CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY, AND DIVIDENDS IN EUROPE

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Abstract

This study analyses whether corporate social responsibility (CSR) initiatives, corporate governance, and payment of dividends procedures intersect in European businesses. This study seeks to share insight into the intricate relationship between CSR and dividend distribution, concentrating on the European market. This paper looks at how corporate governance integrity influences the selection of dividends and how CSR practices affect those decisions. To understand this aspect more clearly, the European firms operating in the industrial and services sectors have been considered. The sample size of 360 firms operating in 10 European countries (Austria, Finland, Italy, Denmark, Germany, France, Luxembourg, Portugal, the Netherlands, and Switzerland) is considered. Variables such as CSR, board size, board meetings, board independence, firm size, and profitability (return on assets, ROA) have been used as independent variables, and the dividend payout ratio (DPR) has been used as the dependent variable. The findings have indicated that the DPR within European firms has been impacted widely due to CSR, firm size, board size and profitability, while no significant influence is there of board independence and meetings. Therefore, based on the findings, it is concluded that CSR has a significant impact on dividend payout, with corporate governance performing some role in the process.

Keywords: Corporate Social Responsibility, Corporate Governance, Dividends, Tobit Regression, Europe

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1. INTRODUCTION

Corporate social responsibility (CSR) can be perceived as a business model that a company follows to become socially responsible and accountable to society and stakeholders. Significant developments have been noticed in CSR, making it essential for businesses to adopt it within their processes (Matten & Moon, 2020). The main goal in the business is about generating profits, and once it is generated, the company has two options: 1) to keep the profits via retained earnings, and 2) to pay dividends to their shareholders. Dividend payment is defined as the process of distributing profits among the shareholders of the organization in accordance with the dividend policy, which determines the amount and frequency of dividend payments (Ben Salah & Ben Amar, 2022).

Although the influence of dividend payouts on corporate performance has been extensively researched in earlier research, there is still a lack of information about how CSR and dividend distribution interact (Barauskaite & Streimikiene, 2021; Badru & Qasem, 2021). This research will discuss CSR in the light of its influence on the dividend distribution policy, which is considered an important concern for businesses. It focuses on the impact of CSR on the dividend payout of mutual funds. It is also going to consider the role of corporate governance quality, which is an important concern in corporate finance because it is the means to ensure that there are transparent controls and rules to balance the interests of employees, shareholders, directors, and investors.

This study will provide some valuable insights about CSR and its relevant impact on dividend payouts. Businesspersons and investors will be able to use the results of this study to understand how CSR can be promoted in dividend policies. The investigation of CSR, corporate governance, and dividend practices in a range of European countries (Austria, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Portugal, and Switzerland) is significant because of its consequences and influence on investor confidence, global competitiveness, and relevant stakeholder interests. The findings will ensure the contribution in well-informed decision making and helpful for fostering responsible conduct of business as well as promotion of sustainable regional growth. Moreover, findings will be useful for exploring best practices across European countries and helpful for strengthening their overall governance framework.

According to the knowledge of the authors, this research adds to the current literature by linking the concept of CSR with dividend payout for the context of services and industries in Europe. Therefore, the objective of the current study is to evaluate the impact of CSR on dividend payout by incorporating the concept of eminence of corporate governance. Although there have been some studies (Maqbool et al., 2022; Lakhal et al., 2023) that have assessed the relationship between CSR and dividend payout in different contexts (e.g., considering the consequence of shareholder friendliness, corporate governance quality, board monitoring), limited work has been done in the European service sector (Zahid et al., 2023). Therefore, this study will fill this gap by conducting research on whether there is a positive or negative impact of CSR on dividend payout in Europe.

The remaining sections of the paper are structured as follows. Section 2 provides a literature review of relevant theories and empirical studies. Section 3 introduces the research methodology, samples, and approaches used to collect data. Section 4 describes the results and discussion. Section 5 presents conclusions and some recommendations.

2. LITERATURE REVIEW

Maqbool et al. (2022) determined the impact of CSR on dividend payout in Pakistan by focusing on the quality of corporate governance regarding the implication of mutual funds. The results determined that mutual funds that possessed a high level of CSR were able to give high dividends. It further indicated that the corporate governance quality does not only positively impact dividend payout on mutual funds but also serves as the moderator between CSR and dividend payout. It was also noticed that there was a difference between conventional and Islamic mutual funds with respect to dividend payout policy.

