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The Effect of Corporate Social Responsibility on firm pay-out policy: Role of Shariah compliance in Pakistan

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ABSTRACT

Purpose: This study investigate the impact of CSR performance on firm dividend pay-outs. This study also investigates the direct and interacting role of firm Shariah compliance status on dividend pay-out. The majority of the research on the subject of how corporate social responsibility affects a firm's performance reports inconsistent and even contradictory findings. Moreover, many researchers exhibit that literature on Islamic finance is rare. Therefore, the current study contributes to the existing body of literature by presenting empirical shreds of evidence in emerging country as Pakistan

Design and Methodology: Data for the current study has been collected from the official websites of the Pakistan Stock Exchange, companies' specific websites, and open doors for the period of 2011 to 2021. The study used OLS, Fixed and Random affect model to investigate the link between the study variables.

Findings: The findings reveal that CSR and SC both have a positive impact on dividend policies, with the interaction between them further enhancing this effect.

Implications: The underlying study is useful for finance managers, policymakers, business analysts, and different academic researchers who find the impact of CSR and SC concerning the dividend pay-out of companies. Furthermore, it provides some remarkable suggestions for business stakeholders.

Keywords: Corporate Social Responsibility (CSR), Shariah Compliance (SC), Dividend Pay-out Policy, Agency Cost Theory, Signalling Theory.

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1. Introduction

The business and academic sectors have placed an increasing emphasis on corporate social responsibility (CSR) in the last decade. CSR has evolved into a strategic option for businesses looking to boost their value overall, acquire a competitive advantage, and strengthen their reputation (Robinson et al., 2011). The association among activities related to corporate social responsibility (CSR) and business performance has been a major focus of research in this field. Although previous research Margolis et al. (2009); Orlitzky et al. (2003); Singhal et al. (2024), produced inconsistent findings, more recent studies (Naseem et al., 2020; Wang et al., 2016; Xie et al., 2019) demonstrate that corporate social responsibility (CSR) and business performance are correlated, particularly in developed economies.

However, despite this progress, inconsistencies persist, leading scholars to shift their focus from broad firm performance metrics to specific components that may not be equally affected by CSR. One such aspect is a firm's dividend policy, where dividend represents the portion of profits distributed among shareholders (Sheikh et al., 2022). Since Miller and Modigliani's dividend irrelevance theory (1961), extensive theoretical and empirical work has been undertaken to decipher the "dividend puzzle," with inconclusive results even in the context of the United States (Benlemlih, 2019; Shao et al., 2010). The FCF hypothesis, as proposed by Jensen in 1986, is a theory that addresses the agency problems the outcome of conflicting interests between managers and shareholders. It asserts that managers who have ample FCF tend to overspend in excess of what is ideal. In some cases, managers might divert resources to CSR initiatives for personal gains related to social responsibility (Choi et al., 2019). Dividend payments restrict the resources under managerial control and curb overinvestment tendencies. According to the dividend policy's disciplinary mechanism, anticipate a positive association between CSR and dividend pay-outs, as it discourages excessive social expenditure (Benlemlih, 2019). Moreover, the signalling theory of dividends, as articulated by Bhattacharya in 1979, suggests that a company's declaration of increased dividends signals its prosperous future. When combined with CSR through the stakeholder theory perspective, this anticipate a positive correlation between corporate social responsibility activities and dividend, companies seek to satisfy their implicit and explicit commitments to stakeholders (Benlemlih, 2019). Notably, recent studies in developed countries suggest that high CSR firms tend to yield greater pay-outs than the correspond (Benlemlih, 2019; Buertey et al., 2024; Cheung et al., 2018; Dahiya et al., 2023; Farooq et al., 2024).

The research findings unravel a complex relationship between dividend pay-out, corporate social responsibility (CSR), and the moderating influence of Shariah compliance. Studies elaborate the positive association between CSR and dividend policy, as suggested by Benlemlih and Bitar (2018); Cheung et al. (2018); Dewasiri and Abeysekera (2020); Kim and Jeon (2015); Rakotomavo (2012); Samet and Jarboui (2017), contends that CSR does not compromise shareholder cash flow. On the contrary, Lin et al. (2019); Ni and Zhang. (2019) introduce a negative link, proposing that CSR may reduce cash flow for shareholders. In addition, the introduction of Shariah compliance as a moderating factor, explored in studies by (Anwer et al., 2021; Imamah et al., 2019; Nor et al., 2020), adds nuance to the discourse. The novel integration of dimensions, Azam, Akhtar, et al.

