ESG Reputational Exposure and Corporate Dividend Policy: International Evidence

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Abstract

Using a large sample of 11,535 firms across 69 countries, this study finds that reputational risk induced by adverse ESG exposure through media channels is associated with greater corporate dividend payout ratios. This result is robust against endogeneity concerns and alternative measures of key variables. The results of our channel analysis suggest that a higher level of free cash flow problems, greater agency costs, and greater CSR performance play a significant role in the association between reputational risk and dividend policies. We also find a stronger positive relationship between reputational risk and dividend payout ratios in countries with weak rule of law, weak shareholder/creditor protections, and weak public enforcement. Overall, in a global context, our analysis highlights the significant reputational impact of media coverage of instances of corporate social irresponsibility on dividend policy.

Keywords: Reputational risk; ESG incidents; Media; Dividend payout

JEL codes: G35, M14

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1. Introduction

A failure to observe ESG (environmental, social, and governance) factors can lead to an increase in risk—including reputational risk—for public corporations and asset managers. In recent years, the significance of reputation has risen dramatically on account of increased media exposure to corporate social irresponsibility practices, especially in the world of finance. Various studies have explored reputation's relationship with bank loan contracting (Becchetti & Manfredonia 2022), cash holdings (Hasan *et al.* 2022), acquisition premiums (Maung *et al.* 2020), stock returns (Wong & Zhang 2022), and the cost of equity (Cao *et al.* 2015). These studies have largely focused on various business policies, and it remains unclear how reputational risk affects dividend policies. In this paper, we extend this strand of the literature by examining whether and how reputational risk induced by adverse ESG exposure influences firms' dividend payouts. This is an important topic for firms seeking means of handling reputational risk. Notably, if a particular reputational risk induces different risk outcomes, investors may begin to look at portfolios through an ESG lens and consider ESG-related risk.

Theoretically, the relationship between reputational risk and payout choices is ambiguous. Therefore, we present two competing hypotheses. The first hypothesis is that firms are likely to face high reputation risk if entrenched managers are incentivised to pursue self-serving objectives rather than satisfy other stakeholders (Wilson 1985; Weigelt & Camerer 1988; Gomes 2000). Under such circumstances, higher cash dividends can limit a company's free cash flow at the discretion of insiders, pushing management to seek outside investment to finance growth plans, exposing them to market scrutiny and, in turn, reducing agency concerns with free cash flow. Both Kölbel et al. (2017) and John and Nachman (1985) assert that reputational risk increases information asymmetry between firms and outside investors. In

compliance with signalling theory, dividend payouts can be used by managers to reduce information asymmetry by disclosing positive information about a firm's long-term development prospects (Baker et al. 2016a). As a result, companies with greater reputational risk are likely to pay higher cash dividends.

The second hypothesis is that reputation risk raises the danger of stakeholder sanctions, leading to sales decreases, increased cash flow and return volatility, and major financial risk (Kölbel et al. 2017), reducing firms' lending capacity and leaving them with greater financial constraints. Thus, firms with significant reputational risk may distribute lower dividends to avoid costly external funding. This line of reasoning suggests that reputational risk has a negative impact on firm dividend payouts. Given these two opposing possibilities, the relationship between reputational risk and payout policies constitutes an intriguing empirical question.

To carry out the analysis necessary to answer this question, we construct a sample of 113,651 observations of 11,535 unique firms across 69 countries between 2007 and 2019. In line with previous studies, we track the perception of the general public on corporations' ESG performance to gauge their reputational risk. The multivariate results indicate that a high degree of reputational risk stemming from adverse ESG exposure is associated with higher dividend payouts. More specifically, a one-standard-deviation increase in reputational risk corresponds to a 2.5% increase in payout ratio. Notably, this pattern is consistent across multiple alternate measures of key variables (as demonstrated by considering a wide range of firm-level and country-level variables to control for differences in both firm and country attributes). To account for the variations implicit in a global analysis, we avoid overrepresentation in the sample by eliminating observations of firms in the US and small countries, using the WLS model, and

employing various clustered standard error schemes. Still, to ensure that endogeneity concerns do not drive our results, we address endogeneity caveats by using an instrumental variables approach and propensity score matching. Ultimately, we find that—in all cases—reputational risk has a positive and statistically significant relationship with dividend policies.

We perform several supplemental analyses to illuminate the factors driving this relationship. First, we examine the free cash flow problems and agency costs, which we measure as the free cash flow ratio, institutional ownership and sales expenses ratio. In line with our expectations, we find that the positive impact of reputational risk on dividend payouts is more pronounced among firms that have higher free cash flows and agency costs. Furthermore, we show that firms have an incentive to raise their dividends to recover their reputation via ESG practices; therefore, the positive effect of reputational risk on dividend policy is stronger among firms with a solid CSR performance.

In the final set of cross-sectional analysis, we test whether country-level governance moderates the positive impact of reputational risk on dividend policies due to institutions playing a pivotal role in determining dividend decisions through their impact on agency problems (La Porta et al. 2000; Faccio et al. 2001). Consistently, we find that a high institutional quality reduces the positive impact of reputational risk on dividend payouts.

This paper contributes to the literature by highlighting the importance of reputation in dividend policy. A company's dividend policy cannot be understood without considering its reputation (Gillet et al. 2008). More specifically, however, we contribute to the sparse literature on one prominent channel: adverse ESG incidents occurring via media that generate reputational risk. Our main results indicated that reputational risk is associated with higher dividend payments. Brucato Jr and Smith (1997) demonstrate that an effective dividend signal is one that

is accompanied by an unexpected increase in earnings and includes an unexpected rise in dividends. Gillet et al. (2008) demonstrate that a company that issues high dividends to trick the market into believing it is a high-income corporation before disclosing low profitability is punished by the market as a result of the mechanism of reputation. Going beyond previous studies, this paper considers reputational risk stemming from adverse ESG exposure that motivates firms to pay out more dividends to investors in order to reduce information asymmetry and free cash flow agency costs.

Importantly, we contribute to the discourse on reputational risk in dividend policies by delivering the first body of information from a global perspective (i.e., it features numerous countries that vary in institutional structure and development status). The potential substitutional or complementary effects between internal governance (e.g., agency issues) and external governance (e.g., laws, institutions) make this global approach particularly relevant. For instance, we find that firms use their dividend policy to lessen information asymmetry and agency problems between firms and outside investors. However, this strategy may play a less important role in countries with high-quality institutions.

In addition, we contribute to the literature on dividend policies by using an international setting to identify their determinants. While previous studies have documented the relationship between dividend payouts and gender diversity (Ye et al. 2019), religion (Ben-Nasr & Ghouma 2022), and board reform (Bae et al. 2020), we confirm the role of reputation shaped by ESG practices in the determination of dividend payouts, indicating that inferior ESG practices may increase reputational risk, prompting firms to issue higher dividend payments. In this sense, the previous paper most similar to ours is Benlemlih (2019), which shows that socially irresponsible firms adjust their dividends more frequently than socially responsible firms; in other words,

dividend payout is more stable in high-CSR firms. However, Benlemlih (2019) only considers US data, while we employ a broad set of observations from 69 countries around the world.

Finally, this paper identifies a positive relationship between reputational risk and dividend policies. Therefore, the findings are of significant practical value to investors, firms, and policymakers. From the perspective of investors, it is notable that information from media reports can be integrated with information from corporate financial statements to conduct a comprehensive evaluation and properly consider investment decisions. From the perspective of policymakers, it is notable that this paper asserts that the government should encourage growth in the media industry to set up an ideal environment for any critical market governance mechanism. For example, Shim (2002) asserts that the media industry played a vital role in the recovery of the Korean economy after the 1997 Asian financial crisis by aligning Chaebol with the country's prevailing financial circumstances. Paniagua and Sapena (2014) indicate that companies that engage in significant social media use perform better on average. However, false news can also be published, and governments must work to mitigate the risk of false reports in order to prevent irrational fear in the market (Montgomery & Gray 2017).

The remainder of our research is structured as follows. Section 2 provides a comprehensive review of the relevant literature and presents the research hypotheses developed for this study.. Section 3 details the data and methods we used to test them. Section 4 presents the empirical results obtained from the analysis. Section 5 describes further testing. Finally, Section 6 offers some concluding remarks.

2. Literature review and hypothesis development

Reputational risk stemming from adverse ESG exposure via traditional and online media channels is increasingly accepted as an important determinant of corporate performance, policy

and behaviour. For example, firms with a high level of reputational risk exhibit lower firm performance due to low stakeholder trust and consumer sales figures (Graham et al. 2008; Murphy et al. 2009). Johnson (2020) indicates that media coverage may deter corporate misconduct, especially misconduct related to workplace safety, due to the mechanism of reputation. Hasan et al. (2022) assert that companies tend to hold more cash when their reputation is at risk. Becchetti and Manfredonia (2022) show that banks often respond to negative media attention by increasing loan spread. According to Maung et al. (2020), a company having a reputation for social irresponsibility lowers its takeover value; more specifically, a decline in stated issues with governance, social issues, and the environment lowers cross-border acquisition premiums. In a similar vein, Wong and Zhang (2022) argue that investors consider company reputation to be a valuable intangible asset, meaning that unfavourable ESG exposure via media channels has a major negative impact on firm value. Although a company's dividend policy cannot be understood without considering its reputation (Gillet et al. 2008), little is known about the true impact of reputational risk on corporate dividend payouts, especially in the context of global studies. In this study, we develop hypotheses to pursue a proper understanding of the link between reputational risk and dividend policy.

