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# Stakeholder Importance, Dividend Payout, and Corporate Social Responsibility

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## ABSTRACT

We investigate how the existing level of shareholder-stakeholder conflict affects CSR performance. Using dividend payout as a proxy for the conflict, we find that dividend paying firms exhibit a better CSR performance than non-paying firms. Using the adoption of state-level constituency statutes as an exogenous shock to stakeholder importance, we find an increase in CSR performance after CS adoptions for dividend paying firms, suggesting that the positive CSR-dividend relation is driven by firms' incentives to mitigate the tension between shareholders and stakeholders. In addition, the enhancement effect of CS adoption on the positive CSR-dividend relation is more pronounced when the management team is friendlier to CSR. Overall, our paper uncovers that the trade-off between the interests of shareholders and stakeholders is one important factor in CSR performance and offers a new explanation for the positive CSR-dividend relation.

**Keywords:** Corporate Social Responsibility; Constituency Statutes; Shareholder-Stakeholder Conflict; Dividend Payout

**JEL classification:** M4, M14, G14, G38

**Data Availability:** The data used in this study are publicly available.

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## 1. Introduction

There exist various explanations for why firms invest in CSR. One stream of literature suggests that firms with better financial capability, such as better accounting performance, fewer financial constraints, have higher levels of CSR engagement (Hong, Kubik, and Scheinkman 2012; Clarkson, Li, Richardson, and Vasvari 2011; Lys, Naughton, and Wang 2015).<sup>1</sup> Another stream of literature explains CSR as an outcome of the trade-off between the interests of shareholders and non-shareholder stakeholders (NS-stakeholders).<sup>2</sup> Under this vein of research, one group considers CSR engagement as a vehicle to benefit stakeholders at shareholders' expense (Di Giuli and Kostovetsky 2014; Masulis and Reza 2015), and the other group considers CSR as beneficial to both shareholders and stakeholders.<sup>3</sup> In this paper, we study how pre-existing conflict of interests between the shareholders and stakeholders affects CSR performance. We focus on dividend payout as a main proxy for the conflict because it has been identified as a main channel to transfer wealth of the firm to shareholders (Kalay 1982; Brockman and Unlu 2009; Chu 2018).

Two non-mutually exclusive perspectives may explain how dividend payout affects CSR performance. On the one hand, firms face trade-off between the interests of shareholders and stakeholders when making corporate decisions, and stakeholder theory suggests that firms should strike a balance between interest of shareholders and stakeholders (Carroll 1999). From a conflict mitigation perspective, CSR activities can compensate NS-stakeholders and thus mitigate the pre-existing conflict

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<sup>1</sup> Hong, Kubik, and Scheinkman (2012) provide evidence that less financial constrained firms perform better in CSR. Clarkson, Li, Richardson, and Vasvari (2011) find a positive causal relation between financial capability and environmental performance. Lys, Naughton, and Wang (2015) suggests that firms engage in CSR in anticipation of strong future financial performance.

<sup>2</sup> For example, Servaes and Tamayo (2013) documents that role of firms' public awareness in the association between stakeholder-oriented CSR activities and shareholder value. Abeysekera and Fernando (2020) suggest that the decision of CSR investment for family firms depends on the extent of interest alignment between shareholders and stakeholders.

<sup>3</sup> Several prior research focus on the impact of CSR activities on market valuation through channels such as future firm value, risk, or expected return and provide evidence of positive association between CSR and shareholder value (Ferrell, Liang, and Renneboog 2016; Deng, Kang, and Low 2013; Krüger 2015; Freeman 2010; Edmans 2011; Flammer 2015a; Albuquerque, Koskinen, and Zhang 2019; Klassen and McLaughlin 1996; Chava 2014; Grewal, Riedl, and Serafeim 2019; etc.).

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of interests between shareholders and NS-stakeholders. Therefore, we expect a positive association between CSR performance and lagged dividend payout. On the other hand, this association can also be explained by an alternative explanation related to the information content of dividends. From a financial capability perspective, dividend payout conveys positive information about a firm's future cash flows (Bhattacharya 1979; Handjinicolaou and Kalay 1984). Since only well-performing firms can afford to invest in CSR (e.g., Hong, Kubik, and Scheinkman 2012) and pay dividends, the positive CSR-dividend relation may be explained by omitted variables related to firms' financial strength that positively affect both CSR and dividend.<sup>4</sup>

We examine whether the conflict mitigation perspective plays a role in the CSR-dividend relation after controlling for the effects stemming from the financial capability perspective. Using firm-level CSR performance data for publicly listed U.S. firms from the KLD database, we find that dividend paying firms are likely to have a higher CSR performance in the next year than non-dividend paying firms. We implement three approaches to differentiate the conflict mitigation hypothesis and the financial capability hypothesis.

First, we isolate the component in dividend payout that is orthogonal to firm fundamentals by calculating the residual component of the decision to pay dividends following Baker and Wurgler (2004). We find a positive association between the residual component of dividend paying and CSR performance, indicating that CSR performance is affected by component other than financial capability. This finding implies that the positive CSR-dividend relation is unlikely to be fully driven by the financial capability hypothesis.

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<sup>4</sup> Some existing papers use dividend payout as a control variable to predict CSR, but they do not offer an explicit explanation of the mechanism or implicitly treat dividend as a proxy for financial strength. See, e.g., Husted, Jamali, and Saffar (2015) who present a positive effect of the ratio of dividend scaled by asset (as a control variable) on CSR but do not explicitly explain the reason.

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Second, we construct a matched sample of non-payers for each dividend payer using a propensity score matching (PSM) method. In this matched sample, dividend paying firms and non-paying firms are not significantly different in firm fundamentals so that the financial capability between the two groups does not exhibit significant difference. We find that relative to matched dividend non-payers, dividend payers perform better in CSR, which provides further evidence that the positive CSR-dividend relation is unlikely to be fully driven by the financial capability hypothesis.

Third, we explore the CSR-dividend relation when the importance of stakeholders increases exogenously to test whether the positive CSR-dividend relation is consistent with the conflict mitigation hypothesis. To be specific, we analyze a state-level regulation, a constituency statute (CS), also called as a stakeholder statute, which encourages directors to consider the interests of NS-stakeholders (e.g., customers, employees, and debt holders) and increase the stakeholder importance. If the positive CSR-dividend relation is driven by the conflict mitigation perspective, we should expect the CSR-dividend relation to be stronger after CS adoptions because firm has a greater incentive to use CSR to mitigate the conflict in the post-CS adoption period. In contrast, if the positive CSR-dividend relation is driven by the financial capability hypothesis, the CSR-dividend relation should not significant change around the CS event because the CS adoption does not significantly increase firm performance.

We find that the positive CSR-dividend relation significantly increases after the CS adoption, consistent with the prediction of the conflict mitigation hypothesis. Since the constituency statute encourages, rather than mandates, firms to consider interests of NS-stakeholders, the conflict mitigation hypothesis implies that CSR-friendly firms will respond more to the CS adoption than other firms. We use the presence of young CEO, female CEO, capable CEO, and female board members to proxy for a

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firm's friendliness to CSR following prior literature,<sup>5</sup> and explore the cross-sectional variations in the efficacy of the CS adoption on the CSR-dividend relation. We find that the increase in CSR-dividend relation after CS adoptions is more pronounced for firms with young CEOs, female CEOs, CEOs of higher managerial ability, and for firms with a higher fraction of female directors on boards, providing further support for the conflict mitigation hypothesis.

Next, we supplement the above analyses by showing that there is no significant difference in firm performance (return on equity) and valuation (Tobin's Q) between dividend payers and non-payers around the CS adoption. In addition, the CS adoption also does not affect firm performance and valuation for the full sample. This evidence rules out the possibility that the effect of CS adoption on the CSR-dividend relation is driven by its effect on firm financial performance. The evidence confirms that the conflict mitigation hypothesis as the only explanation for the increased CSR-dividend relation after CS adoption.

In addition, we separately examine CSR performance in each of the six dimensions (i.e., community activities, commitment to diversity, employee relations, environmental record, record on human rights, and product quality and safety). We find that dividend paying firms are more likely to compensate stakeholders by improving performance in community activities, commitment to diversity, and environmental records. In response to CS adoptions, dividend paying firms tend to improve more in dimensions that they largely ignore previously (i.e., employee relations, and product quality and safety) than non-payer firms.

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<sup>5</sup> Prior studies document significant effect of CEO characteristics and board characteristics on CSR performance. For instance, studies show that young CEOs in early career stage is more likely invest in CSR (Oh, Chang and Cheng 2016; Chen, Zhou, and Zhu 2019), and CEOs of higher ability is associated with better CSR performance (Yuan, Tian, Lu, and Yu 2019). In addition, both female CEOs and gender diversity of board have a positive influence on CSR performance (Manner 2010; McCarthy, Oliver, and Song 2017; Bear, Rahman and Post 2010; Hafsi and Turgut 2013).

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In the supplementary analyses, we study other corporate payout variables as alternative measures for the shareholder-stakeholder conflict, including the number of consecutive years a firm has paid dividend (duration of dividend), dividend amount scaled by total asset (dividend payout ratio), and an indicator for stock repurchase. We find that all three variables positively predict future CSR. In the difference-in-difference analyses around CS adoption, all three measures exhibit a stronger relation with CSR after CS adoption, but only the duration of dividend generates a significant interaction effect with CS adoption. These results suggest that dividend payout ratio and repurchase indicator reflect the quality of the firm better than the extent of shareholder-stakeholder conflict (i.e., wealth transfer to shareholders).<sup>6</sup> In contrast, salient characteristics of dividend payout (i.e., dividend payer indicator and duration of dividend) can reflect the conflict better than the firm quality and hence exhibit a significant increase in their association with CSR after CS adoption.

Finally, our main findings are robust after controlling for firm fixed effects or CEO characteristics, and robust to alternative measures of dividend payout decisions (the residual propensity to pay dividend) and alternative CSR performance measures.