(2019) examining the moderating role of Shariah compliance in relation to firm profitability and CSR activities, reveals that firm profitability significantly influences dividends for both Shariah and non-Shariah-compliant firms. Interestingly, the amplified connection between firm profitability and CSR in non-Shariah-compliant firms challenges the presumed role of Shariah status in ensuring ethical managerial behaviour. In essence, our study provides a distinctive perspective on the interplay between CSR, dividend pay-out, and the moderating influence of Shariah compliance.

For this purpose, the study addressed three main questions: Does CSR performance impact the firm dividend pay-outs? Do dividend payments depend on adherence to shariah? Moreover, how does interaction of Shariah compliance relate to CSR performance and dividend distributions? Therefore, in Pakistan's unique economic context, legislators, investors, financial specialists, and asset managers may find the findings valuable in striking a balance between shareholder profits and socially aware company activities. However, two significant gaps in the body of current research are investigation. Its first goal is to find out the vague connection between dividend policy and corporate social responsibility. Its second goal is to look into how the link between CSR and dividend policy is moderated by Shariah compliance, which is a big part of business in Islamic nations. By concentrating on non-financial companies listed on Pakistan's stock market, this study will provide significant knowledge to the body of literature. This paper's following sections are arranged as follows: In Section 2, hypothesis is developed, current literature is reviewed, and the theoretical underpinnings are outlined. The data, methods, and model definition utilized in this study are all described in Section 3. The empirical results are presented in Section 4, and policy recommendations and conclusions are provided in Section 5.

2. Literature Review

2.1 CSR and Dividend Policy

Existing literature on CSR and dividend policies yields several significant insights. Notably, lower CSR scores are linked to increased dividend payments, shedding light on a trade-off between CSR commitments and shareholder wealth, with lower CSR firms making swift adjustments (Glegg et al., 2018). Implementing CSR standards may not significantly impact dividend policy, but the cost of CSR plays a pivotal role in shaping dividend decisions, with higher dividends positively influencing share and firm value (Asmaranti & India, 2018). Furthermore, higher socially responsible firms make higher dividends, while lower sustainable firms exhibit quicker dividend adjustments (Benlemlih, 2019). Mandatory CSR disclosure reduces dividend pay-outs, with this relationship being more prominent in firms with weaker corporate governance (Ni & Zhang, 2019). Notably, Firms in their maturity stage allocate more resources to CSR expenses, asserts positive association between CSR expenses and dividend (Trihermanto & Nainggolan, 2020).

In emerging markets, CSR have a negative impact on dividend pay-out, especially in firms with higher institutional ownership (Saeed & Zamir, 2021). In Jordan, greater CSR involvement is associated with reduced dividend pay-outs, and firm size moderates the CSR-dividend relationship (Siam et al., 2021). In Indonesia, CSR, profitability, dividends, and investment opportunity costs significantly impact the value of manufacturing firms (Suwasono, 2021). Taken as a whole, our findings provide valuable insight into the complex interplay between dividend policy and corporate social responsibility (CSR), highlighting the variety of contextual factors that influence the connection and its complexity.

From a signalling stance and a dividend view, companies use dividends to communicate details concerning their future and the level of their profits, as demonstrated by business (Bhattacharya., 1979; Cheung et al., 2018; Dasilas & Leventis., 2011; Miller & Rock., 1985). Additionally, from a corporate social responsibility (CSR) view, enterprises use CSR to communicate with shareholders and investors, limiting information asymmetry by exposing their ethical and ecological activities, as demonstrated by (Harjoto et al., 2019; Su et al., 2016). Thus, companies should act morally, generate long-term prosperity, and balance the interests of stakeholders and shareholders, according to (Hou et al., 2016). Consequently, both CSR initiatives and dividend pay-outs serve as signals regarding the reputation of the firm (Benlemlih, 2019). On the other side, as dividend view of agency theory defined that dividend payment is a process that used to reduce the cost related with type 1 and type 2 problem (La Porta et al., 2000). Firm pay-out restricts the manager against the inefficient use of resources and discourage them to make an overinvestment in CSR. CSR may become a moral hazard to a firm if manager of firm utilized the CSR to gain private benefits for their own (Bénabou & Tirole, 2010). Brown et al., (2006) explain that, the reason behind the overinvestment is manager gain private benefits being a part of socially responsible firm. And these types of personal gain motivate managers to make an overinvestment in corporate responsibility (environmental and social affairs). In light of these two perspectives, we establish our initial set of hypothesis in the following manners.