According to agency theory, corporate insiders have a vested interest in diverting a company's resources to operations that benefit them rather than those that benefit external shareholders (Jensen 1986). Instead of distributing slack resources (e.g., free cash flow) to investors, entrenched management officials may utilise them for empire-building or as perquisites (Jensen & Meckling 1976; Easterbrook 1984). Notably, higher cash dividends can limit a company's free cash flow at the discretion of insiders, forcing management to seek

external funding for expansion ambitions and, in turn, exposing them to market scrutiny (La Porta et al. 2000; Farre-Mensa et al. 2014). Interestingly, La Porta et al. (2000) argue that strong minority shareholder rights act as a tool to pressure companies into paying dividends, indicating that agency theory is highly relevant in explaining dividend policies around the world. Previous research indicates that, when entrenched managers are driven by self-interest rather than stakeholders' demands, businesses are more likely to experience significant reputation risk (e.g., Wilson 1985; Weigelt and Camerer 1988; Gomes 2000). The surveys conducted by Allen and Michaely (2003) and Leary and Michaely (2011) support the effectiveness of dividends in reducing agency problems. Therefore, according to agency theory, companies facing higher reputational risk are generally compelled to pay higher dividends to discipline their managers.

From the perspective of signalling theory, managers are encouraged to issue higher cash dividends to convey that their company is performing well and has great future prospects (Bhattacharya & Ritter 1983; John & Williams 1985). This is crucial when managers know details about their companies of which the market is unaware and are motivated to share this information with the public. In contrast, low dividends signal poor performance and volatile, potentially grim prospects. John and Nachman (1985) and (Kölbel *et al.* 2017) show that reputation risk increases information asymmetry between firms and outside investors. To mitigate this information asymmetry, managers may employ dividend policies by delivering reassuring information about the long-term development prospects of their company (Baker et al. 2016a). As a result, according to signalling theory, companies with a higher degree of reputational risk are more inclined to pay higher cash dividends to lessen the information asymmetry that comes alongside that risk.

Nonetheless, there are grounds to believe that the risk of reputational harm is associated with a decrease in the rewards given to employees by corporations.. Although distributing dividends can alleviate agency concerns and send positive signals, they may also expose enterprises facing significant reputational risk to expensive external funding (Cao et al. 2015; Becchetti & Manfredonia 2022), as reputational risk raises the danger of stakeholder sanctions and, in turn, leads to a decline in sales, an increase in cash flow and return volatility, and the emergence of financial risk (Kölbel et al. 2017). Reputational risk, according to Frooman (1999) and Baron and Diermeier (2007), causes stakeholders to lose confidence and be less willing to cooperate. As a result, reputational risk reduces a company's lending capacity while increasing its cash holdings (Hasan et al. 2022). Organisations at risk of losing their image may distribute lower dividends to avoid costly external funding. Given the competing viewpoints, the relationship between reputational risk and compensation policies constitutes a fascinating empirical subject.

These discussions indicate that the effect of reputation risk on firm dividend payouts is not yet clear. Therefore, we propose two competing hypotheses:

Hypothesis 1a. Reputational risk is positively associated with dividend payouts.

Hypothesis 1b. Reputational risk is negatively associated with dividend payouts.

Figure 1 visualises a theoretical model of our paper.

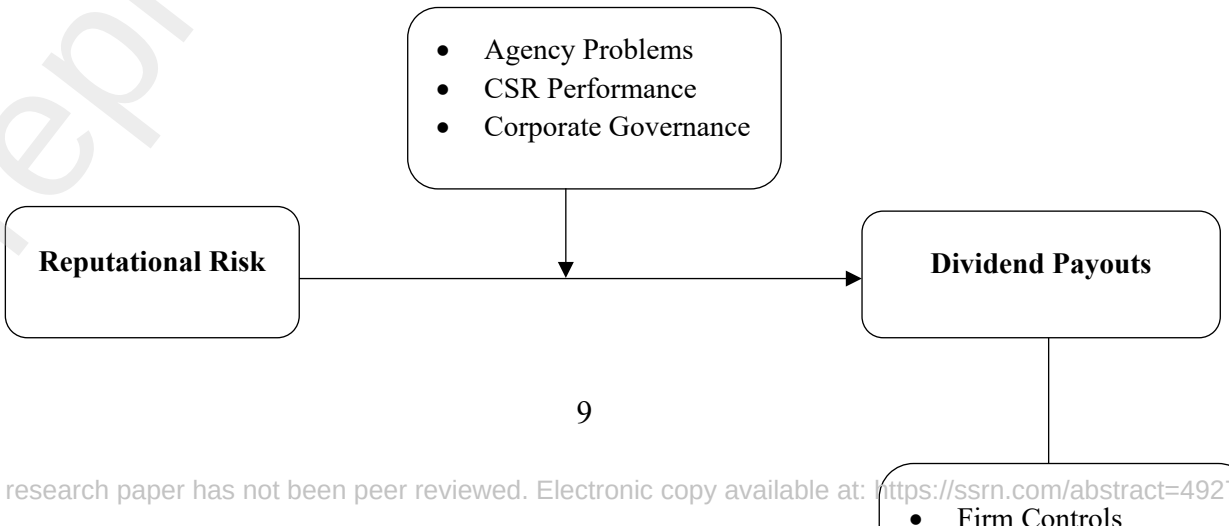

Figure 1. Theoretical model

3. Sample, variables, and the model

3.1. Sample selection

We employ firm accounting annual data on 2007–2009 from Compustat's North American and global databases, merging it with data on reputational risk from RepRisk. The sampled period starts in 2007 because this was the first year for which RepRisk data is available. To ensure that our sample is comparable across the considered countries, we (1) exclude firm-year observations with negative values for total assets, cash dividends declared on common/ordinary shares, sales, earnings, or total common equity; (2) remove firms in the financial sector (SIC code 6000-6999) or the utility sector (SIC code 4900-4949), as these industries are heavily regulated; (3) remove countries with missing data and those with fewer than 20 observations; and (4) employ winsorization at the 1st and 99th percentiles on all firm-level ratio variables to address the potential bias from extreme values . Ultimately, these qualifying factors bring us to our sample of 113,651 observations of 11,535 unique firms across 69 countries between 2007 and 2019.

We collect data on the other variables from a variety of other sources. More specifically, our macroeconomic data and data on institutional quality come from the World Bank's World

Development Indicators (WDI) and World Governance Indicators (WGI) databases, respectively, our shareholder protection index data come from Guillén and Capron (2016), and our data on economic policy uncertainty come from Baker et al. (2016). We also use data on ownership structure and corporate social responsibility from the FactSet Ownership database and the ASSET4 database, respectively.

3.2. Measuring reputational risk

We rely on the RepRisk database to measure reputational risk, as it gathers information from thousands of sources to estimate firms' adverse ESG exposure. RepRisk analyses all major print and digital media sources, NGOs, regulators, government agencies, and social media platforms. Every day, it screens approximately 80,000 sources in 15 different languages to identify firm-level incidents related to one of 28 ESG concerns. Using a big-data, rules-based approach combining artificial intelligence and human analysis, the database converts this firm-level data into a monthly updated score for each company—the RepRisk Index (RRI)—which effectively signifies a firm's current risk stemming from socially irresponsible behaviour (Cui et al. 2018). The index ranges from 0 to 100, with a higher score indicating a higher level of reputational risk stemming from adverse ESG exposure. Several recent studies have employed this measure of reputational risk to investigate its impact on cash holdings (Hasan *et al.* 2022), stock returns (Wong & Zhang 2022), and M&A premiums (Maung *et al.* 2020).

Similar to Hasan et al. (2022) and Maung et al. (2020), we employ current reputational risk (*Current RRI*), which captures the current level of a firm's exposure to reputational risk pertaining to ESG factors, averaging the monthly scores for each year covered in our main analysis. We also consider the natural logarithm of 1 plus *Current RRI* to lessen the skewness of the RRI index's distribution, which stems from firms that are not subject to media attention

pertaining to matters of corporate social responsibility. In the robustness checks, we employ two alternative measures of reputational risk: (1) peak reputational risk (*Peak RRI*), which captures the highest monthly level over the last two years; and (2) reputational risk rating (*RRI Rating*), which reflects a company's own risk exposure stemming from adverse ESG incidents reported about the company. The latter variable features a range of 1–10, with AAA equaling 1 and D equaling 10. Higher values correspond to a lower rating and more significant reputational vulnerability to ESG problems.

3.3. Model specification

We use the following model to examine how reputational risk affects corporate dividend policy:

$$Dividends_{ijt} = \alpha + \beta_1 \log(1 + Current\ RRI)_{ijt} + \rho' Controls_{ijt} + Fixed\ Effects + \varepsilon_{ijt}; \quad (1)$$

where *i*, *j*, and *t* are the indicators for firm, country, and year, respectively. The dependent variable is *Dividends*; this refers to the dividend payout ratio, which is calculated as the ratio of cash dividends declared on common/ordinary shares to net income excluding extraordinary items, namely *DIV/E*. Our main independent variable, *Current RRI*, measures reputational risk, as described earlier in Section 3.2.

As proposed by previous studies, we include both firm-level and country-level control variables (*Controls*) linked to dividend policy in the regressions. Our analysis incorporates the natural logarithm of book value of total assets(*Size*) to control for firm size, as large firms generally perform better than small ones, meaning that they inherently have certain prerequisites for dividend payouts (Denis & Osobov 2008). Our study additionally incorporates growth in sales (*Sales Growth*) and the market-to-book ratio (*Mtb*), which is calculated by dividing the market value of a stock by its book value. Firms with high levels of growth and investment tend

to issue high dividend payouts (Brav et al. 2005). Jensen et al. (1992) reveal that highly leveraged companies issue lower dividends because they need internal cash flow to allow for the prompt repayment of creditors. Additionally, we employ corporate leverage (*Leverage*), computed as the ratio of a company's total debt (both current and long-term) to its total assets. Finally, we consider return on assets (*Roa*) due to Chay and Suh (2009) evidence of a link between business profitability and dividend policy on a global level.