According to Ellili (2022) and Ben Salah and Ben Amar (2022), a substantial role has been played by the quality of corporate governance in decisions regarding dividends. Due to this, the regulators and policymakers are suggested to encourage asset management firms to improve their quality of corporate governance along with engaging more in activities that are socially responsible as it can lead them to improved dividend payout and fund performance.

De Villiers et al. (2023) stated that idle resources are used by firms to finance their CSR activities when these can be used to pay out their dividends. This is important because investors prefer an organisation that pays high dividends along with supporting CSR activities. The dividend payout is the means for shareholders to make sure that resources have not been wasted. The findings of this study indicated that there is a difference in the impact of unexpected and expected CSR disclosures on the dividends. He highlighted that firms in Europe with unexpected CSR disclosures indicated a positive relationship with dividends, and those with expected CSR disclosures did not have any link with dividends. It means that firms that had higher unexpected disclosures paid higher dividends because there is an association between unexpected disclosure and CSR performance. This means that there is an impact of CSR disclosures on the level of dividends being paid out by European firms. Within Europe, the disclosure of CSR has much association with the level of their dividend payments, due to which it is important for investors to determine the level of CSR disclosures in European firms when making decisions based on dividend payouts.

Zahid et al. (2023) determined the affiliation of ESG (also referred to as environmental, social, and governance) scores on the divided plans, along with consideration of the mediating effect of quality of audit in Western Europe. Their findings indicated the presence of a positive link among relevant dividend payouts with ESG dimensions. The European companies that adopted strong practices of ESG paid higher dividends, but there is slow growth in their dividend rates. Moreover, they further argued that there is a negative moderating impact of audit quality on the ESG and dividend relationship. The results indicated that the reporting of ESG and dividend policy work as substitutes for controlling agency problems and minimizing information asymmetry.

Ellili (2022) proclaimed that even though a positive relationship has been found between dividend payout and ESG, there is a negative association between ESG and dividend growth, which means that organizations in Western Europe do pay dividends while adopting ESG, but its growth rate is impacted by the extent to which they are being socially responsible. The higher ESG score is the indication of corporate inclination towards making responsible investments, due to which these

organizations can make higher payouts. However, it is important for policymakers to focus on audit quality because it can develop tensions in the decisions related to dividend payments.

Yilmaz et al. (2022) highlighted that the association between dividend policy and corporate sustainability performance (CSP) could lead to an increase in the competitive power of organizations along with improving their position among stakeholders and shareholders. The dividend policy serves a lot in disciplining the free cash flows used along with signalling the market. This shows a positive link between dividend payout and CSP, but it is impacted by the ownership structure. It is found CSP activities do not improve the probability of dividend payments and density. However, as a mainstay of sustainability, corporate governance upholds the significant moderating impact on the relationship of dividend payout and sustainability. It also revealed that corporate governance helps in dealing with agency problems that encourage the organizations to engage in sustainable activities along with paying higher dividends (Dahiya et al., 2023).

Pahi and Yadav (2019) further highlighted the link between corporate governance practices and dividend strategy. They identified that there are different factors of corporate governance that have an influence on the dividing payout. These include board of directors (BOD) committees, company age, dividend payment mode, return on assets (ROA), price-earnings ratio, net profit margin, and others, which are some of the dominant factors that have an influence on the dividend payout policy of the firms operating in India. However, factors such as meeting attendance of BOD, board size, debt-to-equity ratio (D/E ratio), social responsibility, and sales have a negative influence on the overall dividend plan.

The study by Saeed and Zamir (2021) highlighted the effect of disclosures of CSR with respect to dividend decisions negatively across evolving marketplaces such as China, India, Malaysia, Indonesia, Turkey, Pakistan, and Russia. The negative impact is more dominant in the firms that have higher institutional ownership, but there is no impact of legal origin difference on the dividend payout decisions of the companies operating in these markets.

On the other hand, Badru and Qasem (2021) indicated the impact of CSR on dividend payments in the Malaysian context, highlighting the fact that CSR entails a positive connection with the dividend plan. Hence, organizations that have high CSR scores pay high dividends to their shareholders, but when family control is involved, it leads to a negative relationship because family firms are found to have less engagement in CSR activities.