Our research contributes in the following ways. First, this paper extends the stream of literature that studies the determinants of CSR engagement. The extant literature has shown that CSR investment is driven by both firm-level factors, such as financial capability (Hong, Kubik, and Scheinkman 2012; Clarkson, Li, Richardson, and Vasvari 2011; Lys, Naughton, and Wang 2015), reputation concerns (Chakravarthy, deHaan, and Rajgopal 2014), shareholder engagement (Chen, Dong, and Lin 2020;

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<sup>6</sup> A large literature studies the wealth transfer versus signaling hypotheses of both repurchases and dividend announcements and find mixed evidence. For example, Handjinicolaou and Kalay (1984) find that dividend announcements signal firm quality, while Dhillon and Johnson (1994) find that large dividend change is motivated by wealth transfer incentive. Regarding repurchase, Maxwell and Stephens (2003) find that bond prices negatively respond to repurchase announcements, consistent with the wealth transfer view of repurchase. However, they also find that total firm value increases following a repurchase announcement, suggesting repurchase is viewed as a positive signal and not simply as wealth transfer.

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Dyck, Lins, Roth, and Wagner 2019), and external factors, including location (Husted, Jamali, and Saffar 2015), product market competition (Flammer 2015b; Cao, Liang, and Zhan 2019), and legal origin (Liang and Renneboog 2017). Our paper adds to this field by showing that dividend payout policy is one driving factor of CSR investment, and investment in CSR is to compensate NS-stakeholders' loss in the wealth redistribution process of dividend payout. In addition, the board's perception of stakeholder importance can enhance the incentives to compensate NS-stakeholders through CSR investment. We provide evidence on the effectiveness of stakeholder-oriented policies in improving engagement in CSR activities.

Second, we contribute to research on the relation between corporate decisions and shareholder-stakeholder conflict (e.g. Becker and Stromber 2012; Chu 2018; Jiang, Li, and Shao 2010; Lin, Schmid, and Xuan 2018; Chen, Kacperczyk, and Ortiz-Molina 2012; Allen, Carletti, and Marquez 2015; etc.). Our paper adds to this field by showing that decision in CSR engagement is affected by the existing tension between shareholders and stakeholders as captured by dividend payout. Different from prior studies that focus on the constraints in debt covenants to mitigate the shareholder-stakeholder conflict induced by dividend payout (Kalay 1982; Brockman and Unlu 2009), our paper suggests that dividend paying firms with existing tension between shareholders and stakeholders can mitigate the conflict by compensating NS-stakeholders in CSR. In addition, our paper extends studies on interpretation of dividend payout and supports the wealth redistribution view that dividend payout captures the conflict of interest between shareholders and stakeholders (e.g. Dhillon and Johnson 1994; Brockman and Unlu 2009; Chu 2018; etc.).

Third, we contribute to the literature on the consequence of stakeholder-orientation. Unlike research that separates stakeholder-oriented versus shareholder-oriented firms based on the



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characteristics of the countries where the firms are incorporated (e.g., Ely and Pownall 2002; Dhaliwal et al. 2012), we use time-series variations in state-level policies to identify exogenous changes in the stakeholder orientation of local firms.<sup>7</sup>

The rest of the paper is organized as follows. Section 2 develops the hypotheses. Section 3 describes our empirical methodology. Empirical results and additional analyses are provided in Sections 4 and 5, and we conclude in Section 6.

## **2. Hypothesis development**

### **Dividend payout and CSR performance**

Dividend payout can affect CSR performance from two perspectives. On the one hand, under the agency theory (Jensen and Meckling 1976; Myers 1977; Smith and Warner 1979), firms may transfer wealth from stakeholders (e.g. creditors) to shareholders by paying excess cash through cash dividends (Brockman and Unlu 2009; Chu 2018). For instance, Chu (2018) suggests that increases in dividend payout is associated with greater conflict between shareholders and creditors. Therefore, dividend payout can be perceived as a proxy for the existing level of conflict between shareholders and stakeholders. The stakeholder theory suggests that firms strike a balance between interest of shareholders and stakeholders (Carroll 1999), and investment in CSR may contribute to this balance by compensating stakeholders for their loss in the wealth transfer process of dividend payout. From this perspective, firms with dividend payout have greater incentives to invest in CSR to mitigate the conflict

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<sup>7</sup> Both Ely and Pownall (2002) and Dhaliwal et al. (2012) analyze sticky cross-country differences in stakeholder orientation without time-series variations. Ely and Pownall (2002) argue that the U.S. is more shareholder focused, while Japan is more stakeholder focused. They find that earnings and book value explain less of the variation in stock price for non-US-listed Japanese firms than for US-listed Japanese firms which would be more shareholder focused. Dhaliwal et al. (2012) divide countries into more and less stakeholder-oriented groups using variables such as the legal status of labor protection, CSR disclosure requirements, and public awareness of and attitudes toward CSR issues.

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induced by wealth transfer from stakeholders to shareholders (*conflict mitigation perspective*).

On the other hand, signalling theory of dividends shows that dividend serves as an indicator for a firm's future prospect (Bhattacharya, 1979). This is also implied from the information content hypothesis on dividend changes (Handjinicolaou and Kalay 1984; Chemmanur and Tian, 2012; Sun, Wang, and Zhang 2018; etc.).<sup>8</sup> In other words, dividend payout conveys positive information about a firm's future cash flows, and this implies a firm's good financial capability to afford expenditures in CSR (*financial capability perspective*). Therefore, as a result of a firm's good financial performance, we would also find a positive association between dividend payout and CSR performance.

H1. *Firms with dividend payout are more likely to engage in CSR activities.*

### **Constituency statutes, dividend payout, and CSR performance**

Constituency statutes, also called stakeholder statutes, are aimed at requiring directors to consider stakeholders' welfare in making decisions. In the U.S., states began to pass constituency statutes in the 1980s, during a wave of hostile takeovers (Karpoff and Wittry 2018). The constituency statutes can be applied to takeovers as well as to general business decisions (Bainbridge 1992; Elhauge 2005) and these statutes allow directors to take into account "the social, legal and economic effects upon employees, suppliers, customers, and others with similar relationships with the corporation, and the communities in which the corporation conducts its business".<sup>9</sup> In addition, the statutes' permissive nature gives firms discretion in deciding how to protect stakeholder interests (Bainbridge 1992).

The underlying reasons for passing these statutes can be traced back to the debate on whose interest

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<sup>8</sup> Several studies focus on the implication of dividends by examining the market reaction to dividend changes. For example, Handjinicolaou and Kalay (1984) analyze bond returns around dividend announcements and Sun, Wang, and Zhang (2018) examine credit risk in CDS market in response to dividend changes. Both studies provide evidence in support of information content hypothesis of dividends. Another related stream of literature implies that dividend changes, together with firms' strategic release of private information, convey information about firms' future prospect (Chemmanur and Tian, 2012; 2014).

<sup>9</sup> Proxy Statement and Text of Amendment for Nortek, Inc. (May 26, 1982), reprinted in *Shark Repellents and Golden Parachutes: A Handbook for the Practitioner* (Robert L. Winter, Robert D. Rosenbaum, Mark H. Stumpf, and L. Stevenson Parker, eds., 1983 and Supp. 1989).

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corporate management should attend to (Dodd 1932). In the 1970s, the traditional view of corporate governance was oriented toward shareholders with the goal of shareholder wealth maximization. In contrast, over the past two decades, the stakeholder orientation perspective has gained in popularity. This perspective emphasizes corporations' duty to protect non-shareholder wealth. Stakeholder orientation proponents argue that all parties that can affect or be affected by corporate policies have an important role in a firm's success (Freeman 2010) and that a company's optimal value depends on its wealth maximization for all parties. In this case, it is necessary for corporate managers to balance stakeholders' interests (Clarkson 1995; Donaldson and Preston 1995; Jawahar and McLaughlin 2001).

The adoption of CS can be viewed as an exogenous shock to the board's perception of stakeholder importance. Several extant studies suggest that firms take NS-stakeholder interests into account more after CS adoptions (Flammer and Kacperczyk 2016; Gao, Li, and Ma 2020; Ni 2020; Radhakrishnan, Wang, and Wang 2018). Investment in CSR is in alignment with the stakeholder orientation perspective of constituency statutes, and the adoption of constituency statutes provides directors with greater incentives to mitigate the existing shareholder-stakeholder conflict.

Therefore, from the conflict mitigation perspective, we expect that CS adoption will enhance the conflict mitigation role of CSR investment. In contrast, the financial capability hypothesis suggests that CSR investment is simply a result of a firm's good financial performance. In that case, it is not clear whether firms with better financial capability will increase CSR performance in response to the CS adoptions due to its permissive nature.

*H2a. The constituency statute adoption has a positive impact on the association between dividend payout and CSR performance.*

*H2b. The constituency statute adoption has no impact on the association between dividend payout*

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*and CSR performance.*

### 3. SAMPLE AND VARIABLE MEASUREMENT

#### Sample and Data

Our sample period dates from 1991 to 2016 because of the availability of CSR data. We obtain CSR performance data from MSCI ESG STATS (formerly known as KLD). We start with all firms within MSCI ESG STATS from 1991 to 2016. We obtain financial information from Compustat and exclude observations with missing information to calculate dividend payout measures. Observations with missing values for calculation of key control variables (e.g. firm size, return on assets, market-to-book ratio, leverage, firm age, cash holding, tangibility, sale growths, advertising expense, and R&D expense) are excluded as well. In addition, we exclude firms incorporated outside the United States. All continuous variables are winsorized at the top and bottom 1 and 99 percentiles to alleviate the effect of extreme observations. Our final sample consists of 42,237 firm-year observations. Table 1 describes the sample selection procedure.

We employ the state-level staggered adoption of CS to capture the increases in stakeholder importance. Appendix A presents the year and states information of CS adoption in the U.S.<sup>10</sup> We obtain information on CS adoption from Barzuza (2009). Information about the state where the business is incorporated in comes from Compustat and historical 10-K filings. Although Compustat only provides information on the incorporation state for the latest available year, anecdotal evidence suggests that a firm's incorporation state rarely changes (Romano 1992). Thus, our paper relies on the assumption that

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<sup>10</sup> For constituency statute adoption, we consider the incorporation state instead of the headquarters state. The state where a firm is incorporated is not always the same as its headquarters state, and a change in headquarters would affect the economic environment in which a firm operates, thereby influencing corporate policies. Using the incorporation state can mitigate the concern that firms' CSR decisions are affected by changes in the headquartered state rather than the adoption of a constituency statute.