Furthermore, investors are more likely to urge management officials to pay dividends among firms with higher cash holdings (Jensen 1986; Grullon & Michaely 2002). We consider this dynamic by incorporating the ratio of a company's most liquid assets (cash and equivalents) to its total assets (*Cash*). Additionally, firms with higher retained earnings ratios are more likely to issue dividends (Denis & Osobov 2008). Thus, we include *Retained Earnings*, or the ratio of retained earnings to common stockholders' equity, and expect there to be a positive relationship between this variable and corporate dividend policy. DeAngelo et al. (2006) assert that predicted signs for equity ratios and dividend payouts are inconsistent. Firms with low equity ratios may be in financial distress and not issue dividends as a result, whereas start-up firms with high equity ratios may not issue dividends in order to pursue growth opportunities. We capture this effect by using the ratio of common stockholders' equity to total assets (*Total Equity)* as a control variable.

Finally, to capture factors related to each country's economy and wealth, we include the natural logarithm of gross domestic product (GDP) per capita in constant 2010 USD (*Capita)* and *Fixed Effects*, which represents a set of firm, industry, country, and year dummy variables to account for differences between companies, industries, countries, and time fixed effects.

Industries are classified based on the two-digit SIC codes. All standard errors are clustered at the firm level to facilitate statistical inferences.[1]

4. Empirical results

4.1. Descriptive statistics

We begin by examining the distribution of our sample across countries in Panel A of Table 1. The countries with the greatest representation in the sample are the US (27,085 firm-years), China (17,287 firm-years), and Japan (9,422 firm-years), while those with the lowest representation are Papua New Guinea, Uganda, and Slovenia, each of which has fewer than 50 observations in total. Denmark exhibits the highest reputational risk score (10.071) during the study period, while Lithuania boasts the lowest (8.739). The sample distribution by year is shown in Panel B by year. From 2007 to 2019, there has been an increase in both the number of observations and the number of unique firms.

[Insert Table 1]

Panel A of Table 2 provides descriptive statistics for all variables employed in our primary regression model, based on the entire sample. *Current RRI* typically falls around the mean of 9.183, but can vary by up to 3.092 in either direction (measured by the standard deviation) . The mean ratio for *DIV/E* is 20.7%. The firms in our sample have a market-to-book ratio of 1.186, a sales growth ratio of 13.8%, and a leverage ratio of 15.4%. During the studied period, the firms held 14.7% of cash. Overall, both the dependent and independent variables exhibit descriptive statistics comparable to those uncovered in previous studies.

[1] When utilising different sets of fixed effects, such as firm, nation-industry, industry-year, joint, and cluster at the country and year level, we still get qualitatively comparable findings.

The pairwise correlations for each variable in our main regression (which utilises the entire sample) are shown in Panel B of Table 2. The correlation between reputational risk (*log (1+Current RRI)*) and dividend payout ratio (*DIV/E*) is positive and significant, providing preliminary evidence of reputational risk being positively associated with dividend payouts.

[Insert Table 2]

4.2. Main analysis: reputational risk and dividend policy

Our central hypotheses pertain to the impact of reputational risk on dividend policy. We present the results of Eq. (1), which served to test these hypotheses, in Table 3. We estimate four separate model specifications based on the inclusion and exclusion of country, industry, year, and firm fixed effects. In column (1), we run the model without any fixed effects. More specifically, we consider industry and year fixed effects in Column (2), industry, country, and year fixed effects in Column (3), and industry, country, year, and firm fixed effects in the last column to capture unobserved firm-level variables. The coefficients estimated for *Log (1+ Current RRI)* across all four model specifications are positive and statistically significant at the 1% level, indicating that reputational risk is positively associated with dividend payouts. As shown in Column (4), the coefficient on *Log (1+ Current RRI)* is 0.060, indicating that if we hold other variables at their sample mean, a one-standard-deviation increase in raw *Current RRI* (3.092) above its mean (9.183), equivalent to a 42% increase (3.092/9.183), corresponds to a 2.5% (0.42 × 0.060) increase in payout ratio. Overall, these results indicate that firms facing greater reputational risk are more likely to increase their cash dividend payout ratio, consistent with *Hypothesis 1a*.

[Insert Table 3]

The coefficients of the major control variables align with those produced in previous studies (DeAngelo *et al.* 2006; Brockman & Unlu 2009). Put simply, large, profitable companies are more likely to issue cash dividends, whereas leveraged, cash-rich businesses are less likely to do so. In terms of country-level conditions, we show that GDP per capita has a positive impact on corporate dividend payouts.

4.3. Robustness checks

4.3.1. Alternative measures of reputational exposure

To bolster the validity of our findings, we first consider two alternative measures of reputation. First, in line with Becchetti and Manfredonia (2022) and Hasan et al. (2022), we employ the peak reputational risk index, which rates firms by their highest score of negative media attention over the last two years. This metric is recommended by RepRisk for measuring and comparing businesses' adverse ESG exposure, and it is also suited for financial decisions (Maung et al. 2020). Second, in line with Gaganis et al. (2021), we use the rating of reputational risk that depends on a company's own performance (i.e., its own adverse ESG incidents) as well as its country and sector affiliations. This rating specifically considers the country-sector ESG risk, which takes into account the sector and location of a firm's headquarters as well as the countries in which it has been exposed to adverse ESG incidents. It also reflects a company's adverse ESG exposure stemming from risk incidents reported specifically about that company. This RepRisk rating ranges from AAA to D (from low risk of exposure to high risk of exposure: AAA, AA, A, BBB, BB, B, CCC, CC, C, and D). Similar to Gaganis et al. (2021), we scale these ratings to values from 1 to 10, where AAA = 1 and D = 10; higher values indicate a lower rating and more significant adverse reputational exposure stemming from ESG issues.

The results of our baseline regression rerun using these new reputational risk proxies are presented in Columns (1) and (2) of Table 4. The revised reputational risk measure is significantly positively associated with dividend payments across all model specifications, indicating that our findings are robust against alternative definitions of reputational exposure.

[Insert Table 4]

4.3.2. Alternative measures of dividends

Brockman and Unlu (2009) indicate that the figure of dividends scaled by earnings is difficult to explain when earnings are negative, as we omit dividend-paying firm-years featuring negative earnings. As a result of a thorough data-cleaning technique, the main result could be biased. To address this concern, we use several alternative measures of dividends, as suggested in previous studies (DeAngelo *et al.* 2006; Brockman & Unlu 2009; Ye *et al.* 2019; Bae *et al.* 2020). First, we employ an indicator variable (*DIV DUMMY*) coded as 1 for firms that pay dividends and coded as 0 otherwise. Second, we scale cash dividends by total sales (*DIV/SALE*) and the sum of net income plus depreciation and amortisation (*DIV/CF*). Third, we consider total payout ratio (*DIV TOTAL*) by calculating the ratio of cash dividends declared on common/ordinary shares and repurchases to net income excluding extraordinary items. Repurchase amount equals purchase of common and preferred stock minus any decrease in the value of outstanding preferred stock. In addition, we use the natural logarithm of 1 plus cash dividends declared on common/ordinary shares (*$DIV*) as an alternative dependent variable. Finally, we introduce a dummy variable, *DIV INCREASE*, which takes a value of 1 when a firm's dividend payout in year t is greater than its payout in year t-1. Otherwise, it takes a value of 0..

Columns (3)–(8) in Table 4 present the results. Overall, the coefficients on reputational exposure (*log (1+ Current RRI))* remain positive and highly statistically significant across all model specifications. This implies that the positive relationship between reputational risk and dividends highlighted in the main findings is not being driven by the specific method by which we measure the primary dependent variable.

4.3.3. Other robustness checks

This subsection discusses the additional analyses we employ to further verify the reliability of our results. Notably, our sample contains 2007−2019 data from 69 countries, but the number of observations varies by country, as shown in Table 1. This raises the question of whether our estimation is biased due to inconsistent representation. We address this issue by conducting another analysis in which we (1) exclude the US, which (once again) would have otherwise been the largest contributor by far to our sample; and (2) exclude countries with fewer than 200 observations. This ultimately results in a sample of 86,566 and 110,970 firm-year observations in Columns (1) and (2) in Table 5, respectively. Given the nature of the reputational risk variables, we also cluster standard errors at the country level as well as at the country and year level. Interestingly, the coefficients on *log (1+Current RRI)* across all model specifications are significant and positive, indicating that inconsistent representation does bias our primary results.

[Insert Table 5]

Next, some countries have state-implemented dividend rules, including Brazil, Chile, Colombia, Greece, and Venezuela. To rule out any possibility of our results being driven by these policies, we eliminate observations from these listed countries and rerun the regression. As shown in Column (5), the coefficient on reputational risk is still positive and significant at

the 1% level, indicating that our results are not driven by by state-implemented dividend rules.

Although we include a rich set of firm-level and country-level controls in our main regression and use a varied set of fixed effects, we address omitted variables even further by including additional controls. More specifically, in Column (4), we account for R&D intensity (*R&D*), cash flow volatility (*CF Volatility*), capital investment (*CAPX*), free cash flows (*FCF*), corporate taxes (*Corporate Tax*), and dividend taxes (*Dividend Tax*). The findings in Column (6) support the assertion dividend payouts are positively associated with reputational risk.

In addition, to control for the stability of dividend policy, we include the one-year lagged value of dividends (DIV/E_{t-1}) and its changes ($\Delta DIV/E_{t-1}$). The results of this regression are presented in Column (7), revealing positive and significant coefficients on these variables. More importantly, the coefficient on *log (1+Current RRI)* is unchanged, providing strong evidence in support of our main hypothesis regarding the positive impact of reputational risk on dividend policy.

