard shareholders, and meet corporate expectations. By demonstrating commitment and disclosing private information, they mitigate interest through costly payments (Ni and Zhang, 2019).

Managers, shareholders, and policymakers may question whether these factors compromise the quality of a company's environmental, social, governance, or audit practices. Given the significant role of audit quality in lending, ensuring environmental, social, and governance practices, and activities in general, it is reasonable to assume that investors accept the potential negative impact on dividends in the form of additional costs.

Table 5: Estimation of the coefficients of the model.3

$Div = \alpha + \beta 1ESGit + \beta 2Big4CSRit + \beta 3Big4CSRit \times ESGit + \beta 4BSizeit + \beta 5BIndeit + \beta 6CEODit + \beta 7Flit + \beta 8Size(TA)it + \beta 9SGit + \beta 10ROAit + \beta 11REit + \beta 12FCFit + \beta 13iTaxit + \varepsilon it$								
Div_Growth				***Div_Payout***				**Variables**
VIF	**Probability**	**t-statics**	**Coefficient**	***VIF***	**Probability**	**t-statics**	**Coefficient**	
1.021421	0.0219	2.438628-	0.609577-	1.294206	0.0000	7.151468	0.656482	*ESG*
2.242625	0.1612	1.442000	0.00001	1.819681	0.8665	0.168206	0.0009	*Big4CSR*
1.552434	0.7614	0.306898	0.042578	1.814718	0.9199	0.100586-	0.000006-	*Big4CSR × ESG*
2.037958	0.3554	0.940913	0.00002	1.187085	0.0000	5.810127-	0.853894-	*BSize*
2.698995	0.4788	0.718586-	0.108771-	1.317317	0.6047	0.518311-	0.0002-	*BInde*
1.005894	0.5846	0.546866-	0.042171-	1.323816	0.0000	5.779690	0.280950	*CEOD*
1.525094	0.7023	0.382375	0.087757	1.486029	0.9314	0.086120-	0.00001-	*SIZE*
1.006546	0.6294	0.482798	0.225040	1.332387	0.3632	0.910768	0.048123	*FL*
1.259754	0.4312	0.787458-	0.113984-	1.266300	0.0461	2.039190-	0.515152-	*SG*
1.047964	0.2438	1.166480-	0.000544-	2.964930	0.0006	3.657869	0.00002	*ROA*
1.631119	0.0732	1.793702	0.394429	1.251741	0.1172	1.590612	1.011827	*RE*
1.131850	0.0106	2.560283	0.215839	1.200394	0.4676	0.731369	0.00001	*FCF*
1.167990	0.2195	1.228736-	0.184528-	2.657229	0.3199	1.003358-	0.204744-	*ITax*
-	0.0005	3.489630	2.033682	-	0.0011	3.304965	1.220823	*C*
0.373098				0.381563				R-squared
0.359385				0.365469				Adjusted R-squared
27.20669				23.70961				F-statistic
0				0				F-probability level
1.921864				2.018428				Durbin-Watson

5. Discussion and Conclusions

The lack of empirical evidence regarding the influence of environmental, social, and governance factors on dividend payment decisions, dividend growth, and the moderating role of audit quality in relation to these factors in Iran has motivated this research. Existing literature on this subject is limited, highlighting the necessity of expanding research to a broader context. This study provides theoretical and empirical support for a positive correlation between environmental, social, and governance scores, dividend payout ratio, and dividend growth. Furthermore, the findings suggest that the association between these factors and dividend policy is significantly and negatively impacted by the audit quality of institutions rated as A. These results indicate that environmental, social, and governance reporting, along with profit-sharing policies, serve as alternatives to mitigate information asymmetry and address agency issues.

Despite the positive link between environmental, social, and governance scores and dividend payments, a novel discovery of this study is the negative relationship between these scores and profit growth. An implication of this research is that companies can enhance stakeholder relationships by increasing their environmental, social, and governance initiatives and dividend payouts, thereby reducing information asymmetry. Consequently, shareholders value companies that exhibit various financial and non-financial attributes, such as environmental, social, governance practices, and profit-sharing in dividend distributions, which enhances trust among investors and society. These factors also influence investment and financing decisions.

This study suggests that shareholders seeking a larger share of dividend distributions should consider a company's investment strategy. Companies with higher environmental, social, and governance scores tend to engage in responsible investment practices, which may lead to higher dividend payments. Additionally, the study underscores the importance of audit quality in the relationship between environmental, social, and governance scores and dividend distributions. Therefore, policymakers should encourage companies to enhance audit quality, despite potential short-term tensions that audits may introduce in dividend payment decisions.

Description

This article is the output of a research design.

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