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the business incorporation information provided by Compustat is consistent throughout our sample period.

– Table 1 here –

### **Measurement of Corporate Social Responsibility**

As with prior research, we use the CSR scores from MSCI ESG STATS (formerly known as KLD) as our measure of CSR performance (Deng et al. 2013; Krüger 2015). In 1991, KLD rates for approximately 600 U.S. firms that were first included either in the S&P 500 broad market index or the Domini 400 Social Index (DSI). In 2003, KLD expanded its rating coverage to approximately 2,800 U.S. firms included in the Russell indexes. By using 34 binary scores across various subcategories, MSCI analysts assess firms based on a variety of CSR performance dimensions, including corporate governance, community activities, diversity, employee relations, environmental records, record on human rights, and product quality and safety. MSCI assigns a binary rating that equals one (zero) to indicate the presence (absence) of concerns and strength within each dimension. The score for each dimension equals the number of strengths minus the number of concerns, and the total CSR score is calculated as the sum of the scores for each dimension. We follow prior research in constructing an adjusted CSR strength (concern) score by scaling the raw strength (concern) scores by the total number of strength (concern) indicators in each dimension (e.g., Deng et al. 2013). The adjusted CSR score is calculated as the difference between the total adjusted strength score and the total adjusted concern score. In addition, when constructing the adjusted CSR score we exclude the corporate governance dimension in order to disentangle CSR from corporate governance. The adjusted CSR score captures the net strength of CSR performance. A higher value in the adjusted CSR score indicates more

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engagement in CSR activities.

#### 4. EMPIRICAL RESULTS

##### Summary statistics

Panel A of Table 2 reports the descriptive statistics for main variables in our sample. Detailed variable definitions are provided in Appendix C. The adjusted net CSR scores (*ADJ\_NETCSR*) in our sample have a mean value of -0.034 and a median of 0, indicating that the adjusted number of concerns is slightly higher than the adjusted number of strengths, consistent with Deng et al. (2013). On average, firms in our sample have a logarithm of total assets (*SIZE*) of 7.446 (around 8,593 million U.S. dollars), a leverage ratio (*LEV*) of 0.225 and a market-to-book ratio (*MTB*) of 3.086, similar to those documented in prior literature. As for financial performance, our sample firms have an average return on assets (*ROA*) of 0.023 and a ratio of cash to the book value of total asset (*CASH*) of 0.165. The average firm age (*AGE*) in our sample is 17 years and average sale growth (*SG*) is about 14.2 percent in our sample. Firms in our sample have capital expenditures of 4.7 percent relative to total assets (*CAPEX*), 24.6 percent of tangible assets (*TANGIBILITY*), 1.1 percent of advertising expenses to sales (*AD*) and 3.3 percent of research and development expense to total assets (*RD*).

Table 2, Panel B reports number and percentage of dividend paying and non-paying firms and mean value of CSR performance by year. On average, 57.3 percent of firms in our sample are dividend paying firms. Over 80 percent of firms are dividend payers in 1990s, and the proportion of dividend payers becomes lower in 2010s. Lower proportion of firms pay dividends from 2008-2011, and this is probably due to the influence of financial crisis in 2008.

Panel A of Table 3 presents comparative statistics of key variables for dividend paying and non-

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paying firms. We find statistically significant difference in CSR performance and firm fundamentals between dividend payers and non-payers. Dividend paying firms exhibit significantly better CSR performance as proxied by adjusted net CSR scores (*ADJ\_NETCSR*). As for firm fundamentals, dividend paying firms are larger in firm size (*SIZE*), higher in profitability (*ROA*), lower in cash holdings relative to total assets (*CASH*), higher in proportion of tangible assets relative to total assets (*TANGIBILITY*), higher in leverage ratio (*LEV*), and more mature in firm age (*AGE*). In addition, the market-to-book ratio (*MTB*) of dividend paying firms is lower than that of non-paying firms, together with lower sales growth (*SG*), less spending on capital expenditure (*CAPEX*), advertising (*AD*), and R&D expense (*RD*).

We report Pearson correlation among our main variables in Table 3, Panel B. We find that the correlation between the indicator variable that indicates dividend paying (*DIV\_PAYER*) firms and CSR performance (*ADJ\_NETCSR*) is positive, and this is consistent with the univariate test results in Panel A of Table 3.

– Table 2 here –

– Table 3 here –

### **Dividend payout and corporate social responsibility – Baseline results**

To test H1, we estimate the following OLS model:

$$\begin{aligned}
 ADJ\_NETCSR_{it} = & \beta_0 + \beta_1 DIV\_PAYER_{it-1} + \beta_2 SIZE_{it-1} + \beta_3 ROA_{it-1} + \beta_4 MTB_{it-1} + \beta_5 LEV_{it-1} \\
 & + \beta_6 LOGAGE_{it-1} + \beta_7 CASH_{it-1} + \beta_8 TANGIBILITY_{it-1} + \beta_9 SG_{it-1} + \beta_{10} CAPEX_{it-1} + \\
 & \beta_{11} AD_{it-1} + \beta_{12} RD_{it-1} + Year, Ind F.E. + \varepsilon. \quad (1)
 \end{aligned}$$

The dependent variable is *ADJ\_NETCSR<sub>it</sub>*, the adjusted CSR score for firm *i* in year *t* based on six dimensions of CSR, including community activities, diversity, employee relations, environmental records, records on human rights, and product quality and safety. In addition, we decompose the CSR performance measure into measures of CSR strength, *ADJ\_SUMSTR<sub>it</sub>*, and measures of CSR concerns,

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$ADJ\_SUMCON_{it}$ , and use CSR strength and CSR concern as the dependent variable separately.  $ADJ\_SUMSTR_{it}$  is the adjusted CSR strength score for firm  $i$  in year  $t$  based on the six dimensions, and  $ADJ\_SUMCON_{it}$  is the adjusted CSR concern score for firm  $i$  in year  $t$  based on the six dimensions. The variable of our interest,  $DIV\_PAYER_{it-1}$ , is an indicator variable that equals one if firm  $i$  pays cash dividends in year  $t-1$ , and zero otherwise. Consistent our first hypothesis, we expect  $\beta_1$  to be positive when using  $ADJ\_NETCSR_{it}$  or  $ADJ\_SUMSTR_{it}$  as the dependent variable, and negative when using  $ADJ\_SUMCON_{it}$  as the dependent variable.

We control for an array of firm characteristics documented to have an impact on CSR performance (Surroca and Tribo 2008; Ioannou and Serafeim 2012; Di Giuli and Kostovetsky 2014; Husted et al. 2015). We control for firm size ( $SIZE$ ), profitability ( $ROA$ ), market-to-book ratio ( $MTB$ ), leverage ( $LEV$ ), firm age ( $LOGAGE$ ), cash holdings ( $CASH$ ), tangible assets ratio ( $TANGIBILITY$ ), sale growth ( $SG$ ), capital expenditure ( $CAPEX$ ), advertising expense ( $AD$ ), and research and development expense ( $RD$ ). We predict that larger firms, those that are more profitable and firms with less debt are associated with a higher level of CSR performance (Di Giuli and Kostovetsky 2014). The market-to-book ratio ( $MTB$ ), which captures growth opportunities, is expected to be positively related to CSR performance (Ioannou and Serafeim 2012; Di Giuli and Kostovetsky 2014). Firm age ( $LOGAGE$ ) are positively associated with CSR performance (Surroca and Tribo 2008). Firms with a higher capital expenditure ( $CAPEX$ ) are associated with a higher level of CSR engagement. The control variables are lagged by one year.

To differentiate the role of dividend payout in affecting CSR performance, we identify the component of dividend paying that is unexplained by firm fundamentals. Following Baker and Wurgler (2004), we first estimate the propensity of a firm to pay dividends as a function of firm fundamentals,



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and obtain the residual component of the decision to pay dividends for each firm by estimating the following regression in the first stage.

$$\begin{aligned}
DIV\_PAYER_{it-1} = & \beta_0 + \beta_1 SIZE_{it-1} + \beta_2 ROA_{it-1} + \beta_3 MTB_{it-1} + \beta_4 LEV_{it-1} + \beta_5 LOGAGE_{it-1} \\
& + \beta_6 CASH_{it-1} + \beta_7 TANGIBILITY_{it-1} + \beta_8 SG_{it-1} + \beta_9 CAPEX_{it-1} + \beta_{10} AD_{it-1} \\
& + \beta_{11} RD_{it-1} + Year, Ind F.E. + \varepsilon.
\end{aligned} \tag{2}$$

The error term  $\varepsilon$  is the residual component of the decision to pay dividends for a given firm-year ( $RDIV\_PAYER_{it-1}$ ), which is orthogonal to firm fundamentals related to financial capability.<sup>11</sup> We also calculate the predicted component from the above regression ( $EDIV\_PAYER_{it-1}$ ), which captures the likelihood to pay dividend driven by firm fundamentals.

In the second stage, we use  $RDIV\_PAYER_{it-1}$  and  $EDIV\_PAYER_{it-1}$  as our independent variables to test our first hypothesis.

$$ADJ\_NETCSR_{it} = \beta_0 + \beta_1 RDIV\_PAYER_{it-1} + \beta_2 EDIV\_PAYER_{it-1} + Year, Ind F.E. + \varepsilon. \tag{3}$$

If firms invest in CSR to mitigate the conflict between shareholders and stakeholders induced by dividend payout, we would observe a positive coefficient of  $\beta_1$ . Otherwise, if CSR investment is driven by firms' financial capability as captured by the predicted component of dividend payout, the sign of  $\beta_1$  will be unclear.