Deephouse et al. (2016) provide evidence that reputational differences between countries may be explained by their varying levels of institutional development. In Column (4), we control for national governance quality (*Institutional Quality*), GDP growth (*GDP Growth*), and inflation rate (*Inflation*). In line with previous studies, we use an aggregated index of country-level governance quality indexes—including voice and accountability, government effectiveness, rule of law, control over corruption, , , regulatory quality, and political stability—as a measure of each country's overall institutional attainment (*Institutional Quality)*. Given that previous studies have shown a strong relationship between economic policy uncertainty and dividend payouts (Farooq & Ahmed 2019; Attig *et al.* 2021), we include the economic policy uncertainty index (*EPU*) from Baker et al. (2016b) as an additional control variable. Our

results in Columns (8)–(9) are unchanged: the coefficient for the reputational risk measure retains its positive sign and statistical significance at the 1% level across all the models we tested.

Investor protection plays a pivotal role in determining dividend decisions (La Porta et al. 2000; Faccio et al. 2001). For example, La Porta et al. (2000) argue that strong shareholder protections are positively associated with dividend payouts. Brockman and Unlu (2009) assert that dividend payments can be used to compensate for inadequate creditor rights. Accordingly, we include two additional variables to control for investor protection: *Shareholder Protection* and *Creditor Protection*. A comprehensive explanation of each variable can be found in the Appendix.. Notably, the fact that the coefficient on *Log (1+ Current RRI)* in Column (10) remains positive and statistically significant suggests that our main finding regarding the positive effect of reputational exposure on dividend policy holds true after controlling for investor protections.

4.4. Endogeneity

4.4.1. Two-stage least-squares estimation

This study's analysis assumes that there is a causal relationship between reputational risk and dividend policy, with reputational risk being the factor that drives dividend policy. In theory, this assumption holds true.. However, potential endogeneity issues due to omitted variables and the possibility of simultaneity bias remain concerns.. Thus, we employ instrumental variable (IV) analysis to address these concerns. Similar to previous studies(El Ghoul *et al.* 2011; Bhandari & Javakhadze 2017; Costa & Habib 2021), we use two instrumental variables: (1) local reputational risk and (2) peer reputational risk. Bhandari and Javakhadze (2017) indicate that, as ESG practices represent a firm's general effect on its local community,

it is reasonable to believe that they will also influence other nearby firms' ESG practices. Hasan et al. (2022) use the average RepRisk score to test the impact of reputational risk on firms' cash holdings. Empirically, we define local reputational risk as the median negative media attention score (excluding the firm in question) in the country where the firm is headquartered: *Local log (1+Current RRI)*.

Additionally, we use the industry-average reputational risk score (*Peer log (1 + Current RRI)*) to address the potential for peer pressure to affect a firm's engagement in substantive ESG practices. Previous research indicates that firms in the same industry face similar environmental, social, and governance risks. For example, Becchetti and Manfredonia (2022) use industry-average score of reputational risk to investigate the impact of negative media attention pertaining to irresponsible conduct in bank loan contracting. El Ghoul et al. (2011) investigated the connection between a company's commitment to social responsibility (CSR) and the cost of capital by employing an industry-average CSR score as a metric. Against this background, we predict a positive relationship between the local and industry reputational risk scores and firm reputational risk. However, we do not expect industry-average or country-average media coverage of ESG problems to have a direct influence on individual firms' dividend policy.

[Insert Table 6]

The estimation results are shown in Table 6. In the first stage, we regress the reputational exposure measure (*log (1+Current RRI)*) on the instruments, control variables, and fixed effects, as in the baseline regression. As shown in Column (1), there are highly significant and positive coefficients on *Local log (1 + Current RRI)* (0.659 and t-statistic = 51.868) and *Peer log (1 + Current RRI)* (0.712 and t-statistic = 34.009). In addition, the Cragg and Donald (1993) F-statistics are 472.250 and 460.701, respectively, which are much higher than the approximate

cutoff of 10 suggested by Wooldridge (2016). As a result, we reject the null hypothesis and draw the girm conclusion that the instruments are not weak. The results of the Anderson canonical correlation test (χ2) are also found to be statistically significant at the 1% level across all model specifications; hence, we reject the null hypothesis that our models are under-identified.

Turning to the second stage, we regress dividend payout ratio on instrumented reputational risk and all control variables. Consistent with the evidence presented in Table 3, predicted reputational risk has a significant and positive effect on dividend payouts. The coefficient on *Predicted log (1+ Current RRI)* is 0.121 and significant at the 5% level. Overall, we find robust evidence that reputational risk increases dividend payouts, indicating that this effect is not driven by endogeneity issues.

4.4.2. Matching approach

We address the potential endogeneity induced by model misspecification further using a propensity-score-matching procedure. This quasi-experimental design pairs treated (receiving negative media attention) and untreated (not receiving negative media attention) firms in the same country with the same ex-ante likelihood of being treated, thereby mitigating selection bias. We employ a logit regression model that regresses the treated group dummy variable on a set of control variables, as in Eq. (1), to obtain the propensity scores. In addition, in line with Becchetti and Manfredonia (2022), we include country-sector average reputational risk as an additional control variable, as some countries and sectors are more readily subject to media scrutiny. Panel A in Table 7 shows the estimation results of the logit model. Using these propensity scores, we match the treated group observations with the control group observations along the five nearest neighbour criteria with a calliper of 0.05 with replacement. We require

the control firms to be in the same country as the treated firms. Ultimately, the matched sample consists of 66,880 observations.

[Insert Table 7]

As shown in Panel B in Table 7, none of the firm characteristics is significantly different between the matched treated and control firms. Panel C reports the average treatment effect on the treated firms. The mean dividend payout ratio of the treated firms is significantly higher than that of the control firms, which aligns with our primary findings. Using the matched sample, we rerun the baseline regressions and present the results in Panel D in Table 7. The coefficient on reputational exposure retains its positive sign and statistical significance at the 1% level regardless of the use of fixed effects. In summary, the empirical results indicate that reputational risk increases dividend payouts.[2]

5. Possible mechanisms

5.1. The role of agency problems

We argue that firms issue dividends as an efficient means of mitigating information asymmetry and agency problems induced by EDG-related reputational risk. Indeed, John and Nachman (1985) and (Kölbel *et al.* 2017) show that reputational risk increases information asymmetry, making equity and debt financing more difficult and expensive. To address such circumstances, firms can employ dividends to decrease information asymmetry and free cash flow agency costs, since distributing cash dividends acts as a constraint on managerial discretion, limiting their ability to direct resources towards projects that primarily serve their own interests rather than those of the shareholders s. In this regard, we expect the positive

[2] It is important to note here that our results remain unchanged when we employ the two-step system GMM method to address endogeneity. We would like to thank an anonymous reviewer for this suggestion.

association between reputational risk and dividend payouts to be amplified for firms with a lot of unallocated cash and significant agency problems..

To test this expectation, as suggested in previous studies, we construct three indicator variables as proxies for the severity of free cash flows and agency problems (Florackis 2008; Brockman & Unlu 2009; Baik et al. 2010): (1) *High Free Cash Flows*; (2) *Low Institutional Ownership*; (3) *High Sales Expense Ratio*. Empirically, we define an indicator variable named *High Free Cash Flows*, which is assigned a value of 1 if a firm's free cash flow is greater than the sample median in a given year. Otherwise, it takes a value of 0.Free cash flow is defined as net income plus depreciation and amortisation scaled by total assets. According to Chen et al. (2011), firms with higher free cash flows tend to have marked agency problems.

We also introduce *an indicator variable named Low Institutional Ownership*that equals 1 if a firm's institutional ownership exceeds the sample median in a given year. Otherwise, it takes a value of 0.. The data on institutional ownership are from the FactSet Ownership database. According to agency theory, institutional ownership may be utilised as a method to better align managers' interests with those of shareholders. Thus, institutional investors facilitate incentives that aid in the resolution of agency conflicts and the reduction of agency costs (Jensen & Meckling 1976; Larcker & Richardson 2004) .

High Sales Expense Ratio is an indicator variable that equals 1 if a firm's selling, general, and administrative (SG&A) expenses figure scaled by annual sales is greater than the sample median and equals 0 otherwise. Florackis (2008) argues that SG&A expenses include, among other things, fees charged by agents to facilitate transactions, advertising and marketing costs, rent, and other utility costs; hence, the SG&A ratio is more likely to represent managerial discretion in the allocation of firm resources. We interact these variables with *log (1+ Current*

RRI) and expect the coefficients of these interaction terms to be positive and significant, which would indicate that firms with severe agency problems tend to pay higher on account of higher reputational risk.

[Insert Table 8]

Panel A in Table 8 presents the results. In line with our expectations, the interaction terms between reputational risk and the three measures of free cash flow problems and agency costs are positive and statistically significant at 5% and 1% levels. Together, these tests reinforce our primary finding that reputational risk is associated with higher dividend payouts and that this effect is particularly pronounced among firms with more severe free cash flow or agency problems.

5.2. The role of CSR performance

As media channels can focus people's attention on corporate wrongdoing, raising the chance that firms will face issues with their stakeholders, negative media coverage can harm a company's image and lead to customer boycotts (Braunsberger & Buckler 2011). As a result, if a company is perceived to be reckless, it will lose the public's confidence as well as its social legitimacy (Price & Sun 2017). Against this potential background, firms may use dividends as a signal to convey positive information about their long-term growth prospects during periods of loss (Baker et al. 2016a). Hence, given this incentive for firms to raise their dividend payouts to improve their reputation via ESG practices, we should expect the positive effect of reputational risk on dividend policy to be stronger among firms performing well in terms of CSR.