H1: *CSR policy significantly affect dividend pay-out of firms.*

H1a*: Individual characteristics of CSR (environmental CSR, community CSR, customer CSR, employees CSR) significantly affect dividend policy of firms.*

2.2 Shariah Compliance

Many research efforts examined various facets of Shariah adherence and their consequences. While Darus et al.'s (2018) investigation of CSR disclosure procedures in Islamic banks in Malaysia emphasizes the ethical and transparent features of these institutions. on the other side, Guizani's (2017) study on dividend policies in Shariah enterprises stresses the financial methods that assist reduce agency difficulties. Andreas and Wohon (2019) by examining Indonesian Shariah banks' CSR policies highlighting how vital it is for businesses to communicate CSR-related information. This position is supported by research by Imamah et al. (2019) which shows how Islamic laws benefit dividend distribution in a similar circumstance. With the help of dividend policies, Rahayati et al. (2020) state that how financial incentives enhance corporate social responsibility (CSR) in corporations that adhere to Shariah legislation in a country. Arsad et al. (2020) found that government ownership of Malaysian Islamic CSR had a positive effect on transparency of firm dividend policy. Banerjee et al. (2022) emphasize Shariah compliance's positive impact on corporate disclosure in Russia, aiding domestic firms.

Modern stakeholder theory explain that firm used CSR to pay compensation to all stakeholders either directly or indirectly include the investment in employees housing scheme, help in employee's family education and also help in volunteer programs (Rakotomavo, 2012). Freeman (1984) provides the concept of morality and ethic in business. He elaborates the idea that "doing good" in society. As per Al-Malkawi and Javaid (2018), define that about 1400 year ago Islamic shariah discussed the concept of charity and social welfare. Some of the Islamic institution are engage in community welfare, charitable donation and provide training for uneducated employees. Hence, as per Abubakar (2016) non shariah compliance firm are less beneficial for society the shariah compliance. Shariah compliance firm are more engage in dividend distribution to shareholders than others (Farooq & Tbeur, 2013). Islam force that wealth are redistributed among people at equal proportion that are generated in the economy (Usmani, 2010). As a result, outcomes of stakeholder theory are related with shariah principal.

Subsequently, in the intellectual landscape of Islamic scholarship, luminaries such as Al-Ghazali and Ibn Qayyim al-Jawziyyah have articulated the profound objectives of Shariah, emphasizing its role in safeguarding human well-being. Al-Ghazali (1356/1937), notably, contends that the essence of Shariah lies in nurturing the welfare of individuals by protecting their faith, life, intellect, posterity, and wealth. This sentiment is echoed by scholars like (Dusuki, 2009; Mohamed & Dzuljastri, 2008), who highlight the multifaceted goals of Shariah, encompassing justice, the elimination of unfairness, and the promotion of benefits to humanity. Together, their discourse weaves a narrative that transcends doctrinal boundaries a story of justice, fairness, and compassion, creating a blueprint for a world where the principles of Shariah contribute to the enduring well-being of humanity. So, in view of this gap, this study hypothesized the following hypothesis;

H2: *Shariah compliance significantly affect dividend pay-out of firms.*

H3: *Shariah compliance significantly interact with CSR policy and pay-outs of firms.*

