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CSR PERFORMANCE AND PAYOUT POLICY

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INTRODUCTION

The concept of Corporate Social Responsibility (CSR) has become increasingly relevant, with companies expected to go beyond profit maximization and integrate sustainable and ethical practices. Research examining the direct relationship between CSR performance and corporate payout policy remains limited and mixed. This study aims to clarify this relationship by examining whether socially responsible firms are more likely to distribute cash to shareholders and through which channels.

LITERATURE REVIEW & THEORETICAL BACKGROUND

Positive relationship between CSR and corporate payout

- **Agency Theory:** CSR may mitigate agency problems by increasing the effectiveness of the payout policy, as CSR increases alignment between managers and shareholders (Samet & Jarboui, 2017).
- **Life-Cycle Theory:** Mature firms tend to increase both CSR investments and payout levels, as they hold more excess cash than younger firms (Fama & French, 2001; Rakotomavo, 2012).
- **Stakeholder Theory:** CSR aim to balance the interests of all stakeholders by increasing transparency and equitable wealth distribution (Dmytryev et al., 2021; Samet & Jarboui, 2017).
- **Signaling Theory:** Payouts serve as signals of financial strength and profitability, while CSR reinforces this signal by enhancing the firm's reputation (Hendijani, 2021).
- Firms that prioritize high CSR performance show a stronger tendency to **substitute** dividends with share repurchases (Samet & Jarboui, 2017).

Non-positive relationship between CSR and corporate payout

- **Cost of equity theory:** CSR decreases the cost of equity by making firms appear less risky, thereby increasing their financial flexibility to prioritize cash retention (Cheung et al., 2018).
- Sheikh (2020) finds no significant effect of CSR performance on corporate payouts in highly competitive markets.

HYPOTHESES

- H1a** → CSR performance increases the level of dividend payout.
- H1b** → CSR performance increases the level of share repurchases
- H1c** → CSR performance increases the total payout level.
- H2** → High CSR firms have preferences for share repurchases over dividends.

EMPIRICAL ANALYSIS

SAMPLE: Unbalanced sample of 8,028 firm-year observation.

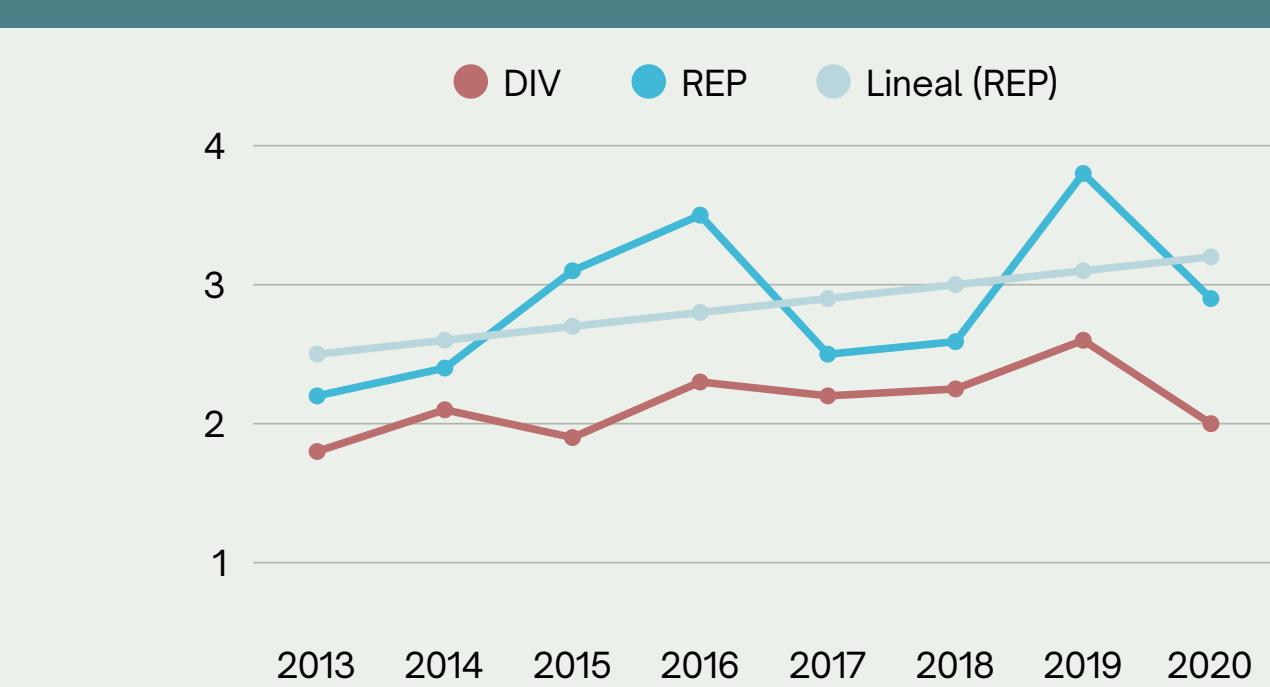
CHARACTERISTICS: 25 countries (mainly U.S) and 12 industry sectors.