Based on the previous literature, the gap in literature is clear that the relation between CSR and corporate governance and its' impact on dividends in Europe has not been undertaken for the non-financial firms. Therefore, the research question formulated for this study is:

RQ: What is the impact of corporate social responsibility on dividend payout considering the role of corporate governance quality on European firms in services and industrial sectors?

3. RESEARCH METHODOLOGY

3.1. Sample used

Table 1 below presents aggregate and sample data on dividend payments by European non-financial companies (industry and services). Table 1 shows the time series data for the tenure of 2013–2022, which has been collected from the Refinitiv Eikon.

Table 1. Final sample (2013–2022)

Country	*Non-financial companies (Aggregate)*	*Sample*
Austria	58	14
Denmark	159	22
Finland	164	24
France	638	77
Germany	651	92
Italy	376	24
Luxembourg	63	13
The Netherlands	123	34
Portugal	45	7
Switzerland	297	53
Total	2574	360

Source: Refinitiv Eikon Platform, 2023.

A total of 10 European countries will be selected (see Table 1). The total number of non-financial companies collected is 2574, which, after accounting for missing information, led to the final sample size of 360. The ratio shows the percentage of sample size with respect to the total number of non-financial companies around 13.9% is included in the sample size.

3.2. Model development

3.2.1. Dependent variables

We include the proxy of dividend (*Dividend payout ratio,* or *DPR*) as a dependent variable, which are dominantly used in prior archival research on this topic. Lakhal et al. (2023) define the dividend as the portion of profitability of a company paid to the relevant group of shareholders. The role of dividends is useful for meeting the stakeholder and stockholder satisfaction. It is significant for investors for the generation of return on investment. It is also perceived as a socially responsible attitude towards wealth distribution. The dividend policy of the organization is aimed at paying a specific amount of net profit to shareholders. As organizations are actively engaged with socially responsible and effective practices of corporate governance, the dividend policy is impacted by the deployment of sustainability actions.

3.2.2. Independent variables

Corporate social responsibility (CSR)

At the present time, CSR strategy has evolved as a contemporary phenomenon. It persuades the organization for the development of sustainable business. It entails the organizational practices that comprise social, economic, and environmental dimensions in routine procedures of decision making. Adiputra and Hermawan (2020) proclaimed that CSR significantly impacts wealth distribution.

Therefore, the integration of CSR and dividends might work as a worthwhile driver for stakeholders and shareholders to fulfil the objectives of relevant interest parties. Past research confirms that there is a significant relationship between CSR and dividend policy (Badru & Qasem, 2021). As per Dahiya et al. (2023), CSR has a positive impact on dividend payments, but this relation can be impacted by lower financial constraints and increased incomes. Hence, the relation between these variables will be explored further in this study by the following hypothesis:

H1: CSR has a positive impact on the dividend policy of different European non-financial companies.

Board size

Baker et al. (2020) defines the board size as the total number of board members by the end of the fiscal year. The board size can impact the decisions related to dividend policies and CSR. A larger board might contain diverse interests and perspectives that can influence the prioritization of different CSR initiatives compared to dividend payments. A larger board might contain a greater number of resources that permits a greater level of flexibility for the allocation of resources related to dividend payment and different initiatives of CSR. Smaller boards might have restricted resources that can impact the trade-off between dividend and CSR investments. The study by Saliya and Dogukanli (2022) determined that a positive affiliation is found between board size and dividend plan, while a negative effect is found for board meeting frequency with a dividend. Hence, this relationship will be explored further by using the following hypothesis.

H2: Board size has a mixed impact on the dividend policy of different European non-financial companies.

Board independence

Board independence refers to the proportion of independent members in the board in an organization. Board independence has a significant effect on how an enterprise can maintain a balance between its devotion to CSR and the distribution of dividends. Board independence reflects the stakeholder interest devoid of any management influence. Greater independence led to greater implications of CSR that are aligned with strategic sustainability and shareholder interest. Board independence is useful for upholding a balanced approach between dividends and CSR (Kanojia & Bhatia, 2022). Khan (2022) indicated that when there is less cash on hand, the managers are less capable of appropriating from shareholders, due to which more independent board results are the means of higher dividend payments. Hence, this study will explore the relationship between board independence and dividends by considering the following:

H3: Board independence has a mixed impact on the dividend policy of different European non-financial companies.