Table 4 tabulates the regression results. We provide the estimating results of Eq.(1) in Panel A and Eq.(3) in Panel B. In Panel A, the coefficient of  $DIV\_PAYER$  is 0.038 ( $t$ -value = 3.21) in column (1), suggesting that on average, the net adjusted CSR score of firms paying dividends is about 0.038 higher than for firms not paying dividends. The coefficient of  $DIV\_PAYER$  in column (2) is 0.047 ( $t$ -value = 5.07), indicating that CSR strength score of dividend paying firms is 0.047 higher relative to firms paying no dividends. In column (3), we find no significant difference in CSR concern scores between dividend payers and non-payers.

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<sup>11</sup> The estimation results for the first stage is provided in Appendix B.

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In Panel B of Table 4, when using the residual and predicted component of dividend paying decision (*RDIV\_PAYER*, *EDIV\_PAYER*) as the independent variables, we find results consistent with that in Panel A that dividend paying firms tend to perform better in CSR activities<sup>12</sup>. Besides, the positive and significant coefficients of *RDIV\_PAYER* in columns (1)-(2) suggest that the better CSR performance of dividend paying firms is driven by factors unrelated to fundamentals, such as financial capability, and this implies that dividend paying firms may invest in CSR to compensate stakeholders' loss from wealth redistribution in corporate payout. We also find positive coefficients on the predicted component of the decision to pay dividends (*EDIV\_PAYER*), showing that firm fundamentals can affect both decisions of dividend payment and CSR.

As for control variables, the coefficient estimates of control variables are generally consistent with prior research (Cronqvist and Yu 2017; Di Giuli and Kostovetsky 2014). We find a significant and positive association between CSR performance and firm size, return on assets, market-to-book ratio, cash holdings, capital expenditures, advertising expense, and R&D expense, respectively. Besides, we find that firms with higher leverage and sale growth engage less in CSR activities.

– Table 4 here –

### **Dividend payout and corporate social responsibility – Propensity score matched sample**

To address the potential endogeneity concern that the difference in CSR performance between dividend payers and non-payers are driven by other factors, we construct a matched sample of non-payers for each dividend payer using a propensity score matching (PSM) method. We estimate the propensity score as the predicted probability of paying dividends for a firm in a certain year using coefficients obtained from a probit model. Follow prior research (Baker and Wurgler 2004; Hoberg and

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<sup>12</sup> Our conclusions are similar if we estimate the predicted propensity and residual propensity with a Logit regression rather than an OLS regression specification.

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Prabhala 2009; Hameed and Xie 2019), we regress an indicator variable of dividend payer on a set of firm characteristics, including total assets (*SIZE*), market-to-book ratio (*MTB*), return on assets (*ROA*), leverage (*LEV*), capital expenditure scaled by total assets (*CAPEX*) and idiosyncratic volatility (*IRISK*). We define stock's idiosyncratic volatility as the standard deviation of residuals estimated from a market model using daily returns in the past year (Hoberg and Prabhala 2009). We use nearest-neighbor matching which allows each treated firm to be matched with one control firm-year observation, running the procedure with replacement.

In Table 5, Panel A, we provide comparison of firm characteristics between dividend payers and matched dividend non-payers. Dividend paying group and non-paying group exhibit statistically insignificant difference in these firm fundamentals. In Panel B, we re-estimate Eq.(1) using the propensity score matched sample. We find results consistent with our hypothesis that dividend paying firms perform better in CSR, and this finding based matched sample indicates that the better CSR performance of dividend paying firms is not driven by better financial performance, as there is no statistical difference in fundamentals between dividend payers and non-payers. The evidence provides support for the conflict mitigation perspective of CSR.

– Table 5 here –

### **Constituency statutes, dividend payout, and CSR performances**

The test our second hypothesis and examine the conditional impact of stakeholder importance on the association between dividend payout and CSR performance, we introduce CS adoptions as the proxy for changes in directors' perspective of stakeholder importance. We estimate the following regression models:

$$ADJ\_NETCSR_{it} = \beta_0 + \beta_1 CS_{ist} \times DIV\_PAYER_{it-1} + \beta_2 DIV\_PAYER_{it-1} + \beta_3 CS_{st} + \beta_4 SIZE_{it-1} + \beta_5 ROA_{it-1} + \beta_6 MTB_{it-1} + \beta_7 LEV_{it-1} + \beta_8 LOGAGE_{it-1} + \beta_9 CASH_{it-1}$$

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$$\begin{aligned}
& + \beta_{10}TANGIBILITY_{it-1} + \beta_{11}SG_{it-1} + \beta_{12}CAPEX_{it-1} + \beta_{13}AD_{it-1} \\
& + \beta_{14}RD_{it-1} + Year, Ind F.E. + \varepsilon.
\end{aligned} \tag{4}$$

$CS_{ist}$  is an indicator variable that equals one if firm  $i$  is incorporated in a state that adopts a constituency statute in year  $t$ , and zero otherwise. After the adoption of CS, a firm will experience an increase in directors' perspective of stakeholder importance. If the increase in stakeholder importance provides dividend paying firms with greater incentives to mitigate the shareholder-stakeholder conflict, there will be a greater improvement in CSR performance for dividend paying firms than for dividend non-paying firms after the CS adoptions. Therefore, we expect  $\beta_1$  to be positive.

Panel A of Table 6 provides the results. We find that the coefficient on the interaction term  $CS_{ist} \times DIV\_PAYER_{it-1}$  is positive and significant when using  $ADJ\_NETCSR$  and  $ADJ\_SUMSTR$  as the dependent variable, and negative and significant when using  $ADJ\_SUMCON$  as the dependent variable. This indicates that compared with dividend non-payers, dividend payers increase CSR performance by improving CSR strengths and reducing CSR concerns after CS adoptions, which is consistent with H2a in support of the conflict mitigation perspective.

In Panel B, we conduct cross-sectional analyses for the impact of stakeholder importance. Specifically, we conduct subsample analysis to examine whether CEO and board characteristics play a part in firms' response to CS adoptions. The CEO and board characteristics we investigate include CEO age, CEO gender, managerial ability, and director gender on the board.

We first identify firms with CEOs at the age below 60 as young CEO group, and with CEOs at the age above 60 as old CEO group. We find that dividend paying firms with young CEOs respond to CS adoption by increasing CSR performance, however, we do not find significant increase in CSR performance for firms with old CEOs. This finding is consistent with prior research showing that older CEOs are more likely to disengage in CSR due to career horizon problem (Oh, Chang, and Cheng 2016;

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Chen, Zhou, and Zhu 2019). Second, we examine the impact of CEO gender. By partitioning our sample into firms with male CEOs and firms with female CEOs, we find that compared with dividend payers with male CEOs, dividend payers with female CEOs increase CEO performance to a greater extent in response to CS adoptions. This finding is consistent with studies showing that female CEOs are more friendly to CSR investment (Manner 2010; McCarthy, Oliver, and Song 2017). We next partition our sample into firms with high and low managerial ability based on MA-score.<sup>13</sup> Prior research suggests that CEOs of higher ability is associated with better CSR performance (Yuan, Tian, Lu, and Yu 2019). We identify high managerial ability firms as those with MA-score falling into the top tertile of a given year. By comparing the coefficients of  $CS_{ist} \times DIV\_PAYER_{it-1}$  for high and low group, we find that firms with higher managerial ability are more likely to increase CSR performance after the CS adoptions.

Furthermore, we examine the effect of female directors on the board by partitioning our sample into high and low female director group. Gender diversity on the board is positively associated with CSR performance (Bear, Rahman, and Post 2010; Hafsi and Turgut 2013). High female director group refers to firms with the percentage of female board members in the top tertile of the year. Results suggest that the improvement in CSR performance is mainly driven by dividend paying firms with more female board members. Overall, the above findings indicate that management team who are friendlier to CSR investment may have greater incentives to mitigate the conflict.

– Table 6 here –

### **Constituency statutes, dividend payout, and shareholder wealth**

In this section, we investigate the effectiveness of the increases in stakeholder importance in mitigating the conflict between shareholders and stakeholders. We focus on the change in shareholder

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<sup>13</sup> We thank Professor Peter Demerjian for sharing the data at his web page: <http://faculty.washington.edu/pdemerj/data.html>.

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wealth for dividend paying firms after CS adoptions. If dividend payout transfers wealth from stakeholders to shareholders, emphasis on stakeholder importance through CSR investment may help to limit such transfer of dividend paying firms. Therefore, we would observe no change or even decrease in shareholder wealth for dividend paying firms after CS adoptions. On the contrary, if dividend payout is just an indicator for good future performance, dividend paying firms' improvement in CSR performance after CS adoptions will be accompanied with increases in financial performance.

In Table 7, we use return on equity (*ROE*) to proxy for accounting performance from shareholders' perspective and Tobin's Q (*TQ*) to proxy for shareholder value. We find that dividend paying firms in CS adopted states do not exhibit any increase in ROE and Tobin's Q relative to firms in CS non-adopted states. In addition, dividend paying firms incorporated in CS adopted states experience an insignificant decrease in ROE and firm value. This result indicates that increasing CSR investment in response to CS adoptions by dividend paying firms does not harm shareholder wealth.

The insignificant effect on ROE and Tobin's Q in Table 7 also help to ascertain that the increase in CSR-dividend relation after CS adoption documented in Table 6 is not driven by outperformance of dividend payers in the post-CS-adoption period.

– Table 7 here –

## **5. ADDITIONAL ANALYSIS AND ROBUSTNESS CHECKS**

### **Constituency statutes, dividend payout, and Sub-categories of CSR performance**

Furthermore, we separately examine the impact of existing shareholder-stakeholder conflict and emphasis on stakeholder importance on each dimension of CSR performance. We calculate the net adjusted score in each dimension, including community activities (*COM*), commitment to diversity

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(*DIV*), employee relations (*EMP*), environmental record (*ENV*), human rights (*HUM*), and product quality and safety (*PRO*). In Panel A of Table 8, we report the results of the impact of dividend payment on each dimension of CSR performance. We find that relative to dividend non-paying firms, dividend paying firms are more likely to improve CSR performance in community activities (*COM*), commitment to diversity (*DIV*), and environment records (*ENV*). We do not find significant difference in employee relations (*EMP*), human rights (*HUM*), and product quality and safety (*PRO*) between dividend payers and non-payers. In Panel B, we examine the impact of CS adoptions on dividend payers' CSR performance in each dimension. Results suggest that in response to the increased emphasis on stakeholder importance, dividend paying firms incorporated in CS adopted states tend to improve CSR performance in commitment to diversity (*DIV*), employee relations (*EMP*), and product quality and safety (*PRO*).