PERIOD: 2013-2020

DATA SOURCE: CSR scores from MSCI; financial data from LSEG Workspace

MODEL: Heckman two-step model to correct for sample selection bias.

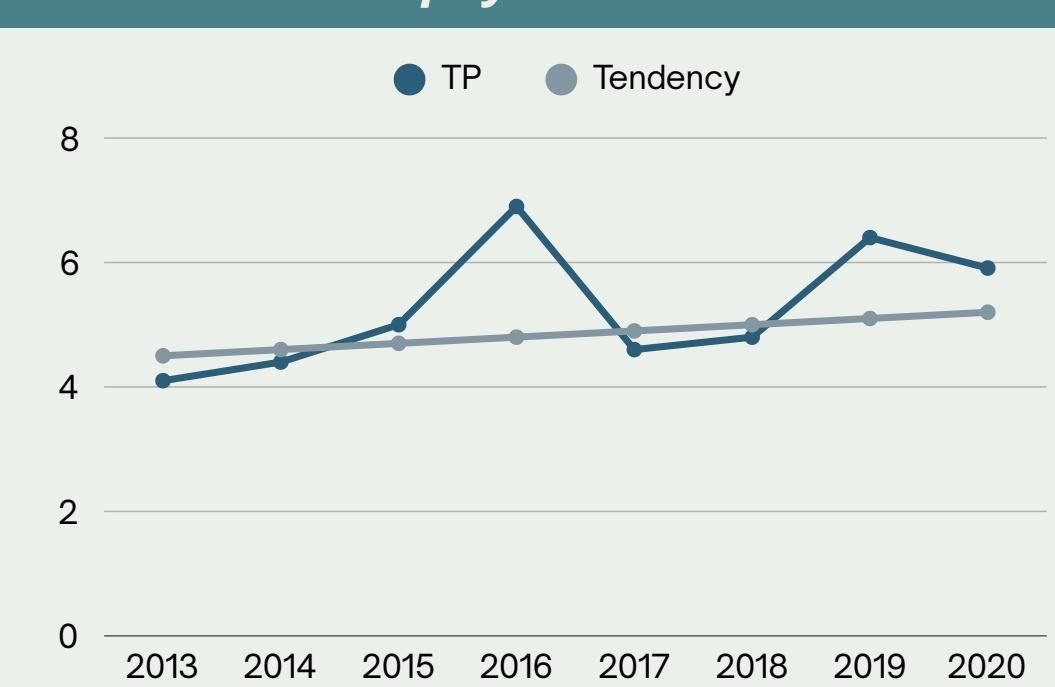
Evolution of dividend and repurchases ratio



Evolution of the CSR performance



Total payout ratio evolution



RESULTS

(controlling for industry and year effects)

	CSR	MTB	SIZE	ROA	LEV	CASH	RETA	IPO90	INTERACT
DIVIDEND	0	0	0	0	+	+	-	-	-
SHARE REPURCHASES	0	-	+	0	+	+	0	0	
TOTAL PAYOUT	0	-	+	+	+	+	0	0	0
PREFERENCE FOR REPURCHASES	0	0	-	-	0	0	0	+	

0 → no significance / + → positive and significant / - → negative and significant

ROBUSTNESS CHECKS

- Two-year lag (L2) for the independent variables (Sun et al., 2023).
- Same L2 using a non-financial subsample.

Robustness checks confirm the stability and consistency of the main results.

CONCLUSIONS

Empirical evidences suggest that:

- We find insufficient evidence to support our initial hypotheses.
- CSR shows no statistically significant influence on payout levels.
- Results align with Sheikh (2020) in highly competitive markets.

Future research should:

- Use alternative data sources for CSR scores since there is not a universally accepted measuring.
- Analyze each ESG pillar separately to better understand their individual influence on payout decisions.
- Control for country effects in the empirical research.
- Include a broader geographical sample to provide a more valuable perspective.