Board meetings

The board meeting shows the overall percentage of attendance reported by the organization. The entire board members implement regular meetings during the entire year. The average board meeting entails attendance, which entails the ratio of members who attended the meeting divided by the total number of meetings held by boards. Past research indicated a negative relationship between board meetings and divided policy (Baker et al., 2020). Saliya and Dogukanli (2022) indicated that there is a negative effect of board meeting frequency with the company dividend plan, which will be explored further under the following hypothesis:

H4: Board meeting has a negative impact on the dividend policy of different European non-financial companies.

Firm size (LnTA)

The firm size comprises a natural logarithm of total assets. The actual values of organizations are normalized for reflection of Institutional Brokers' Estimate System (I/B/E/S) with respect to corporate actions and default currency (for instance, stock splits) (Pattiruhu & Paais, 2020). Total assets comprise intangible or tangible things that are owned and linked with positive economic value (Chouaibi et al., 2021). The past study confirms that firm size has a negative and insignificant effect on dividends. Large-size firms are capable of paying more dividends in contrast to small size because of the comparatively better accessibility of the capital market (Nazar, 2021).

H5: Firm size has a negative impact on the dividend policy of different European non-financial companies.

Profitability (ROA)

Return on assets (ROA) is a widely used financial ratio of profitability ratio. It is applied for the measurement of the return on investment of any organization. ROA provides significant implications for the measurement of operational efficiencies irrespective of financial structure. It is computed by the division of the net income of the company (before financing cost) with total assets. There is a direct affiliation between profitability and dividends, as the increase in profitability would mean that the firm can make higher dividend payments and vice versa (Pattiruhu & Paais, 2020).

H6: Profitability has a positive impact on the dividend policy of different European non-financial companies.

3.3. Model

Based on our previous discussion, the model development of our paper will investigate the association of the entire dependent variable and predictor variables, which are also called independent. The formulated hypothesis will be tested for the investigation of the impact of CSR on dividends of European companies (non-financial). The model below will show the combined effect of

all the variables on the payment of dividends. It will add the data of *CSR*, *Board size*, *Board independence*, *Board meetings*, *Firm size*, and *Profitability (ROA)* to arrive at the result for dividend value that will indicate the extent of impact of these variables on the dividend.

$$DPR = \alpha + \beta_1 CSR + \beta_2 Board\ Size + \beta_3 Board\ Independence + \beta_4 Board\ Meetings + \beta_5 Firm\ Size(LnTA) + \beta_6 ROA + \varepsilon \quad (1)$$

4. RESULTS AND ANALYSIS

4.1. Descriptive statistics

As presented in Table 2, the dividend payout ratio (*DPR*) has significant fluctuation, with an average of 0.865. However, the presence of a very high maximum value, rising to 265.875, serves as a stark reminder of the wide variety of dividend distribution practices that are prevalent among the analysed firms. This result demonstrates the variety of tactics employed by businesses to allocate their profits to shareholders (Zou & Bai, 2022). Different companies have different dividend policies, which reflects the complexity of company financial planning in the modern economy (Kanakriyah, 2020). Additionally, we obtained a mean of 54.260 and a maximum of 99.690 for the *CSR* variable. According to these statistics, CSR practices among the firms under investigation vary greatly.

Table 2. Descriptive statistics (2013–2022)

Variables	*Mean*	*SD*	*Min*	*Max*
DPR	0.865	5.723	0.000	265.875
CSR	54.260	29.873	0.000	99.688
Board size	11.091	4.366	2.000	26.000
Board independence	54.688	27.754	0.460	99.690
Board meetings	93.255	9.340	0.000	100.000
Size (LnTA)	22.618	1.946	11.673	32.811
ROA	0.053	0.090	-2.722	0.534

In addition, our research demonstrates significant variation in *Board independence*, as evidenced by a sizable standard deviation of 27.754. This fluctuation suggests that there are considerable differences in corporate board independence among the companies in our dataset. The final indicator, Profitability (*ROA*), displays an average value of 0.053. It's important to note that there is a negative minimum value (-2.722), even though this reflects a generally small ROA. This negative outlier demonstrates the significant financial difficulties that some of the study's companies are currently experiencing, which may have an impact on their overall financial health. When examining these variables' linkages and potential effects on corporate decision-making, it is crucial to consider their whole range and variability.