– Table 8 here –

### **Alternative measures of corporate payout**

In this section, we repeat our analyses using alternative measures of corporate payout. In Panel A of Table 9, we use the number of consecutive years that a firm pays dividends (*PAYER\_DUR*) as our proxy for tension between shareholders and stakeholders. A long duration of dividend payment may result in great intensity of shareholder-stakeholder conflict, as wealth is transferred year-by-year from stakeholders to shareholders. Therefore, there will be greater need to compensate stakeholders through CSR investment in order to strike the balance between shareholders and stakeholders. Consistent with this notion, we find that firms' CSR performance is positively associated with the duration of payout, and firms with longer duration of dividend payout are more likely to improve CSR performance in a response to the increased emphasis on stakeholder importance in CS adopted states.

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In Panel B, we use dividend payout ratio as the proxy for existing conflict between shareholders and stakeholders. Dividend payout ratio (*DIV\_AT*) is calculated as cash dividends scaled by total assets. High dividend payout ratio may capture a greater amount of wealth transfer from stakeholder to shareholders. We find a positive association between dividend payout ratio and CSR performance, indicating that dividend payout ratio may capture the shareholder-stakeholder conflict to some extent. However, we do not find significant improvement in CSR performance for high dividend payout firms in CS adopted states. This is possibly because the intensity of shareholder-stakeholder conflict is related to dividend payout decisions but may not be proportionate to dividend payout amount.

In Panel C, we replace measure of dividend payout with repurchase as the proxy for conflict. Repurchase (*REPR\_PAYER*) is an indicator variable that equals to one if a firm repurchased share in a given year. We find that CSR performance is higher for firms with share repurchases. However, we do not find a significant increase in CSR performance for repurchase firms after the CS adoptions. This is possibly because of the temporary nature of share repurchase. In contrast to repurchase, dividend payout is often a long-term commitment to shareholders and better able to capture the existing conflict between shareholder and stakeholders.

– Table 9 here –

### **Robustness Check**

To alleviate the concern that possible omitted firm characteristics or changes in local economic conditions may bias our results, we conduct several robustness tests. First, we include firm fixed effects in our main analysis. In Panel A of Table 10, we find our results robust after controlling for firm fixed effects. Second, we control for CEO characteristics in our analyses. We include CEO gender and CEO age as additional control variables. We find results consistent with our argument in Panel B. In addition,



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we find that young CEOs and female CEOs are more likely to invest in CSR. Third, we replace our independent variable, *DIV\_PAYER*, with the residual component of dividend paying (*RDIV\_PAYER*). We find the results remain robust. Finally, we use alternative measure of CSR performance calculated as the number of strengths scaled by the maximum possible number of strengths and concerns minus the number of concerns scaled by the maximum possible number of strengths and concerns across the six dimensions of CSR categories (Albuquerque et al. 2019). Results remain consistent and robust.

– Table 10 here –

## 6. CONCLUSION

In this paper, we study how firms' trade-off of between shareholder interests and stakeholder interests influence CSR investment. We use dividend payout as a proxy for the conflict between these two parties and show that dividend paying firms perform better in CSR than non-payer firms. We explore two non-mutually explanation for this positive CSR-dividend relation, i.e., the conflict mitigation perspective and the financial capability perspective. We adopt three approaches to show that the relation is not fully driven by the omitted variables that drive both dividend and CSR: (1) analyses based on the residual component of dividend paying decisions; (2) analyses based on a propensity score matched sample; (3) analyses using state-level adoptions of constituency statutes as exogenous shocks to emphasis on stakeholder importance.

We find that the positive CSR-dividend relation increases after CS adoption that increases stakeholder importance. In addition, we find the enhancing effect of CS adoptions on the positive CSR-dividend relation is more pronounced for firms with young CEOs, firms with female CEOs, firms with higher managerial ability, and firms with more female directors on the boards. In contrast, firm

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performance (return on equity) and valuation (Tobin's Q) do not exhibit significant increase after CS adoptions for dividend paying firms, ruling out the possibility that the change in firm performance contributes to the increased CSR-dividend relation after CS adoption.

Overall, our paper provides evidence that the incentive to balance the conflict of interest between shareholders and stakeholders is one important driving factor of CSR engagement, and provides new empirical support for the wealth redistribution perspective of dividend payout.

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TABLE 1

## Sample selection procedure

	Num. of Obs.
Unique observations with valid data on MSCI KLD Stats database over years from 1991 to 2016	48,457
Exclude:	
Firm-year observations with missing dividend payout measures	-1,987
Firm-year observations with missing control variables ( <i>SIZE, ROA, MTB, LEVERAGE, AGE, CASH, TANGIBILITY, SG, CAPEX, AD, RD</i> )	-2,529
Non-US firm-year observations	-1,704
	42,237

TABLE 2  
Descriptive statistics

**Panel A: Summary Statistics**

Variables	N	Mean	Q1	Median	Q3	Std Dev
<i>ADJ_NETCSR</i>	42,237	-0.034	-0.333	0.000	0.167	0.562
<i>DIV_PAYER</i>	42,237	0.573	0.000	1.000	1.000	0.495
<i>AT (in millions)</i>	42,237	8,592.778	479.677	1,574.998	5,320.585	24,919.435
<i>SIZE</i>	42,237	7.446	6.173	7.362	8.579	1.748
<i>ROA</i>	42,237	0.023	0.008	0.037	0.077	0.125
<i>MTB</i>	42,237	3.086	1.396	2.154	3.605	4.473
<i>LEV</i>	42,237	0.225	0.049	0.194	0.340	0.202
<i>AGE</i>	42,237	17.213	10.000	16.000	24.000	8.714
<i>LOGAGE</i>	42,237	2.685	2.303	2.773	3.178	0.615
<i>CASH</i>	42,237	0.165	0.027	0.082	0.229	0.197
<i>TANGIBILITY</i>	42,237	0.246	0.047	0.164	0.381	0.241
<i>SG</i>	42,237	0.142	-0.006	0.078	0.196	0.364
<i>CAPEX</i>	42,237	0.047	0.012	0.031	0.063	0.055
<i>AD</i>	42,237	0.011	0.000	0.000	0.011	0.026
<i>RD</i>	42,237	0.033	0.000	0.000	0.031	0.072
<i>IRISK</i>	41,541	-3.883	-4.235	-3.900	-3.553	0.494
<i>YOUNGCEO</i>	27,769	0.697	0.000	1.000	1.000	0.460
<i>MALE</i>	27,820	0.975	1.000	1.000	1.000	0.157
<i>IBRD PCT</i>	34,008	0.750	0.667	0.778	0.875	0.143
<i>MA_SCORE</i>	32,035	0.013	-0.079	-0.025	0.062	0.150
<i>PAYER_DUR</i>	42,237	8.800	0.000	3.000	16.000	10.613
<i>DIV_AT</i>	42,237	0.014	0.000	0.003	0.018	0.027
<i>REPR_PAYER</i>	42,237	0.579	0.000	1.000	1.000	0.494
<i>ADJ_NETCSRI</i>	42,237	0.001	-0.134	0.000	0.091	0.235
<i>ROE</i>	42,237	0.063	0.032	0.106	0.171	0.438
<i>TQ</i>	38,106	1.989	1.105	1.481	2.250	1.458

**Panel B: Frequency of dividend paying and non-paying firms by year**

Year	# of Obs.	<i>Div_Nonpayer</i>		<i>Div_Payer</i>		<i>ADJ_NETCSR</i>
		# of Obs.	% of Obs.	# of Obs.	% of Obs.	Mean
1991	597	67	11.22	530	88.78	0.00
1992	600	74	12.33	526	87.67	0.00
1993	604	70	11.59	534	88.41	-0.05
1994	595	62	10.42	533	89.58	-0.03
1995	612	73	11.93	539	88.07	0.03
1996	612	83	13.56	529	86.44	0.05
1997	612	94	15.36	518	84.64	0.07
1998	611	97	15.88	514	84.12	0.08
1999	617	110	17.83	507	82.17	0.06
2000	614	134	21.82	480	78.18	0.06
2001	996	370	37.15	626	62.85	-0.01
2002	1,002	361	36.03	641	63.97	-0.04
2003	2,703	1,386	51.28	1,317	48.72	-0.12
2004	2,642	1,357	51.36	1,285	48.64	-0.18
2005	2,611	1,226	46.96	1,385	53.04	-0.19
2006	2,591	1,234	47.63	1,357	52.37	-0.20
2007	2,468	1,194	48.38	1,274	51.62	-0.19
2008	2,581	1,271	49.24	1,310	50.76	-0.19
2009	2,628	1,375	52.32	1,253	47.68	-0.19
2010	2,610	1,397	53.52	1,213	46.48	-0.28
2011	2,521	1,287	51.05	1,234	48.95	-0.19
2012	2,435	1,166	47.89	1,269	52.11	0.25
2013	2,104	922	43.82	1,182	56.18	0.22
2014	2,172	947	43.60	1,225	56.40	0.25
2015	2,074	872	42.04	1,202	57.96	0.26
2016	2,025	809	39.95	1,216	60.05	0.39
<i>Total</i>	<i>42,237</i>	<i>18,038</i>	<i>42.71</i>	<i>24,199</i>	<i>57.29</i>	<i>-0.01</i>

*Notes:* This table reports summary statistics of the main variables and the distribution of observations for firms with and without dividend payout by year. Panel A presents summary statistics of the main variables. Panel B presents the number and percentage of dividend payers and non-payers, together with mean value of CSR performance in each year. Variable definitions are provided in Appendix C. The number of firm-year observations in the sample is 42,237, and the sample period is from 1991 to 2016.