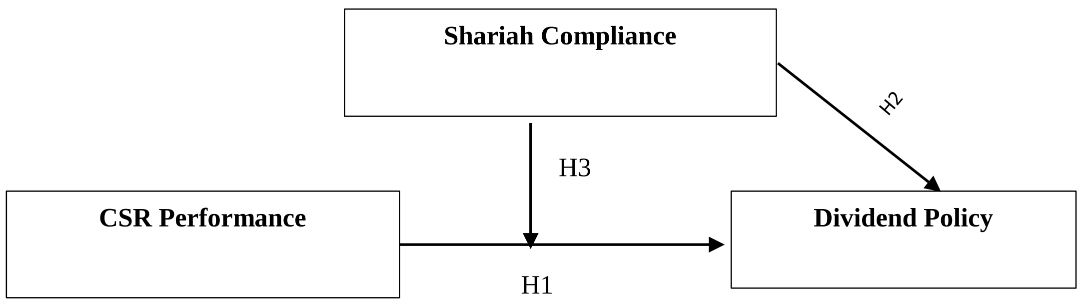

Figure 2.1. Research Model

3. Methodology

3.1 Population and Sampling

To test our hypothesis, we focused on non-financial firms that were listed on the PSX. Data were gathered from companies' annual reports, which were accessed from various sources, including Open Door, company-specific websites, and other web sources. The population of concern for the study all the firms listed on the PSX. After specific criteria were applied, including the requirement that companies had continuous operations throughout the entire study period, remained enrolled on the stock exchange, avoided mergers and acquisitions, disclosed their CSR measures in annual reports, and maintained consistent dividend payments over the eleven-year period (2011–2021), we selected a sample of 116 companies, resulting in a dataset of 1,276 observations.

3.2 Variables Measures

3.2.1 CSR performance. Study gauge the CSRP with the help of content analysis (Abbott & Monsen, 1979; Said et al., 2009; Sheikh et al., 2022). The creation of a CSRPI involves a set of items that reflect different aspects of CSR within an organization. In this case, the CSRPI is based on 30 items from four main themes: environmental CSR, community CSR, customer and product CSR and employees CSR. The formula for the CSRP Index is given as:

$$CSRP\ Index = \frac{\sum di}{nj}$$

i. Identification of Themes and Items

The first step involves identifying the key themes that encompass the various aspects of CSR. The themes are environmental CSR, community CSR, customer and product CSR and employees CSR. Within each theme, specific items (di) are identified. For example, within the "employees CSR" theme, specific items could include initiatives related to employee health and wellness programs.

ii. Assigning Binary Values

Each item (di) is assigned a binary value: 1 if the information about the item is disclosed, and 0 if the data is not available. This binary approach simplifies the measurement, illustrating whether each item has disclosure or not.

iii. Calculating the Sum of Binary Values

The numerator of the CSRPI formula involves summing up all the binary values ($\sum$di) for a particular firm. This sum represents the total number of disclosed items across all themes.

iv. Calculating the Index

The numerator is divided by the total number of items (nj) 30 to calculate the CSR performance index for a particular firm. This normalizes the disclosure by accounting for the total number of items considered in the index.

v. Repeat for Each Firm:

Each firm in the study receives a CSRPI based on disclosed information related to 30 specified items. Additionally, four individual indices are formed: environmental CSR (14 items), community CSR (4 items), customer/product CSR (5 items), and employees CSR (7 items). These indices gauge CSR disclosure levels. Current study developed the themes and sub- themes as per the guidance of SECP in 2009 and 2013 and as per the view of Pakistan corporates environments.

3.2.2 Dividend pay-out policy: scale with the ratio of cash dividend on common stock to net sale (Benlemlih, 2019; Chay & Such, 2009; La Porta et al., 2000). To measure DPR study, use net sale rather than market capitalization and earning method for multiple reasons. First, Earnings manipulation through accounting techniques and resources might be diverted before earning are detailed, in this situation dividend to earnings ratio overstate the portion of true earning that is distributed among shareholders (La Porta et al., 2000). Thirdly, negative earnings render ratios insignificant. Eliminating firms with negative earnings decreases the size of the sample by 11% to 12%. Fourthly, negative earnings can skew pay-out ratio outcomes. Lastly, low share prices may inflate the cash dividend to market capitalization ratio. Thus, the study employs net sales instead of earnings and market capitalization for pay-out ratio calculations. After under considering these problem study uses the pay-out ratio as net sale rather than earning and market capitalization methods.

3.2.3 Shariah Compliance: Play a moderating role between the firm CSR and dividend pay-out. Shariah compliance conformity criteria are developed in Pakistan under the direction of Mufti M. Taqi Usmani (Usmani, 2002). Shariah compliance index are govern under the shariah advisory board of Meezan bank in Pakistan. Siddiqi (2006), Shariah compliance test consist of two criteria one is financial screening test and other is business screening test (Raza et al., 2022). Also, list of firms that hold shariah status available on PSX website.