To test this, we construct an indicator variable that takes the value of 1 if a firm boasts a CSR performance greater than the sample median for the year and takes the value of 0

otherwise. We consider specific CSR scores pertaining to environment, social and governance factors as well as overall CSR score. For the CSR score, we gather data from the ASSET4 database. Thus, our sample for this regression consists of 33,033 firm-years. Our primary focus is the model examining the relationship between reputational risk and CSR performance metrics. As suggested in Panel B in Table 8, there are positive and significant coefficients on these interaction terms, confirming our hypothesis that the positive impact of reputational risk on dividend policy is more pronounced among firms performing well in terms of CSR.

5.3. The role of corporate governance

Boards of directors set dividend policies and authorise dividend payment. Unsurprisingly, previous studies have documented the strong relationship between dividend policy and boardroom characteristics (Qiao et al. 2018; Ye et al. 2019; Bae et al. 2020). To take the impact of boards and audit committees on the link between reputational risk and dividend policy into account, we consider the interaction terms between reputational risk and the characteristics of boards and audit committees. Empirically, we consider three such characteristics: board independence, the presence of female directors, and the existence of an audit committee. These correspond to the following three dummy variables: (1) *High Board Independence*, an indicator variable coded as 1 if a firm's proportion of independent directors on the board surpasses the sample median and is coded as 0 otherwise; (2) *Female Directors*, an indicator variable that is assigned a value of 1 if a firm has at least one female director on the board and is assigned a value of0 otherwise; and (3) *Audit Committee*, an indicator variable that takes the value of 1 if a firm has an *audit committee* and takes the value of 0 otherwise.

As shown in Panel C in Table 8, there are positive and significant coefficients on these interaction terms, indicating that the positive impact of reputational risk on dividend policy is

more pronounced among firms with high board independence, firms with an audit committee, and firms with at least one female director. These results are consistent with those of previous studies on the impact of independent and female directors on the quality of corporate governance (Adams & Ferreira 2009; Chen et al. 2017). By boosting protections for shareholders, board independence and gender diversity can promote corporate dividend payouts as well as higher payout ratios, thereby strengthening the positive impact of reputational risk on dividend policy. Notably, Kilincarslan (2021) emphasise audit committees as an important component of the corporate governance process, as they promote stakeholders' interests in general and the issuance of dividends in particular.

6. Cross-sectional analysis

To further assess the impact of country-level heterogeneity on our findings, this section considers the role of legal institutions, as the legal framework plays a pivotal role in determining dividend decisions through its impact on agency problems (La Porta et al. 2000; Faccio et al. 2001). We test whether country-level governance moderates the positive impact of reputational risk on dividend policies.

Following previous studies, we measure legal institutions with four indicators: (1) the rule of law index from the World Bank's Worldwide Governance Indicators (Kaufmann et al. 2010); (2) the shareholder protection index from Guillén and Capron (2016); (3) the credit protection index (Brockman & Unlu 2009); and (4) the index of public enforcement (Djankov et al. 2008). A comprehensive explanation of each variable can be found in the Appendix.. Empirically, we define dummy variables for firms in countries with strong legal institutions (*High RLE*, *High SP*, *High CP*, and *High PE*; if a country's index is greater than the yearly sample median, it is coded as 1; otherwise, it is coded as 0. We then interact these indicators

with reputational risk measures, exploring how the impact of reputational risk on dividend payouts changes depending on the presence of institutional characteristics.

[Insert Table 9]

The regression results are reported in Columns (1)–(4) of Table 9. The interaction terms have a negative coefficient that is statistically significant at the conventional level, indicating that the positive influence of reputational risk on firm dividend policies is less pronounced among firms in countries with high institutional quality. One possible explanation for this finding is that a reputation for excellent shareholder treatment is most valuable in nations with limited legal protections for minority shareholders. As a result, in such countries, the demand is greater for dividends to develop a solid reputation. Indeed, Brockman and Unlu (2009) showcase the substitution effect between a restrictive payout policy and weak institutions (e.g., poor creditor rights). Additionally, in line with institutional theory (Scott 1987; Zucker 1987), a country's degree of overall institutional quality affects the quality of its corporate governance. Hence, better institutional quality dampens the positive impact of reputational risk on firm dividend policy.

In addition, we also investigate the heterogeneity in the effect between countries with mandatory dividend rules, such as Brazil, Chile, Colombia, Greece, and Venezuela. We interact reputational risk with mandatory dividend countries. Empirically, *mandatory dividend countries* is an indicator that equals 1 for countries with mandatory dividend laws and 0 otherwise. The result in Column (5) of Table 9 shows that the positive impact of reputational risk on firm dividend policy is more pronounced among countries with mandatory dividend rules.

Finally, one may argue that the relationship between a firm's reputational risk and its dividend payment may differ between the pre- and mid-crisis periods due to cash crunch. We

can confirm this argument using the negative coefficient for the interaction between reputational risk and the financial crisis period in Column (6) of Table 9. In summary, there is clear evidence that the positive impact of reputational risk on dividend payouts was less pronounced during the period characterised by the financial crisis.

7. Conclusion

Our research uses an international sample to examine the impact of reputational risk stemming from adverse ESG incidents occurring via media on firm-level dividend policy from 2007 to 2019. Our empirical results provide robust evidence that reputational risk increases dividend payouts. As shown in the cross-section, companies facing a higher risk of reputational damage are more likely to increase dividend payouts if they are also characterized by elevated agency conflicts, more significant free cash flow challenges, and superior CSR performance. In addition, we reveal that better corporate governance, as measured by boardroom characteristics, also increases the positive influence of reputational risk on dividend policy. Further analysis shows that better institutional quality, as measured by the rule of law index, shareholder protection, creditor protection, and public enforcement, dampens the positive impact of reputational risk on firm dividend policy. Notably, the financial crisis also weakened this positive impact.

The implications of our findings regarding the media's effect on dividend policy are important. Investors are expected to evaluate not only the information reported in corporate financial statements but also media reports involving companies in order to reward those that actively handle reputational risks as operational strategies. Based on our findings, we argue that ESG-focused businesses should embrace a more organised, holistic approach to risk governance and management. Policymakers should encourage the growth of the media industry as a vital

information intermediary and a critical governance mechanism for financial markets, and they should take steps to avoid the circulation of exaggerated or false stories on market activity.

This paper provides valuable insight into the large-scale implications and contributions of reputational risks and dividend policies. Still, it features some unavoidable limitations. First, the paper only concentrates on general reputational risks, neglecting the finer details behind these risks. As the world is beginning to move sharply against climate change and violations of human rights, future research should pay closer attention to these finer details. For example, it would be worthwhile for a researcher to investigate how companies with a history of racist (and/or sexist) activities have addressed dividend policy both prior to and following exposure.

Second, it is noted that the findings of this paper are useful for investors. However, reputational risk measured by media exposure used to assess a company's ESG performance is not collected or analyzed in a truly representative and unbiased manner can lead to flawed investment decisions. If the data used to assess a company's ESG performance is skewed or incomplete due to selection bias, it could mislead investors and pose a risk to the effectiveness of sustainable investment strategies. Addressing and mitigating this bias is important for making informed and socially responsible investment decisions. Although we employ several advanced approaches to address endogeneity caveats, we have been unable to identify endogenous shocks that impact reputational risk and examine their relationship with dividend policy. To enhance the contribution of this study, future studies can find and use policy changes as exogenous shocks for reputational risk. By doing so, scholars can explore explicitly the real impact of reputational risk on dividend policy. In addition, future research could consider the dividend policy that is most affected by reputational risk in different phases of the business cycle and/or in different types of countries (e.g., developed countries vs. developing countries). Also,

scholars should consider the interaction between reputational risk and other variables, such as managerial ownership—which is mainly determined by payout policy—to determine whether the effect is complemented or substituted.

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Appendix. Variable definitions.

Variables	Description	Sources
Reputational Risk		
Current RRI	Negative media attention RepRisk score weighted by the monthly scores.	Reprisk
Peak RRI	Highest negative media attention RepRisk score in the past two years.	As above
RRI Rating	Reputational risk rating that accounts for a company's own exposure to ESG-related risk stemming from risk incidents that have been specifically reported about the company and country-sector ESG risk, which considers the industry, the location of the company's headquarters, and the countries in which the company has been exposed to ESG risk incidents. This variable takes a value from 1 to 10 (AAA = 1; D = 10). Higher values indicate a lower rating and higher reputational exposure stemming from ESG issues.	As above
Dividend Policy		
DIV/E	Ratio of cash dividends declared on common/ordinary shares to net income excluding extraordinary items.	Compustat
DIV DUMMY	An indicator variable that equals one if a firm pays cash dividends in a given year and zero otherwise.	As above
DIV/SALE	Ratio of cash dividends declared on common/ordinary shares to total sales.	As above
DIV TOTAL	Ratio of cash dividends declared on common/ordinary shares and repurchases to net income excluding extraordinary items. Repurchase amount equals the value of the purchase of common and preferred stock minus any decrease in the value of outstanding preferred stock.	As above
DIV/CF	Ratio of cash dividends declared on common/ordinary shares to net income plus depreciation and amortisation.	As above
Log(1+$DIV)	Natural logarithm of 1 plus cash dividends declared on common/ordinary shares.	As above
DIV INCREASE	A dummy variable that equals 1 if the firms have increased its dividends in year t relative to year t-1 and equals 0 otherwise.	As above
Control Variables		
Size	Natural logarithm of the book value of total assets.	As above
Mtb	Market-to-book ratio	As above
Sales Growth	Change in sales (percentage).	As above
Leverage	The ratio of total short-term and long-term debt to total assets.	As above
Roa	Return on assets, calculated as net income divided by initial balance of total assets.	As above
Cash	Ratio of cash and cash equivalents to total assets.	As above
Retained Earnings	Retained earnings scaled by the common stockholders' equity.	As above
Total Equity	Common stockholders' equity scaled by total assets.	As above
Capita	Natural logarithm of GDP per capita in 2010 USD.	WDI
Other Variables		
R&D	Ratio of R&D expenditures to total assets; missing items are set to zero.	Compustat
CF Volatility	Standard cash flow deviations in operations divided by total assets using a three-year rolling window.	As above
CAPX	Ratio of capital expenditures to total assets.	As above
FCF	Ratio of the sum of net income, depreciation, and amortisation to total assets.	As above
Corporate Tax	Statutory maximum marginal corporate tax rate for the relevant financial year.	KPMG's Corporate Tax Guide
Dividend Tax	Maximum statutory dividend gains tax rate for individuals (percentage). Values for each country after 2004 are set to the equivalent value in 2004.	Hail et al. (2017)
Institutional Quality	An aggregated index of country-level governance quality indexes.	WGI
GDP Growth	GDP growth rate.	WDI