TABLE 3

Univariate tests

**Panel A:** Summary statistics for firms with versus without dividends payout

Variables	<i>Div_Nonpayer</i>	<i>Div_Payer</i>	<i>Div_Payer – Div_Nonpayer</i>	
			Diff.	<i>t</i> -value
<i>ADJ_NETCSR</i>	-0.104	0.017	0.121	22.83
<i>SIZE</i>	6.586	8.087	1.501	98.55
<i>ROA</i>	-0.002	0.043	0.045	34.21
<i>MTB</i>	3.401	2.852	-0.550	-12.07
<i>LEV</i>	0.201	0.243	0.042	20.78
<i>LOGAGE</i>	2.481	2.836	0.355	60.10
<i>CASH</i>	0.250	0.101	-0.149	-76.94
<i>TANGIBILITY</i>	0.215	0.270	0.055	23.85
<i>SG</i>	0.202	0.097	-0.105	-27.77
<i>CAPEX</i>	0.051	0.045	-0.006	-10.50
<i>AD</i>	0.012	0.011	-0.002	-6.39
<i>RD</i>	0.059	0.013	-0.046	-61.58

**Panel B: Correlation Matrix**

	<i>ADJ_NETCSR</i>	<i>DIV_PAYER</i>	<i>SIZE</i>	<i>ROA</i>	<i>MTB</i>	<i>LEV</i>	<i>LOGAGE</i>	<i>CASH</i>	<i>TANGIBILITY</i>	<i>SG</i>	<i>CAPEX</i>	<i>AD</i>
<i>DIV_PAYER</i>	0.106 <.0001											
<i>SIZE</i>	0.230 <.0001	0.425 <.0001										
<i>ROA</i>	0.077 <.0001	0.179 <.0001	0.168 <.0001									
<i>MTB</i>	0.074 <.0001	-0.061 <.0001	-0.093 <.0001	0.056 <.0001								
<i>LEV</i>	-0.004 0.360	0.103 <.0001	0.281 <.0001	-0.100 <.0001	-0.061 <.0001							
<i>LOGAGE</i>	0.133 <.0001	0.286 <.0001	0.310 <.0001	0.143 <.0001	-0.067 <.0001	0.042 <.0001						
<i>CASH</i>	-0.009 0.058	-0.375 <.0001	-0.436 <.0001	-0.250 <.0001	0.194 <.0001	-0.337 <.0001	-0.223 <.0001					
<i>TANGIBILITY</i>	-0.053 <.0001	0.113 <.0001	0.089 <.0001	0.062 <.0001	-0.053 <.0001	0.268 <.0001	0.134 <.0001	-0.334 <.0001				
<i>SG</i>	-0.045 <.0001	-0.143 <.0001	-0.127 <.0001	-0.019 0.000	0.124 <.0001	-0.032 <.0001	-0.241 <.0001	0.169 <.0001	-0.054 <.0001			
<i>CAPEX</i>	-0.032 <.0001	-0.052 <.0001	-0.067 <.0001	0.068 <.0001	0.028 <.0001	0.078 <.0001	-0.014 0.003	-0.148 <.0001	0.692 <.0001	0.069 <.0001		
<i>AD</i>	0.079 <.0001	-0.032 <.0001	-0.034 <.0001	0.032 <.0001	0.078 <.0001	-0.023 <.0001	-0.066 <.0001	0.070 <.0001	-0.078 <.0001	0.012 0.015	-0.016 0.001	
<i>RD</i>	0.004 0.435	-0.318 <.0001	-0.356 <.0001	-0.492 <.0001	0.156 <.0001	-0.183 <.0001	-0.142 <.0001	0.606 <.0001	-0.215 <.0001	0.126 <.0001	-0.089 <.0001	-0.013 0.008

*Notes:* This table reports the univariate test and correlation matrix for our main variables. Panel A reports mean values for dependent and independent variables for firms with and without dividend payout. Panel B provides Pearson correlation table for our main variables.

TABLE 4  
 Dividend payout and corporate social responsibility  
**Panel A:** Dividend payer and CSR performance

DEPENDENT=	(1)	(2)	(3)
	<i>ADJ_NETCSR(t)</i>	<i>ADJ_SUMSTR(t)</i>	<i>ADJ_SUMCON(t)</i>
<i>DIV_PAYER(t-1)</i>	0.038*** (3.21)	0.047*** (5.09)	0.008 (1.06)
<i>SIZE</i>	0.082*** (14.74)	0.156*** (30.70)	0.073*** (17.13)
<i>ROA</i>	0.224*** (6.16)	0.134*** (4.62)	-0.093*** (-4.02)
<i>MTB</i>	0.006*** (6.12)	0.006*** (6.81)	-0.000 (-0.69)
<i>LEV</i>	-0.070** (-2.37)	-0.143*** (-5.97)	-0.073*** (-3.53)
<i>LOGAGE</i>	0.033*** (4.06)	0.026*** (3.97)	-0.008 (-1.45)
<i>CASH</i>	0.135*** (4.22)	0.191*** (7.24)	0.050** (2.51)
<i>TANGIBILITY</i>	-0.033 (-0.72)	0.033 (0.97)	0.062** (1.96)
<i>SG</i>	-0.032*** (-4.52)	-0.035*** (-6.44)	-0.003 (-0.69)
<i>CAPEX</i>	0.496*** (3.86)	0.340*** (3.66)	-0.173* (-1.86)
<i>AD</i>	1.155*** (5.05)	1.104*** (5.74)	-0.054 (-0.41)
<i>RD</i>	0.608*** (6.10)	0.624*** (8.08)	0.001 (0.01)
CONSTANT	-1.085*** (-8.29)	-0.964*** (-7.53)	0.130 (0.67)
IND FE	YES	YES	YES
YEAR FE	YES	YES	YES
N	42,237	42,237	42,237
ADJ. R-SQ	0.212	0.318	0.283

**Panel B:** The effect of residual and predicted component of dividend paying on CSR performance

DEPENDENT=	(1)	(2)	(3)
	<i>ADJ_NETCSR(t)</i>	<i>ADJ_SUMSTR(t)</i>	<i>ADJ_SUMCON(t)</i>
<i>RDIV_PAYER(t-1)</i>	0.035*** (2.79)	0.040*** (3.79)	0.005 (0.61)
<i>EDIV_PAYER(t-1)</i>	0.457*** (12.31)	0.845*** (21.53)	0.383*** (13.48)
CONSTANT	-0.607*** (-7.01)	-0.200 (-0.95)	0.403* (1.73)
IND FE	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes
N	42,237	42,237	42,237
ADJ. R-SQ	0.177	0.198	0.241

*Notes:* This table reports the effect of dividend payout behavior on CSR performance. The CSR performance measures used include adjusted CSR score (*ADJ\_NETCSR*), adjusted CSR strength (*ADJ\_SUMSTR*), and adjusted CSR concern (*ADJ\_SUMCON*). The independent variable in Panel A, *DIV\_PAYER*, is an indicator variable that equals one if a firm pays dividends in year  $t-1$  and zero otherwise. In Panel B, the independent variable are *RDIV\_PAYER* and *EDIV\_PAYER*. We regress the indicator variable, *DIV\_PAYER*, on concurrent firm fundamentals to obtain the predicted component and the residual component. *RDIV\_PAYER* (*EDIV\_PAYER*) is the residual (predicted) component of *DIV\_PAYER*. From the regression. All control variables are lagged by one year. We control for industry and year fixed effects in all specifications. All variables are defined in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level using two-tailed tests and standard errors are clustered at the firm-level.

TABLE 5

Dividend payout and corporate social responsibility – Evidence based on propensity score matching

**Panel A:** Firm characteristics for matched dividend payers and non-payers

Variables	N	<i>Div_Payer</i>		<i>Div_Nonpayer</i>		<i>Div_Payer – Div_Nonpayer</i>	
		Mean	Median	Mean	Median	Diff.in Mean	<i>t</i> -value
<i>SIZE</i>	3,158	6.945	6.902	6.918	6.915	0.027	0.68
<i>ROA</i>	3,158	0.025	0.036	0.021	0.036	0.004	0.95
<i>MTB</i>	3,158	3.117	2.003	2.988	2.026	0.129	1.10
<i>LEV</i>	3,158	0.216	0.170	0.223	0.180	-0.007	-1.26
<i>CAPEX</i>	3,158	0.046	0.030	0.046	0.026	0.000	-0.08
<i>IRISK</i>	3,158	-3.773	-3.807	-3.763	-3.811	-0.010	-0.83

**Panel B: Main regression based on the PSM sample**

DEPENDENT=	(1)	(2)	(3)
	<i>ADJ_NETCSR(t)</i>	<i>ADJ_SUMSTR(t)</i>	<i>ADJ_SUMCON(t)</i>
<i>DIV_PAYER(t-1)</i>	0.037** (1.97)	0.041*** (2.84)	0.004 (0.30)
<i>SIZE</i>	0.090*** (7.70)	0.133*** (13.69)	0.044*** (6.85)
<i>ROA</i>	0.167** (2.33)	0.102* (1.83)	-0.072* (-1.68)
<i>MTB</i>	0.008*** (3.59)	0.005** (2.54)	-0.003*** (-2.60)
<i>LEV</i>	-0.041 (-0.84)	-0.075* (-1.94)	-0.039 (-1.28)
<i>LOGAGE</i>	0.016 (1.02)	0.030** (2.43)	0.014 (1.55)
<i>CASH</i>	0.113* (1.71)	0.224*** (4.38)	0.115*** (2.88)
<i>TANGIBILITY</i>	-0.174*** (-2.63)	-0.092* (-1.87)	0.082* (1.78)
<i>SG</i>	-0.054** (-2.53)	-0.027* (-1.68)	0.027** (2.21)
<i>CAPEX</i>	0.535*** (2.65)	0.335** (2.17)	-0.197 (-1.45)
<i>AD</i>	0.989*** (2.73)	0.906*** (2.73)	-0.058 (-0.26)
<i>RD</i>	0.623*** (4.05)	0.531*** (4.75)	-0.095 (-0.88)
CONSTANT	-0.186 (-1.08)	-0.369* (-1.90)	-0.195* (-1.90)
IND FE	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes
N	6,316	6,316	6,316
ADJ. R-SQ	0.163	0.264	0.253

*Notes:* This table reports the effect of dividend payout on CSR performance based on propensity score matched sample. The matched sample is constructed using nearest-neighbor score matching method, and the propensity score is estimated from a probit model in which the dependent variable is an indicator variable that equals one if a firm pays dividend in a certain year. The propensity to pay dividend is estimated using the following firm characteristics: *SIZE*, *ROA*, *LEV*, *MTB*, *CAPEX* and *IRISK*. Panel A reports the univariate statistics for firm characteristics between dividend payers and matched non-payers. Panel B provides results based on the matched sample. The independent variable is *DIV\_PAYER*, an indicator variable that equals one if a firm has pays dividend in year *t-1* and zero otherwise. We control for firm characteristics following prior literature, and include industry and year fixed effects in all specifications. All control variables are lagged by one year. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.