3.2.3.1 Financial Screening Criteria

i. Debt as compare to conventional banks should not be exceed 37 percent of firm total assets.
ii. Illiquid asset (IA/TA ≥ 25%) illiquid assets to total assets ratio should be 25 percent or greater than the firm total assets.
iii. Non shariah compliance investment (NCInv/ TA < 33%) should be less than 33 percent of firm total assets.
iv. Noncompliance income to total assets ratio is less than 5 percent of firm total assets.
v. Net liquid ratio is less than price

3.2.3.2 Business Screening Criteria

i. As per shariah principle, the major business line must be Halal. Meanwhile, others activities like alcoholic things, traditional banking and insurance, pork, cigarettes and pornography are restricted.

After that study use dummy variable, when firm meet above mention screening criteria then consider “1” otherwise “0” (Azam, Khalid, et al., 2019)

3.2.4 Control variables. following the existing literature (Abor & Fiador, 2013; Ben Salah & Jarboui, 2022; Benlemlih, 2019; Ramzan et Al, 2021; Saeed & Zamir, 2021; Ullah et al, 2021; Widiatmoko et al, 2021) the model incorporates standard control variables. Leverage is firm total debt divided firm total assets, cash holding is the cash and cash equilent scaled by total assets, Profitability is EBIT divided by total assets, CFO is cash flows from operation/total assets, risk of firms is price of share divided by earning per shares, tangibility is noncurrent assets divided firm total assets, firm life-cycle proxy is the ratio of retained earnings to book value of total equity.

4. Findings and Discussion

4.1 Summary Statistics

Table 1, display the summary of all underpinning variables including the individual components of CSRI for the period of 2011 to 2021. So, the mean value of DPR is 0.04 with the SD on 0.069.

The average value of CSR index is 13.788 with standard deviation on 6.834. So, corresponding to smaller standard deviation than the mean signifies that there are smaller chances that an entity doesn’t take apart in CSR initiatives (Sheikh et al., 2022). Hence, individual components of CSR Index including ECSR (mean value is 4.807, SD is 3.509), CCSR (mean value 2.072, SD is 0.944). Also, CCSR includes (mean value is 1.561, SD is 1.295). ECSR includes (mean value is 3.85, SD is 1.377) respectively. So, SC has the mean value is 0.371 with SD on 0.483 respectively. Leverage (mean value is 0.49 with SD 0.195. Profitability is average at 0.106 with SD of 0.114 respectively. While average CFO is about 0.083 with the SD of 0.135. Risk stands at 0.06 with the standard deviation of 0.069, while cash holding is average at 0.012 with SD at 0.15 respectively. LCP and tangibility include the average values of 0.631, 0.465 with the SD of 1.19 and 0.21 respectively.

Table 1:

Variable	Obs	Mean	Std. Dev.	Min	Max
DP	1276	.04	.069	0	.849
CSRP	1276	13.788	6.834	1	30.033
ECSR	1276	4.807	3.509	0	13.071
CCSR	1276	2.072	.944	0	3.25
CCSR	1276	1.561	1.295	0	4.2
ECSR	1276	3.85	1.377	0	6.143
SC	1276	.371	.483	0	1
Prof	1276	.106	.114	-.278	.78
LCP	1276	.631	1.193	-1.471	30.026
Lev	1276	.49	.195	.033	.995
CFO	1276	.083	.135	-.718	.698
Risk	1276	0.06	0.069	-19.941	20
CH	1276	.012	.15	-.628	.717
Tang	1276	.465	.21	0	3.407

4.2 Correlation Analysis

Table 2 indicate that CSR and dividend payments are positively associated because correlation of both is 0.212, implying that higher the CSRP linked to higher pay-outs of dividend. However, SC firms have 0.006 correlation with dividend policy. While the leverage has negative correlation with dividend policy is -3.6%. The correlation matrix indicates that there are no correlation coefficients exceeding 0.05 among the all variables. Thus, there is no issue of collinearity in the estimated model. In the next phase of study data analysis, the applicable diagnostic test is used to validate regression assumptions i-e variance inflation factor (VIF) for multicollinearity and wald test for groupwise Heteroskedasticity.