4.2. Correlation matrix

The dividend payout ratio (*DPR*) has a weak correlation with all the variables, that is: *Board size*, *Board independence*, *Board meetings*, *Board size*, and *ROA*. With *Board size*, it has a correlation value of 0.020, which indicates that there is an extremely weak but positive relationship between the two variables. This means that a change in the *Board size* will not have much influence on the *DPR* of the firm. Moreover, *Board independence* also has a weak relationship with the *DPR*, with a correlational value of -0.016, but it is negative. This means that the change in *Board independence* will not have a significant impact on the *DPR*, but there is a negative relationship between the two.

That is, an increase in *Board independence* would lead to a decrease in the *DPR* and vice versa. Moreover, with *Board meetings*, the *DPR* has a negligible relationship as the correlation value is 0.006, which is extremely low. Hence, since the correlation value is extremely low, this means that there would not be much impact on the *DPR* if these variables change. With *Board size* and *ROA*, it also has a weak relationship as the correlation values are 0.033 and -0.022. This indicates that there is a negative association between *ROA* and *DPR*, meaning that an increase in one would lead to a decrease in other variables. However, as the correlation value is very low, this means that this change would be completely change leading to no relationship between them.

Table 3. Correlation matrix

Variables	*DPR*	*CSR*	*Board size*	*Board independence*	*Board meetings*	*Board size (LnTA)*	*ROA*
DPR	1						
CSR	0.025**	1					
Board size	0.020*	0.287*	1				
Board independence	-0.016*	0.189*	-0.098	1			
Board meetings	0.006**	0.144*	-0.070*	0.051	1		
Board size (LnTA)	0.033***	0.375*	0.394	0.126*	-0.022*	1	
ROA	-0.024***	0.033**	-0.065**	0.016	0.000	-0.040***	1

*Note: *, **, *** denote 10%, 5% and 1% of significance respectively.*

CSR also indicates a weak relationship with most of the variables, that is: *Board size*, *Board independence*, *Board meetings*, *Board size*, and *ROA*. With *Board size*, it has a correlational value of 0.287 that indicates a weak relationship, meaning that an increase or decrease in *Board size* would lead to

an increase or decrease in *CSR* but very slightly. *CSR* also have a weak but positive relationship with *Board independence* and *Board meetings*, with a correlational value of 0.189 and 0.144, showing that growth in them would lead to very low growth in the *DPR*. With *Board size*, *CSR* has a moderately positive relationship as the correlation value is 0.394. This means that a change in the *Board size* would lead to a change in its *CSR* activities in the same direction, for example, if the *Board size* of the firm increases, then the *CSR* score of the firm would also increase but at a moderate pace. Finally, with *ROA*, *CSR* has a weakly positive relationship, meaning that *CSR* has a very low influence on the profitability of the firm. From this, it can be evaluated that both the *DPR* and *CSR* do not have a strong relationship with these variables.

The relationship between the *DPR* and *CSR* is positive but weak, as the correlational value is 0.025. This means that the *CSR* activities of the firms do not influence their *DPR*, which is consistent with the findings of Samet and Jarboui (2017) which stated that there is a positive relationship between CSR and dividend payment in European firms. Moreover, the study by Sheikh (2020) indicated that CSR is related directly to the level and propensity of the dividend, which is in contradiction with the findings of this research.

4.3. Regression statistics (Tobit model)

Tobit is the regression model that is used to determine the linear relationship between variables, that is, if it is positive or negative after censoring the dependent variable. The Tobit model has been considered in this research because it adopts the assumption that the dependent variable follows a normal distribution, which makes the findings more specific and relevant to interpret (Amore & Murtinu, 2021). It also involves observing the dependent variable values against a certain threshold if the value is above or below the threshold instead of observing exact ones. The researcher has used this model because it provides the ability to evaluate the dependent and independent variable under normal distribution and helps in understanding the linear relationship among variables by censoring dependent variables.