TABLE 6  
 Stakeholder importance, dividend payout, and CSR performance  
**Panel A:** The effect of constituency statute adoptions

DEPENDENT=	(1)	(2)	(3)
	<i>ADJ_NETCSR(t)</i>	<i>ADJ_SUMSTR(t)</i>	<i>ADJ_SUMCON(t)</i>
<i>DIV_PAYER(t-1)*CS</i>	0.076*** (3.45)	0.030* (1.68)	-0.044*** (-2.93)
<i>DIV_PAYER(t-1)</i>	0.015 (1.10)	0.038*** (3.52)	0.022** (2.39)
<i>CS</i>	-0.027* (-1.66)	-0.013 (-1.05)	0.015 (1.35)
<i>SIZE</i>	0.083*** (14.98)	0.156*** (30.59)	0.072*** (17.03)
<i>ROA</i>	0.226*** (6.20)	0.135*** (4.65)	-0.094*** (-4.06)
<i>MTB</i>	0.006*** (6.18)	0.006*** (6.83)	-0.000 (-0.75)
<i>LEV</i>	-0.066** (-2.24)	-0.142*** (-5.93)	-0.075*** (-3.63)
<i>LOGAGE</i>	0.031*** (3.75)	0.026*** (3.79)	-0.007 (-1.21)
<i>CASH</i>	0.139*** (4.30)	0.192*** (7.28)	0.048** (2.40)
<i>TANGIBILITY</i>	-0.031 (-0.70)	0.034 (0.98)	0.061* (1.94)
<i>SG</i>	-0.032*** (-4.60)	-0.035*** (-6.48)	-0.003 (-0.63)
<i>CAPEX</i>	0.501*** (3.90)	0.343*** (3.68)	-0.177* (-1.90)
<i>AD</i>	1.171*** (5.13)	1.109*** (5.77)	-0.063 (-0.48)
<i>RD</i>	0.603*** (6.03)	0.621*** (8.03)	0.004 (0.07)
CONSTANT	-1.086*** (-8.60)	-0.964*** (-7.42)	0.131 (0.69)
IND FE	YES	YES	YES
YEAR FE	YES	YES	YES
N	42,237	42,237	42,237
ADJ. R-SQ	0.213	0.318	0.284

**Panel B: Cross-sectional analysis**

DEPENDENT=	<i>ADJ_NETCSR(t)</i>							
	CEO Age		CEO Gender		Managerial Ability		Female Director Ratio	
	<60	>=60	Male	Female	High	Low	High	Low
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>DIV_PAYER(t-1)*CS</i>	0.127*** (3.92)	0.043 (0.92)	0.095*** (3.28)	0.367** (2.18)	0.145*** (3.02)	0.063** (2.26)	0.114*** (3.81)	-0.005 (-0.20)
<i>DIV_PAYER(t-1)</i>	0.012 (0.62)	0.045 (1.62)	0.019 (1.02)	-0.051 (-0.51)	0.022 (0.87)	0.001 (0.07)	0.009 (0.51)	-0.013 (-0.91)
CS	-0.038 (-1.59)	0.026 (0.65)	-0.026 (-1.16)	0.025 (0.21)	-0.044 (-1.56)	-0.026 (-1.43)	-0.058** (-2.41)	-0.001 (-0.08)
CONSTANT	-1.603*** (-8.10)	-1.302*** (-4.65)	-1.536*** (-7.80)	0.198 (0.30)	-1.090*** (-6.65)	-0.603*** (-7.51)	-1.485*** (-5.73)	-0.387** (-2.18)
CONTROLS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
IND FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	19,358	8,411	27,113	707	10,678	21,357	21,032	12,976
ADJ. R-SQ	0.231	0.235	0.228	0.308	0.258	0.199	0.243	0.238
Test for Diff. ( <i>p</i> -value)	0.0876		0.0886		0.0987		0.0013	

*Notes:* This table reports the effect of CS adoptions on the association between dividend payout and CSR performance. *CS* is an indicator variable that equals one if a firm is incorporated in a state that adopted a constituency statute in year *t* and zero otherwise. In Panel A, we report the effect of CS adoption for the full sample, and in Panel B, we conduct cross-sectional analyses for subsamples partitioned by CEO and board characteristics, including CEO age, CEO gender, managerial ability, and board female ratio. We define firms with CEOs of age below 60 as young firms and above 60 as old firms. We partition our sample into high and low managerial ability firms based on MA-score provided by the Web Page of Professor Peter Demerjian. High ability firms are those falling into the top tertile based on MA-score of that year. Firms with high female director ratio are those with percentage of female directors on a given board in the top tertile of the year. All control variables are lagged by one year. We control for industry and year fixed effects in all specifications. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.



TABLE 7  
 Constituency statutes, dividend Payout, and shareholder wealth

DEPENDENT=	(1)	(2)
	<i>ROE(t)</i>	<i>TQ(t)</i>
<i>DIV_PAYER(t-1)*CS</i>	-0.013 (-1.10)	-0.074 (-1.27)
<i>DIV_PAYER(t-1)</i>	0.049*** (6.14)	0.208*** (5.33)
<i>CS</i>	0.016 (1.55)	0.045 (0.89)
<i>SIZE</i>	0.016*** (6.21)	-0.092*** (-7.48)
<i>LEV</i>	-0.142*** (-4.59)	-0.205** (-2.23)
<i>LOGAGE</i>	0.025*** (4.20)	-0.042* (-1.69)
<i>CASH</i>	-0.032 (-1.21)	2.068*** (18.42)
<i>TANGIBILITY</i>	-0.080*** (-3.01)	-0.621*** (-6.40)
<i>SG</i>	0.028*** (2.60)	0.465*** (12.83)
<i>CAPEX</i>	0.376*** (4.21)	4.533*** (12.98)
<i>AD</i>	0.074 (0.49)	3.722*** (4.53)
<i>RD</i>	-1.314*** (-10.10)	2.922*** (8.99)
CONSTANT	-0.221*** (-3.26)	2.073*** (9.48)
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	38,106
ADJ. R-SQ	0.081	0.376

*Notes:* This table examines the shareholder wealth for dividend paying firms incorporated in CS adoption states. The dependent variable is return on equity (*ROE*) in column (1) and Tobin's Q (*TQ*) in column (2). We control for industry and year fixed effects in all specifications. All control variables are lagged by one year. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered at the firm-level.

TABLE 8  
Stakeholder importance, dividend payout, and Sub-categories of CSR performance  
**Panel A:** Dividend Payout and sub-categories of CSR performance

DEPENDENT=	(1)	(2)	(3)	(4)	(5)	(6)
	<i>COM</i>	<i>DIV</i>	<i>EMP</i>	<i>ENV</i>	<i>HUM</i>	<i>PRO</i>
<i>DIV_PAYER(t-1)</i>	0.008*** (2.61)	0.025*** (4.36)	-0.000 (-0.09)	0.007*** (2.60)	-0.001 (-0.55)	0.000 (0.12)
CONSTANT	-0.144*** (-7.48)	-0.604*** (-13.85)	-0.009 (-0.24)	-0.136*** (-2.81)	0.027 (1.35)	0.151** (2.54)
CONTROLS	Yes	Yes	Yes	Yes	Yes	Yes
IND FE	Yes	Yes	Yes	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes	Yes	Yes	Yes
N	42,237	42,237	42,237	42,237	42,237	42,237
ADJ. R-SQ	0.071	0.268	0.176	0.154	0.085	0.115

**Panel B:** Stakeholder importance, dividend payout, and Sub-categories of CSR performance

DEPENDENT=	(1)	(2)	(3)	(4)	(5)	(6)
	<i>COM</i>	<i>DIV</i>	<i>EMP</i>	<i>ENV</i>	<i>HUM</i>	<i>PRO</i>
<i>DIV_PAYER(t-1)×CS</i>	0.010 (1.64)	0.020* (1.73)	0.014** (2.01)	0.001 (0.11)	0.005 (1.56)	0.022*** (2.88)
<i>DIV_PAYER(t-1)</i>	0.005 (1.29)	0.019*** (2.89)	-0.004 (-1.10)	0.007** (2.16)	-0.002 (-1.05)	-0.006 (-1.27)
CS	0.002 (0.48)	-0.002 (-0.21)	-0.004 (-0.82)	-0.003 (-0.84)	-0.005** (-2.01)	-0.011* (-1.96)
CONSTANT	-0.145*** (-7.45)	-0.604*** (-14.27)	-0.009 (-0.24)	-0.135*** (-2.81)	0.027 (1.37)	0.152** (2.50)
CONTROLS	Yes	Yes	Yes	Yes	Yes	Yes
IND FE	Yes	Yes	Yes	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes	Yes	Yes	Yes
N	42,237	42,237	42,237	42,237	42,237	42,237
ADJ. R-SQ	0.072	0.268	0.176	0.154	0.085	0.115

*Notes:* This table reports the effect of dividend payout on sub-categories of CSR performance. Six dimensions of CSR are examined separately, including community activities (*COM*), commitment to diversity (*DIV*), employee relations (*EMP*), environmental record (*ENV*), record on human rights (*HUM*), and product quality and safety (*PRO*). The dependent variable in each column is the adjust net performance score in a certain dimension. In Panel A, the independent variable is *DIV\_PAYER*. In Panel B, we focus on the interaction term *DIV\_PAYER×CS*. We control for industry and year fixed effects in all specifications. All control variables are lagged by one year. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.