Inflation	Inflation rate.	WDI
EPU	Economic policy uncertainty index.	Baker et al. (2016)
Shareholder Protection	The shareholder protection index assesses the level of protection for minority shareholder rights using a list of 10 essential legislative requirements (for example, required disclosure of large share ownership, restriction of double voting rights, and the possibility of directors being dismissed). This index goes from 0 to 10, with higher values indicating better protection.	Guillén and Capron (2016)
Creditor Protection	The index of creditor rights measures four powers of secured lenders in bankruptcy granted by a country's laws and regulations. The index ranges from 0 (weak) to 4 (strong).	Djankov et al. (2007) and Djankov et al. (2008a)
Industry-Country-Year Current RRI	An industry-country-year reputational risk score (Current RRI)	RepRisk
High Free Cash Flow	A dummy variable coded 1 if a firm's FCF % exceeds the sample median in each year, and 0 otherwise.	Compustat
Low Institutional Ownership	A dummy variable set to 1 if a firm's institutional ownership percentage exceeds the yearly sample median, 0 otherwise.	FactSet Ownership database
High Sales Expense Ratio	A dummy variable set to 1 if a firm's ratio of sales and administrative expenses to annual sales exceeds the yearly sample median, and 0 otherwise.	Compustat
High Environmental Performance	A dummy variable set to 1 if a firm's CSR score for environmental dimensions is greater than the yearly sample median and 0 otherwise.	ASSET 4
High Social Performance	A dummy variable set to 1 if a firm's CSR score for social dimensions is greater than the yearly sample median and 0 otherwise.	As above
High Governance Performance	A dummy variable set to 1 if a firm's CSR score for governance dimensions is greater than the yearly sample median and 0 otherwise.	As above
High CSR Score	A dummy variable set to 1 if a firm's CSR score is greater than the sample median in each year and 0 otherwise.	As above
High Board Independence	A dummy variable set to 1 if a firm's independent directors ratio is greater than the yearly sample median in each year and 0 otherwise.	Boardex
Female Directors	A dummy variable set to 1 if a firm has at least one female director and 0 otherwise.	Boardex
Audit Commitee	A dummy variable set to 1 if a firm has an audit committee and 0 otherwise.	Boardex
High Rule of Law	A dummy variable set to 1 if a firm has a rule of law index score greater than the yearly sample median and 0 otherwise.	WGI
High Shareholder Protection	A dummy variable set to 1 if a firm has a shareholder protection index score greater than the yearly sample median and 0 otherwise.	Guillén and Capron (2016)
High Creditor Protection	A dummy variable coded 1 if a firm has a creditor protection index score greater than the yearly sample median and 0 otherwise.	Djankov et al. (2007) and Djankov et al. (2008a)
High Public Enforcement	A dummy variable coded 1 if a firm has a public enforcement index score greater than the yearly sample median and coded 0 otherwise. The public enforcement index includes fines and prison terms for related parties in self-dealing if all disclosure and approval requirements have been met (ranging from 0 to 1).	Djankov et al. (2008b)
Financial Crisis	A dummy variable that is coded 1 for 2008 and 2009 and 0 otherwise.	Compustat

Table 1. Descriptive Statistics by Country and Year

Panel A. Descriptive statistics by country

Countries	Observations	Percentage	Unique firms	Current RRI	Peak RRI	DIV/E
Argentina	336	0.296	30	9.003	15.889	0.073
Australia	3,143	2.765	359	9.140	16.122	0.275
Austria	406	0.357	33	8.995	15.864	0.205
Bahrain	51	0.045	4	8.970	15.831	0.449
Bangladesh	365	0.321	41	9.748	17.270	0.236
Belgium	561	0.494	48	9.010	15.936	0.300
Bermuda	1,733	1.525	156	8.948	15.761	0.204
Botswana	50	0.044	4	9.091	16.048	0.185
Brazil	1,963	1.727	186	9.130	16.114	0.313
Bulgaria	65	0.057	6	9.005	15.815	0.015
Cayman Islands	2,449	2.155	257	9.382	16.613	0.191
Chile	775	0.682	67	9.219	16.268	0.023
China	17,287	15.211	1,742	9.487	16.828	0.130
Colombia	226	0.199	21	8.902	15.690	0.147
Croatia	160	0.141	13	8.934	15.715	0.021
Cyprus	126	0.111	12	9.419	16.664	0.149
Czech Republic	52	0.046	4	9.030	15.941	0.000
Denmark	560	0.493	52	10.071	16.177	0.223
Egypt	344	0.303	37	9.519	16.692	0.072
Estonia	64	0.056	5	8.982	15.854	0.378
Finland	643	0.566	56	9.198	16.258	0.539
France	2,175	1.914	185	9.105	16.072	0.134
Germany	1,982	1.744	187	9.018	15.915	0.257
Ghana	60	0.053	6	8.007	17.689	0.168
Greece	305	0.268	27	8.926	15.715	0.100
Hong Kong	785	0.691	77	9.214	16.322	0.276
Hungary	61	0.054	6	9.468	16.870	0.105
Iceland	75	0.066	7	9.544	16.868	0.140
India	7,722	6.794	702	9.057	15.981	0.147
Indonesia	1,117	0.983	120	9.129	16.123	0.009
Ireland	242	0.213	29	8.652	15.238	0.224
Isle of Man	51	0.045	5	9.318	16.364	0.192
Israel	1,079	0.949	107	9.068	16.000	0.180
Italy	1,214	1.068	120	9.045	15.966	0.188
Jamaica	37	0.033	9	8.687	16.621	0.113
Japan	9,422	8.290	783	9.104	16.081	0.302
Jordan	78	0.069	7	9.340	16.450	0.071
Kazakhstan	97	0.085	9	8.971	15.780	0.046
Kenya	153	0.135	14	9.077	15.934	0.396
Kuwait	140	0.123	12	9.329	16.496	0.021
Latvia	72	0.063	6	8.818	15.496	0.152
Lithuania	55	0.048	5	8.739	15.439	0.060
Luxembourg	254	0.223	24	9.391	16.597	0.217
Malaysia	1,978	1.740	170	9.140	16.151	0.301
Malta	47	0.041	5	9.465	16.877	0.436
Mauritius	99	0.087	9	9.085	16.036	0.374
Mexico	840	0.739	71	9.083	16.019	0.058
Morocco	194	0.171	17	9.087	16.020	0.338
Netherlands	916	0.806	99	8.989	15.859	0.242
New Zealand	533	0.469	51	9.090	16.054	0.425
Nigeria	406	0.357	37	9.208	16.264	0.349

Norway	696	0.612	72	9.305	16.464	0.248
Oman	100	0.088	8	8.933	15.713	0.390
Pakistan	815	0.717	72	9.215	16.285	0.263
Papua New Guinea	25	0.022	2	8.940	15.779	0.194
Peru	553	0.487	49	9.033	15.908	0.034
Philippines	1,032	0.908	104	9.136	16.159	0.141
Poland	625	0.550	57	9.198	16.236	0.040
Portugal	317	0.279	27	8.988	15.856	0.232
Qatar	64	0.056	6	9.183	16.270	0.486
Romania	167	0.147	17	9.318	16.480	0.253
Saudi Arabia	283	0.249	24	9.069	16.010	0.273
Singapore	1,347	1.185	128	8.980	15.836	0.275
Slovenia	38	0.033	3	8.969	15.873	0.354
South Africa	936	0.824	79	9.113	16.101	0.138
South Korea	5,944	5.230	726	9.673	19.130	0.154
Spain	1,080	0.950	100	9.179	16.201	0.218
Sri Lanka	235	0.207	21	9.205	16.292	0.210
Sweden	1,610	1.417	157	9.208	16.279	0.330
Switzerland	1,060	0.933	93	9.071	16.024	0.245
Thailand	1,140	1.003	108	9.268	16.397	0.187
Trinidad and Tobago	51	0.045	5	9.120	16.126	0.225
Tunisia	75	0.066	8	9.318	16.404	0.017
Turkey	729	0.641	61	9.171	16.188	0.049
Uganda	36	0.032	3	9.293	16.428	0.329
Ukraine	132	0.116	15	9.437	16.519	0.045
United Arab Emirates	190	0.167	18	9.216	16.316	0.165
United Kingdom	3,532	3.108	338	9.168	16.195	0.309
United States	27,085	23.832	3,171	9.011	15.884	0.226
Zambia	51	0.045	6	9.133	16.315	0.265
Zimbabwe	155	0.136	18	9.759	14.151	0.105