Table 4. Regression statistics: Tobit model (2013–2022)

Variables	*Coefficient*	*Significance*
CSR	0.125	0.000
Board size	-0.085	0.010
Board independence	0.054	0.055
Board meetings	-0.152	0.078
Board size	-0.068	0.045
ROA	0.156	0.000
Log Likelihood	-802.584	
Pseudo R^2	0.351	

Note: Dependent variable: DPR.

CSR has a statistically significant relationship with the *DPR*, as the value of significance is 0.000. The coefficient value is 0.125, indicating that each unit increase in CSR leads to a 12.5% increase in the DPR, which supports the findings of previous studies that firms with high levels of CSR have more stable dividend policies (Benlemlih, 2019). Hence, the *H1* will accept that CSR has a positive impact on the dividend policy of different European non-financial companies. *Board size* also has a statistically significant relationship with *DPR* as the p-value is less than 0.05, which is 0.01. The coefficient value is -0.085, showing that there is a negative impact of board size on the DPR. This means that an increase in board size would lead to a decrease in the DPR by 8.5%. Hence, the *H2* is accepted that is board size have mixed impact on the dividend policy of different European non-financial companies. With respect to *Board independence*, it has a statistically insignificant relationship with the *DPR*, as the sig value is 0.055. The coefficient value is 0.054, indicating that growth in board independence would lead to growth in the DPR by only 5.4%. Therefore, the *H3* will be rejected indicating that board independence does not have a mixed impact on the dividend policy.

Board meetings have a statistically insignificant relationship with the *DPR* as the significance value is higher than 0.05, which is 0.078, meaning that any change in board meetings would not influence DPR. Due to this, *H4* will be rejected indicating that board meeting does not have negative impact on the dividend policy. With the *Board size* and *ROA*, it has a statistically significant relationship because the significance value is lower than 0.05. However, with board size, its relationship is negative as the coefficient value is -0.068, meaning that an increase in size by one unit would lead to a decrease in the DPR of 6.8%. With ROA, it has a positive relationship as a unit increase in its ROA would lead to growth in its DPR of 15.6%. Hence, *H5* and *H6* will be accepted indicating that firm size has negative impact on dividend policy of different European non-financial companies and profitability has a positive impact on the dividend policy of different European non-financial companies. Sheikh et al.'s (2022) study indicated that DPR is impacted by variables such as profitability, firm size and CSR, which is consistent with the findings of this study, which also confirms the existence of a statistically significant relationship between these variables and DPR for European non-financial companies.

The log Likelihood value shows the goodness of fit of the model that is -802.584. Even though the value is high, it is negative, which means that there is fluctuation in the variables and the relationship of variables with the dependent variable.

5. CONCLUSION

The purpose of this study was to find an answer to the research question (*RQ*) formulated above. The literature review indicated that a company's dividend policy and payouts are impacted by CSR. It has been found that corporate governance plays a significant role in the dividend payment process and firms that have strong CSR practices with good governance pay high dividends compared to firms with low CSR performance. To answer the *RQ*, this study involved 360 firms operating in 10 European countries. The model was developed using various variables with DPR considered as the dependent variable.

The findings of the study indicated that CSR has a strong relationship with the DPR, which means that the European firm's dividend policy is impacted by its CSR activities. Moreover, it also indicated that there is a relationship between firm size and profitability, indicating that an increase in profitability would lead to an increase in the DPR, but an increase in firm size would lead to a decrease in the DPR. It also has a statistical but negative relationship with board size. This means that changes in DPR have an opposite relationship with board size and firm size, but it has a direct relationship with CSR, firm size, and profitability. Hence, from this, it can be concluded that CSR has a significant relationship with dividend payout, and corporate governance is found to have some impact on it within European firms in the service industry.

Finally, the limitations of this study fall in that the sample covers Europe and maybe this limits the generalization of the results since other regions might face different legislation or economics factors. Also, this study does not take into consideration the COVID-19 era into consideration. Therefore, for future studies, we recommend researchers to look if the results change due to the COVID-19 closure or maybe to use different methodology to investigate if the opinion of managers differ than the documented results of numbers collected from Refinitiv Eikon. In other words, researchers might look into applying mixed methodology in order to check if the theoretical framework holds with the practical opinions of managers controlling firms in the markets under investigation.

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