Table 2 correlation matrix

Variables	CSR per	SC	Div	Prof	LCP	Lev	CFO	Risk	CH	Tang
CSRP	1.000									
SC	0.068*	1.000								
DP	0.212*	0.006	1.000							
Prof	0.128*	-0.097*	0.432*	1.000						
LC	0.100*	0.076*	0.105*	0.250*	1.000					
Lev	-0.036	0.124*	-0.226*	-0.287*	0.075*	1.000				
CFO	0.091*	-0.057*	0.247*	0.517*	0.127*	-0.141*	1.000			
Risk	0.090*	-0.060*	0.151*	0.275*	0.093*	-0.141*	0.131*	1.000		
CH	0.017	-0.053	0.141*	0.315*	0.063*	-0.235*	0.298*	0.094*	1.000	
Tang	-0.023	0.065*	0.023	-0.227*	-0.066*	-0.081*	0.012	-0.112*	-0.108*	1.000

4.3 Post Estimation test

4.3.1 Unit Root Analysis

Test is used for the stationary and non-stationary of variables. The results of URT represent prob-value of all the variables is less than 5% concludes that series is stationary.

Table 3:

Variables	Unadjusted t	Adjusted t	p-value
Div	-34.4625	23.3203	0.0000
CSR per	-24.3004	-14.0516	0.0000
Leverage	-37.5694	-28.7145	0.0000
Profitability	-28.9739	-17.9260	0.0000
CFO	-43.4629	-30.7347	0.0000
Risk	-31.0978	-20.0540	0.0000
Cash holding	-36.3023	-25.8548	0.0000
Firm life cycle proxy	-28.4166	-20.4250	0.0000
Tangibility	-27.4880	-16.9202	0.0000

Note * shows significance at p<0.05

4.3.2 Wald Test

Table 4, suggested the outcomes of group wise heteroscedasticity of model 1 and 3. Results explain that the $p<0.05$ conclude that the residual is heteroscedasticity.

Table 4:

	Model 1 Coef.	Model 3 Coef.
Chi-square test value	2.505	5.147
P-value	.000	.000

Note * shows significance at p<0.05

4.3.3 Hausman (1978) Specification Test

Hausman (1978) test is conducted to select the appropriate regression model for explaining the relationship between key variables. Table 5 indicates that the p-value is below 5%, leading to the rejection of the Ho for the cross-section random effect model. Consequently, for our Models 1 and 3, the fixed effect model is judged to be more appropriate than the random effect model.

Table 5:

	Model 1 Coef.	Model 3 Coef.
Chi-square test value	24.36	26.415
P-value	.002	.002

Note * shows significance at p<0.05

4.3.4 Fixed Effect Redundant test

This test is used in our models 1 and 3 to evaluate the necessity of fixed effects. In order to compare separately pooled panel and fixed effects mode, the likelihood ratio test is used (Nguyen et al., 2015). Table 6 shows the outcomes of test for both of models. As the prob-values of the cross-section chi-square tests are less than 0.05 in both of models, in models 1 and 3, the fixed effects model is favoured over the independently pooled panel, indicating the rejection of the null hypothesis that independently pooled panels are more efficient.

Table 6 Fixed Effect Redundant test

Redundant Fixed Effects Tests		**Model 1**			**Model 3**	
Effects Test	**Statistic**	**d.f.**	**Prob.**	**Statistic**	**d.f.**	**Prob.**
Cross-section F	15.198621	(115,1142)	0.000	14.720751	(115,1151)	0.000
Cross-section Chi-square	1184.6645	115	0.000	1157.1936	115	0.000

Note * shows significance at p<0.05

4.4 Hypotheses Testing

Table 7, summarized the estimated results in relation to the impact of CSR performance on firm's dividend pay-out level. In Model 1 of our study, we conducted post-estimation tests starting with the Wald test, which indicated that the p-value was less than 5%, suggesting heteroskedasticity in residuals and thus a violation of OLS assumptions. Consequently, we turned to the random effect model. Subsequently, the Hausman test revealed a p-value below 5%, leading us to favour the fixed effect model. Following this, we performed a fixed effect redundancy test, which also showed a p-value below 5%, verifying that the fixed effect model is the best fit for Model 1 in our investigation.