TABLE 9

Additional analyses – Alternative measures of corporate payout

**Panel A:** Using consecutive years of dividend payment as payout measure

DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSR(t)</i>	
<i>PAYER_DUR(t-1)</i>	0.005*** (6.60)	0.004*** (3.82)
<i>PAYER_DUR(t-1)*CS</i>		0.003** (2.28)
<i>CS</i>		-0.017 (-1.19)
CONSTANT	-0.979*** (-8.04)	-0.988*** (-8.22)
CONTROLS	Yes	Yes
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	42,237
ADJ. R-SQ	0.217	0.218

**Panel B:** Using dividend payout ratio as payout measure

DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSR(t)</i>	
<i>DIV_AT(t-1)</i>	0.790*** (4.12)	0.604*** (2.72)
<i>DIV_AT(t-1)*CS</i>		0.572 (1.33)
<i>CS</i>		0.017 (1.25)
CONSTANT	-1.091*** (-8.30)	-1.098*** (-8.58)
CONTROLS	Yes	Yes
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	42,237
ADJ. R-SQ	0.213	0.213

**Panel C:** Using repurchase as payout measure

DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSR(t)</i>	
<i>REPR_PAYER(t-1)</i>	0.018** (2.30)	0.011 (1.15)
<i>REPR_PAYER(t-1)*CS</i>		0.023 (1.26)
<i>CS</i>		0.015 (1.06)
CONSTANT	-1.078*** (-8.30)	-1.086*** (-8.58)
CONTROLS	Yes	Yes
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	42,237
ADJ. R-SQ	0.212	0.212

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*Notes:* This table reports results using alternative measures of corporate payout. In Panel A, we use the duration of dividend payout as an alternative proxy for dividend payout. *PAYER\_DUR* is the number of consecutive years of dividend payment. In Panel B, we use dividend payout ratio as the payout measure. *DIV\_AT* is calculated as the amount of cash dividends scaled by total assets. In Panel C, the decision to repurchase shares is used to proxy for corporate payout. *REPR\_PAYER* is an indicator variable that equals one if a firm repurchased share in a given year. We control for industry and year fixed effects in all specifications. All control variables are lagged by one year. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.

TABLE 10

Robustness check

**Panel A:** Controlling for firm fixed effect

DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSR(t)</i>	
<i>DIV_PAYER(t-1)</i>	0.029** (2.00)	0.013 (0.75)
<i>DIV_PAYER(t-1)*CS</i>		0.062** (2.03)
<i>CS</i>		-0.102* (-1.93)
CONSTANT	-0.032 (-0.35)	-0.005 (-0.05)
CONTROLS	Yes	Yes
FIRM FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	42,237
ADJ. R-SQ	0.206	0.206

**Panel B:** Controlling CEO characteristics

DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSR(t)</i>	
<i>DIV_PAYER(t-1)</i>	0.050*** (3.19)	0.019 (1.06)
<i>DIV_PAYER(t-1)*CS</i>		0.099*** (3.44)
<i>CS</i>		-0.023 (-1.06)
<i>LOGCEOAGE</i>	-0.125*** (-2.65)	-0.125*** (-2.65)
<i>MALE</i>	-0.361*** (-7.78)	-0.358*** (-7.87)
CONSTANT	-0.686** (-2.47)	-0.685** (-2.51)
CONTROLS	Yes	Yes
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	27,769	27,769
ADJ. R-SQ	0.235	0.237

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**Panel C: Using residual propensity to pay dividends as proxy for payout decision**

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DEPENDENT=	(1)	(2)	(3)
	<i>ADJ_NETCSR(t)</i>	<i>ADJ_SUMSTR(t)</i>	<i>ADJ_SUMCON(t)</i>
<i>RDIV_PAYER(t-1)*CS</i>	0.074*** (2.83)	0.036* (1.86)	-0.035* (-1.95)
<i>RDIV_PAYER(t-1)</i>	0.016 (1.13)	0.036*** (3.29)	0.019** (2.07)
<i>CS</i>	0.023* (1.73)	0.007 (0.61)	-0.014 (-1.51)
CONSTANT	-1.088*** (-8.58)	-0.958*** (-7.36)	0.139 (0.72)
CONTROLS	Yes	Yes	Yes
IND FE	Yes	Yes	Yes
YEAR FE	Yes	Yes	Yes
N	42,237	42,237	42,237
ADJ. R-SQ	0.213	0.318	0.283

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**Panel D: Using an alternative measure of CSR performance**

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DEPENDENT=	(1)	(2)
	<i>ADJ_NETCSRI(t)</i>	
<i>DIV_PAYER(t-1)</i>	0.018*** (3.39)	0.008 (1.26)
<i>DIV_PAYER(t-1)*CS</i>		0.034*** (3.37)
<i>CS</i>		-0.012* (-1.73)
CONSTANT	-0.529*** (-9.36)	-0.529*** (-9.77)
CONTROLS	Yes	Yes
IND FE	Yes	Yes
YEAR FE	Yes	Yes
N	42,237	42,237
ADJ. R-SQ	0.150	0.151

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*Notes:* This table provides results of robustness checks. In Panel A, we control for firm-fixed effects. In Panel B, we control for CEO characteristics including CEO age and CEO gender. In Panel C, we use the residual component of dividend paying (*RDIV\_PAYER*) as the independent variable. In Panel D, we provide results based on an alternative measure of CSR performance. All control variables are lagged by one year. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.

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APPENDIX A

Constituency statutes and incorporation states

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State of incorporation	State abbreviation	Adoption Year
Nevada	NV	1991
North Carolina	NC	1993
North Dakota	ND	1993
Connecticut	CT	1997
Vermont	VT	1998
Maryland	MD	1999
Texas	TX	2006
Nebraska	NE	2007

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APPENDIX B

First stage model to decompose  $DIV\_PAYER(t-1)$  into a residual component and a predicted component

DEPENDENT=	(1) <i>DIV_PAYER(t-1)</i>
<i>SIZE</i>	0.048*** (12.53)
<i>ROA</i>	0.133*** (3.52)
<i>MTB</i>	0.003*** (3.84)
<i>LEV</i>	-0.117*** (-3.92)
<i>LOGAGE</i>	0.145*** (16.27)
<i>CASH</i>	-0.287*** (-8.76)
<i>TANGIBILITY</i>	0.168*** (3.84)
<i>SG</i>	-0.039*** (-5.31)
<i>CAPEX</i>	-0.729*** (-6.06)
<i>AD</i>	-0.168 (-0.85)
<i>RD</i>	-0.597*** (-6.58)
CONSTANT	0.220 (1.21)
IND FE	Yes
YEAR FE	Yes
N	42,237
ADJ. R-SQ	0.362

*Notes:* This table presents the estimation results from the first-stage to obtain the residual and predicted component of the decision to pay dividends. All control variables are measured in year t-1. Variable definitions are provided in Appendix C. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors are clustered at the firm-level.



APPENDIX C  
Variable definitions

Variable	Definition	Source
<i>ADJ_NETCSR</i>	For a firm in a given year, adjusted CSR score is calculated as the sum of strength scores across the six CSR categories scaled by total number of strength indicators minus the sum of concern scores across the six CSR categories scaled by the total number of concern indicators.	KLD database
<i>ADJ_NETCSRI</i>	For a firm in a given year, <i>ADJ_NETCSRI</i> is calculated as the sum of strength scores across the six CSR categories minus the sum of concern scores across the six CSR categories, scaled by the total number of strength and concern indicators across the six CSR categories.	KLD database
<i>DIV_PAYER</i>	An indicator variable that equals one if a firm pays dividends and zero otherwise.	Compustat
<i>PAYER_DUR</i>	Number of consecutive years of dividend payment.	Compustat
<i>DIV_AT</i>	Dividend payout ratio, measured as the ratio of cash dividends to total assets	Compustat
<i>REPR_PAYER</i>	An indicator variable that equals one if a firm repurchases shares in year <i>t</i> and zero otherwise.	Compustat
<i>SIZE</i>	Natural logarithm of book value of total assets in millions.	Compustat
<i>ROA</i>	Net income before extraordinary items scaled by book value of total assets.	Compustat
<i>MTB</i>	Market-to-book ratio.	Compustat
<i>LEV</i>	Total long-term debt scaled by book value of total assets.	Compustat
<i>LOGAGE</i>	Natural logarithm of firm age, calculated as the number of years between the current year <i>t</i> and the first year the company appeared in CRSP database.	Compustat
<i>CASH</i>	Cash balance scaled by total assets.	Compustat
<i>TANGIBILITY</i>	Tangible assets scaled by total assets	Compustat
<i>SG</i>	Change of sales scaled by lagged sales.	Compustat
<i>CAPEX</i>	Capital expenditure scaled by book value of total assets.	Compustat
<i>AD</i>	Advertising expense scaled by sales.	Compustat
<i>RD</i>	Research and development expenss scaled by sales.	Compustat
<i>IRSIK</i>	Standard deviation of residual estimated from a market model using daily returns in the prior year.	CRSP
<i>MALE</i>	An indicator variable that equals one if a firm's CEO is male and zero otherwise.	Execu-Comp
<i>IBRDPCT</i>	Fraction of independent boards (# of independent boards / #total number of board members)	Execu-Comp
<i>YOUNGCEO</i>	An indicator variable that equals one if a firm's CEO's age is below 60, and zero otherwise.	Execu-Comp
<i>MA_SCORE</i>	Managerial ability score estimated following Demerjian et al (2012).	Web Page of Professor Peter Demerjian