Panel B. Descriptive statistics by year

Year	Observations	Percentage	Unique firms	Current RRI	Peak RRI	DIV/E
2007	7,550	6.643	818	4.345	6.527	0.192
2008	7,942	6.988	817	6.417	10.275	0.184
2009	8,163	7.183	793	5.580	11.823	0.185
2010	8,432	7.419	756	6.010	11.603	0.187
2011	8,599	7.566	789	7.245	12.176	0.185
2012	8,910	7.840	861	8.935	14.065	0.186
2013	9,094	8.002	838	9.898	16.100	0.196
2014	9,134	8.037	910	11.334	18.508	0.230
2015	9,168	8.067	907	11.270	19.994	0.222
2016	9,130	8.033	849	11.282	20.801	0.232
2017	9,250	8.139	992	12.064	21.533	0.231
2018	9,181	8.078	1,035	11.545	21.907	0.228
2019	9,098	8.005	1,170	11.464	21.920	0.218

This table provides the sample composition and selected mean characteristics by country and year. A comprehensive explanation of each variable can be found in the Appendix

Table 2. Summary Statistics and Correlations

Panel A. Summary statistics

Variables	Mean	St.dev	P25	Median	P75	P95
Reputational risk						
Current RRI	9.183	3.092	6.417	9.898	11.334	16.064
Peak RRI	16.222	4.904	11.823	16.000	67.000	82.000
(1) Log(1+Current RRI)	2.283	0.285	2.004	2.389	2.512	2.570
Log(1+Peak RRI)	2.799	0.322	2.551	2.839	3.082	3.132
RRI Ranking	2.125	0.529	1.135	2.769	4.897	9.485
Dividend policy						
(2) DIV/E	0.207	0.434	0.000	0.000	0.319	0.870
DIV DUMMY	0.503	0.499	0.000	1.000	1.000	1.000
DIV/SALE	0.019	0.041	0.000	0.001	0.019	0.092
DIV TOTAL	0.254	0.653	0.000	0.024	0.380	1.144
DIV/CF	0.149	1.365	0.000	0.000	0.290	1.553
Log(1+$DIV)	2.679	3.133	0.000	0.587	5.158	8.500
DIV INCREASE	0.782	0.413	1.000	1.000	1.000	1.000
Control variables						
(3) Size	8.671	2.727	6.863	8.403	10.370	13.646
(4) Mtb	1.286	0.822	0.830	1.176	1.622	2.370
(5) Sales Growth	0.138	0.497	-0.026	0.066	0.194	0.670
(6) Leverage	0.154	0.163	0.009	0.111	0.245	0.472
(7) Roa	0.022	0.139	0.007	0.035	0.072	0.157
(8) Cash	0.147	0.147	0.045	0.101	0.196	0.454
(9) Retain Earnings	0.152	2.358	0.046	0.394	0.709	1.071
(10) Total Equity	0.448	0.241	0.296	0.443	0.609	0.836
(11) Capita	9.810	1.522	8.884	10.628	10.817	11.009

Panel B. Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1)	1.00										
(2)	0.04*	1.00									
(3)	0.09*	0.09*	1.00								
(4)	0.00	0.03*	-0.21*	1.00							
(5)	-0.07*	-0.05*	-0.06*	0.06*	1.00						
(6)	0.02*	0.03*	0.11*	-0.23*	-0.02*	1.00					
(7)	-0.05*	0.13*	0.17*	0.11*	0.06*	-0.07*	1.00				
(8)	-0.00	-0.03*	-0.15*	0.35*	0.06*	-0.31*	-0.02*	1.00			
(9)	-0.00	0.07*	0.17*	-0.03*	-0.03*	0.02*	0.28*	-0.09*	1.00		
(10)	-0.01*	0.01*	-0.17*	0.44*	0.04*	-0.55*	0.20*	0.34*	-0.04*	1.00	
(11)	-0.03*	0.08*	-0.10*	0.13*	-0.04*	0.10*	-0.07*	0.02*	-0.03*	-0.00	1.00

This table displays the summary statistics (Panel A) and correlation matrix (Panel B) for our full sample. The sample includes 113,651 observations from 2007 to 2019. A comprehensive explanation of each variable can be found in the Appendix. ** indicates statistical significance at the 0.05 level.

Table 3. Reputational Risk and Dividend Policy

	Dep. Var.: DIV/E			
	(1)	(2)	(3)	(4)
Log (1+Current RRI)	0.054***	0.057***	0.052***	0.060***
	(10.272)	(10.759)	(9.983)	(9.625)
Size	0.012***	0.010***	0.027***	0.011***
	(13.845)	(12.077)	(20.607)	(4.642)
Mtb	0.019***	0.016***	0.018***	0.022***
	(5.588)	(4.815)	(5.211)	(6.833)
Sales Growth	-0.040***	-0.036***	-0.033***	-0.008***
	(-17.830)	(-16.006)	(-15.178)	(-4.140)
Leverage	-0.078***	0.022	-0.044**	0.012
	(-4.350)	(1.329)	(-2.563)	(0.816)
Roa	0.377***	0.343***	0.312***	0.086***
	(28.261)	(25.996)	(24.442)	(9.697)
Cash	-0.064***	-0.047***	-0.028*	-0.015
	(-4.197)	(-3.069)	(-1.885)	(-1.039)
Retain Earnings	0.005***	0.005***	0.004***	0.001
	(8.373)	(8.575)	(6.792)	(1.391)
Total Equity	0.019	0.028**	0.021*	0.055***
	(1.480)	(2.237)	(1.683)	(4.776)
Capita	0.026***	0.026***	0.005***	0.006***
	(17.825)	(17.645)	(3.427)	(4.148)
Constant	-0.268***	-0.262***	-0.183***	-0.133***
	(-13.374)	(-13.101)	(-8.468)	(-5.600)
Industry Fixed Effects	No	Yes	Yes	No
Country Fixed Effects	No	No	Yes	No
Firm Fixed Effects	No	No	No	Yes
Year Fixed Effects	No	Yes	Yes	Yes
Observations	113,651	113,651	113,651	113,651
Adjusted R^2	0.038	0.054	0.090	0.267

This table presents the regression results of the impact of reputational risk on dividend policy. The dependent variable, *DIV/E*, is defined as the ratio of cash dividends to net income excluding extraordinary items. *Current RRI* is the reputational risk index. A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 4. Robustness Tests: Alternative Definitions of Variables

Dep. Var.:	DIV/E		DIV DUMMY	DIV/SALE	DIV/CF	DIV TOTAL	LOG (1+$DIV)	DIV INCREASE
	Alternative measures of reputational risk		Alternative payout measures					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log (1+Current RRI)			0.057***	0.004***	0.001**	0.055***	0.210***	0.005*
			(8.640)	(6.930)	(2.066)	(6.892)	(6.230)	(1.897)
Log (1+Peak RRI)	0.046***							
	(9.968)							
RRI ranking		0.029***						
		(8.573)						
Size	0.027***	0.025***	0.067***	0.003***	0.015***	0.032***	0.705***	-0.017***
	(20.600)	(19.125)	(38.642)	(19.585)	(4.682)	(17.421)	(58.063)	(-17.118)
Mtb	0.018***	0.018***	0.015***	0.004***	0.051***	0.071***	0.221***	0.005**
	(5.242)	(5.234)	(3.063)	(8.267)	(7.455)	(11.447)	(8.729)	(2.505)
Sales Growth	-0.033***	-0.033***	-0.033***	-0.003***	-0.020***	-0.054***	-0.136***	0.055***
	(-15.028)	(-15.359)	(-12.304)	(-13.381)	(-3.885)	(-18.291)	(-9.499)	(25.076)
Leverage	-0.045***	-0.042**	-0.131***	0.006***	-0.175***	-0.043*	-1.036***	-0.020
	(-2.596)	(-2.410)	(-6.316)	(2.924)	(-4.255)	(-1.652)	(-9.182)	(-1.600)
Roa	0.312***	0.314***	0.561***	0.044***	0.515***	0.440***	2.301***	0.024***
	(24.454)	(24.613)	(27.370)	(21.600)	(20.291)	(23.998)	(19.697)	(2.665)
Cash	-0.029*	-0.030**	-0.088***	0.012** *	0.199***	-0.056***	0.247**	0.062***
	(-1.945)	(-2.011)	(-4.511)	(4.976)	(6.046)	(-2.726)	(2.345)	(5.554)
Retain Earnings	0.004***	0.004***	0.011***	0.000***	0.006***	0.006***	0.015***	-0.006***
	(6.769)	(6.923)	(13.401)	(4.894)	(4.768)	(4.393)	(3.425)	(-13.821)
Total Equity	0.020*	0.021*	0.146***	0.013***	-0.020	-0.090***	0.661***	-0.102***
	(1.662)	(1.725)	(8.910)	(7.860)	(-0.764)	(-4.351)	(7.378)	(-11.525)
Capita	0.005***	0.005***	0.011***	0.001***	0.006	0.006***	0.045***	-0.004***
	(3.484)	(3.392)	(5.542)	(4.194)	(1.195)	(3.417)	(4.707)	(-2.690)
Constant	-0.193***	-0.095***	-0.344***	-0.035***	-0.090	-0.196***	-4.710***	0.928***
	(-8.753)	(-4.960)	(-11.604)	(-14.212)	(-1.385)	(-6.406)	(-29.746)	(44.137)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	113,651	113,651	113,651	113,651	113,651	113,651	113,651	113,651
Adjusted R^2	0.090	0.090	0.299	0.176	0.125	0.085	0.513	0.076

This table presents the regression results of the impact of reputational risk on dividend policy using alternative measures of key variables. A comprehensive explanation of each variable can be found in the Appendix The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 5. Other Robustness Tests

	Dep. Var.: *DIV/E*									
	Excluding the U.S.	Excluding countries with <200 observations	Country clustering	Country and year clustering	Excluding Mandatory Dividend Countries	Additional firm controls	Controlling for the stability of dividend decisions	Additionals country controls	Controlling for EPU	Controlling for shareholder and creditor protection
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Log (1+Current RRI)	0.045***	0.053***	0.055***	0.036***	0.044***	0.056***	0.038***	0.046***	0.052***	0.052***
	(8.199)	(9.937)	(10.390)	(7.719)	(8.087)	(10.496)	(7.230)	(8.745)	(3.565)	(2.937)
R&D						-0.002***				
						(-4.785)				
CF volatility						-7.448***				
						(-36.937)				
CAPX						-0.104***				
						(-3.587)				
FCF						-0.260***				
						(-13.962)				
Corporate Tax						-0.001*				
						(-1.806)				
Dividend Tax						-0.141***				
						(-3.002)				
DIV/E_{t-1}							0.428***			
							(39.240)			
$\Delta DIV/E_{t-1}$							0.167***			
							(23.879)			
Institutional Quality								-0.029***		
								(-9.006)		
GDP Growth								-0.154**		
								(-2.394)		
Inflation								-0.171***		
								(-4.234)		
EPU									0.000***	
									(2.675)	
Shareholder Protection										0.053***
										(3.770)
Creditor Protection										0.090***
										(3.256)
Baseline controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	86,566	110,970	113,651	113,651	110,382	86,348	83,750	104,352	89,595	113,651
Adjusted R^2	0.096	0.089	0.090	0.090	0.089	0.104	0.209	0.092	0.089	0.091

This table presents robustness checks for the regression results of the impact of reputational risk on dividend policy. We exclude the US firms in column (1), exclude countries with less than 200 observations in column (2), and exclude countries with mandatory dividend laws in column (3). In columns (4)–(7), we include additional firm-level and country-level controls. In columns (8) and (9), we cluster standard errors at the country, and the country and year respectively. A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 6. Two-Stage Least-Squares Estimation

Dep. Var.:	*Log (1+RRI_Current)*	*DIV/E*
	First stage	Second stage
	(1)	(2)
Local log (1+ Current RRI)	0.659***	
	(51.868)	
Peer log (1+ Current RRI)	0.712***	
	(34.009)	
Predicted Log (1+Current RRI)		0.121**
		(2.325)
Size	0.021***	0.025***
	(31.951)	(15.308)
Mtb	0.020***	0.017***
	(10.155)	(4.655)
Sales Growth	-0.038***	-0.030***
	(-17.845)	(-10.320)
Leverage	0.044***	-0.048***
	(4.408)	(-2.773)
Roa	-0.183***	0.324***
	(-19.634)	(21.040)
Cash	-0.018*	-0.027*
	(-1.886)	(-1.820)
Retain Earnings	-0.001**	0.004***
	(-2.389)	(6.898)
Total Equity	0.012	0.020
	(1.633)	(1.599)
Capita	-0.003	0.005***
	(-1.276)	(3.562)
Constant	-0.280***	-0.332***
	(-5.329)	(-2.934)
Industry Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Observations	113,651	113,651
Adjusted R^2	0.047	0.089

This table presents the regression results of the impact of reputational risk on dividend policy using a two-stage least-squares estimation with an instrumental variable approach. In column (1), we show the first-stage regression, in which we regress reputational risk on the median reputational risk (excluding firms in question) in a country where the firms are headquartered. (*Local log (1+ Current RRI*)) and the industry average of reputational risk (*Peer Current RRI*), and all control variables. In column (2), we provide the second-stage regression, in which instrumented reputational risk from the first stage is employed as our main independent variable. A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 7. Matching approach

Panel A. Logit model

	Dep. Var.: Positive Current RRI Indicator
Industry-Country Log (1+ Current RRI)	1.580***
	(50.071)
Size	0.124***
	(72.223)
Mtb	0.141***
	(22.202)
Sales Growth	-0.167***
	(-16.145)
Leverage	0.529***
	(15.785)
Roa	0.317***
	(8.579)
Cash	-0.260***
	(-7.432)
Retain Earnings	0.007***
	(3.563)
Total Equity	-0.496***
	(-19.163)
Capita	0.120***
	(38.911)
Constant	0.525***
	(0.156)
Industry fixed effects	Yes
Country fixed effects	Yes
Year fixed effects	Yes
Observations	113,618
Adjusted R2	0.145

Panel B. Diagnostics statistics – differences in means of variables

	Treated group	Control group	Difference	p-value
Size	9.682	9.717	-0.035	0.104
Mtb	1.263	1.269	-0.006	0.443
Sales Growth	1.084	1.090	-0.006	0.019
Leverage	0.188	0.188	0.000	0.950
Roa	0.026	0.025	0.001	0.125
Cash	0.128	0.131	-0.003	0.585
Retain Earnings	0.322	0.321	0.001	0.956
Total Equity	0.410	0.410	0.000	0.819
Capita	10.056	9.986	0.070	0.425

Panel C. Average treatment effects

	Treated group	Control group	Difference	p-value
DIV/E	0.264	0.201	0.063****	0.000

Panel D. Results regression on matched sample

	Dep. Var.: DIV/E	
	(1)	(2)
Log (1+Current RRI)	0.034***	0.067***
	(3.439)	(5.718)
Industry Fixed Effects	Yes	No
Country Fixed Effects	Yes	No
Firm Fixed Effects	No	Yes
Year Fixed Effects	Yes	Yes
Observations	66,880	66,880
Adjusted R^2	0.091	0.416

This table presents the regression results of the impact of reputational risk on dividend policy using a matching approach. In Panel A, we estimate a prediction logit model that regresses the likelihood of being treated firms (firms with a positive score of negative media attention) on the control variables used in our primary analysis. We then match treatment firms to benchmark firms with replacement by year using calliper widths of 0.05. Panel B compares firm characteristics between treated firms and control firms in the matched sample. Panel C presents the average treatment effects. Panel D shows the estimation results using the matched sample. A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 8. Possible mechanisms

Panel A. The effect of agency costs

	Dep. Var.: DIV/E		
	High free cash flows	Low institutional ownership	High sales expenses ratio
	(1)	(2)	(3)
Log (1+Current RRI)	0.039***	0.028***	0.042***
	(6.340)	(3.894)	(6.837)
Log (1+Current RRI)× Heading variable	0.024***	0.050***	0.020**
	(2.749)	(5.042)	(2.262)
Heading variable	-0.014	-0.116***	-0.033*
	(-0.719)	(-5.070)	(-1.648)
Baseline controls	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Observations	113,651	89,227	113,617
Adjusted R^2	0.092	0.084	0.090

Panel B. The effect of prior CSR performance

	Dep. Var.: DIV/E			
	High environmenal performance	High social performance	High governance performance	High CSR score
	(1)	(2)	(3)	(4)
Log (1+Current RRI)	0.021	0.019	0.004	0.039***
	(1.252)	(1.146)	(0.272)	(3.155)
Log (1+Current RRI)× Heading variable	0.045**	0.054***	0.072***	0.035**
	(2.309)	(2.830)	(3.785)	(2.041)
Heading variable	-0.111**	-0.116***	-0.166***	-0.066*
	(-2.409)	(-2.599)	(-3.724)	(-1.692)
Baseline controls	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	33,033	33,033	33,033	33,033
Adjusted R^2	0.103	0.103	0.103	0.103

Panel C. The effect of corporate governance

	Dep. Var.: DIV/E		
	High Board Independence	Female Directors	Audit Commitee
	(1)	(2)	(3)
Log (1+Current RRI)	0.003	0.043***	0.004*
	(0.257)	(4.567)	(1.785)
Log (1+Current RRI)× Heading variable	0.075***	0.030*	0.060**
	(5.041)	(1.917)	(2.503)
Heading variable	0.159***	0.038	0.036
	(4.588)	(1.060)	(0.691)
Baseline controls	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes

Year fixed effects	Yes	Yes	Yes
Observations	50,750	50,750	50,750
Adjusted R^2	0.101	0.102	0.101

This table presents the regression results of the impact of reputational risk on dividend policy conditional on free cash flow problems and agency costs (Panel A), prior CSR performance (Panel B), and corporate governance (Panel C). A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 9. Cross-sectional analysis

	Dep. Var.: DIV/E					
	High Rule of Law	High Shareholder Protection	High Creditor Protection	High Public enforcement	Mandatory Dividend Countries	Financial Crisis
	(1)	(2)	(3)	(4)	(5)	(6)
Log (1+Current RRI)	0.063***	0.003	0.062***	0.041***	0.055***	0.054***
	(9.919)	(0.431)	(9.795)	(5.904)	(12.581)	(10.798)
Log (1+Current RRI)× Heading variable	-0.016*	-0.006***	-0.016**	-0.112***	0.139***	-0.045**
	(-1.790)	(-3.567)	(-2.250)	(-11.330)	(5.460)	(-2.424)
Heading variable	0.011	0.056**	0.011	0.128**	0.028***	-0.021
	(0.518)	(2.060)	(0.727)	(2.192)	(2.876)	(-0.391)
Baseline controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	113,651	80,705	113,651	101,548	113,651	113,651
Adjusted R^2	0.091	0.096	0.125	0.097	0.162	0.091

This table presents the regression results of the impact of reputational risk on dividend policy conditional on the rule of law, shareholder protection, creditor protection, public enforcement, mandatory dividend policy, and financial crisis. A comprehensive explanation of each variable can be found in the Appendix. The coefficient estimates and t-statistics are reported based on robust standard errors clustered by firms. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.