Table 7 Model 1 Estimation

	(OLS)	**(Random Effect)**	**(Fixed Effect)**
	DR	**DR**	**DR**
CSRP	.002***	.001***	.001**
	(0)	(0)	(0)
Lev	-.033***	-.016	-.011
	(.011)	(.01)	(.013)
Prof	.24***	.145***	.126***
	(.021)	(.027)	(.026)
CFO	.004	-.013	-.015
	(.013)	(.01)	(.01)
Risk	0	0*	0
	(0)	(0)	(0)
CH	-.001	.027*	.033**
	(.013)	(.015)	(.016)
LCP	0	0	.11
	(.001)	(0)	(.04)
Tang	.037***	.012	.007
	(.009)	(.007)	(.006)
Cons	-.01	.014	.019
	(.007)	(.008)	(.009)
Obs	1276	1276	1276
Within R^2	.235	.070	.072

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

In model 1 coefficient is 0.001 and p- value is 0.01 that shows coefficient is positive and significant because probability value is less than 0.05(α= 0.001, p< 5 percent) demonstrate that a greater CSRP results in a greater number of dividends being paid to shareholders by the company. The argument presented revolves around the association between CSR and a firm's dividend pay-outs. According to the FCF hypothesis, managers with significant cash flows may engage in excessive investment, including CSR, to serve personal interests. However, high pay-outs can restrict such overinvestment, leading to a positive link between CSR and firm pay-out levels (Brown et al., 2006; Choi et al., 2019; Sheikh et al., 2022). Signalling theory suggests that both CSR and dividend policy indicate a company's potential future prospects and ethical behaviour (Bhattacharya, 1979; Harjoto et al., 2019; Su et al., 2016). Stakeholder theory further emphasizes the positive correlation between CSR and dividends, as firms must fulfil obligations to various stakeholders (Benlemlih, 2019). Control variables in the study include negative correlations between leverage and dividend policy (Trihermanto & Nainggolan, 2020), as well as negative correlations between cash flow from operations (CFO) with dividend policy. Cash holding are positively related to dividend policy (Sheikh et al., 2022). Additionally, profitability positively influences dividend pay-outs, although dividend payment rates are positively impacted by the firm's life cycle stage, as mature firms often have more cash for higher pay-outs.

Table. 8 Model 1a Estimation

	Dividend pay-out	Dividend pay-out	Dividend pay-out	Dividend pay-out
Environmental CSR	.003***			
	(0)			
SC	-.008**	-.007*	-.007**	-.007*
	(.004)	(.004)	(.004)	(.004)
Leverage	-.034***	-.039***	-.034***	-.036***
	(.011)	(.011)	(.011)	(.011)
Profitability	.246***	.245***	.249***	.246***
	(.02)	(.02)	(.02)	(.02)
CFO	.006	.007	.008	.01
	(.014)	(.013)	(.014)	(.014)
Risk	0**	0*	0***	0*
	(0)	(0)	(0)	(0)
Cash holding	-.002	-.007	-.004	-.005
	(.013)	(.013)	(.014)	(.013)
Lifecycle proxy	.005	.005	.01**	.004
	(.004)	(.004)	(.005)	(.004)
Tangibility	.036***	.034***	.039***	.037***
	(.01)	(.01)	(.01)	(.01)
Community CSR		.01***		
		(.002)		

Customer CSR			.003**	
			(.001)	
Employees CSR				.007***
				(.001)
Cons	0	-.001	.007	-.01
	(.008)	(.008)	(.008)	(.008)
Observations	1276	1276	1276	1276
R-squared	.24	.233	.218	.233

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Separately, model 1a present the impact of individual components of CSR performance on dividend policy. So, environmental CSR profoundly and favourably affects dividend pay-outs because it has a coefficient of 0.003 and p-value is 0.000 that is less than 5 percent (α=0.003, p-value<0.05) table 8. Also, community CSR has coefficient of 0.01 and p-value is 0 that shows community CSR also significantly positive impact on firm pay-out (α=0.01, p-value<0.01). This may due to control manager donation tactics because high dividend pay-out associate with high charity giving behaviour (Benlemlih, 2019). Customer CSR has a coefficient of 0.003 and prob-value is 0.011 which shows significant positive association of both (α=0.003, p-value<5). Finally, employees CSR has coefficient value of 0.007 and prob-value is 0 that shows significant positive impact on dividend policy (α=0.007, p-value<0.01). Hence, these findings tend to indicate that investing in CSR dimensions can enhance the companies' ability to pay more dividend to its shareholders. Also, these finding implies that all of CSR individual components affect dividend policy and help in rising pay-outs.

Table. 9 Model 2 Estimation

	(OLS) **DR**
CSR index	.002***
	(0)
SC	.009**
	(.004)
Lev	-.035***
	(.009)
Prof	.245***
	(.02)
CFO	.005
	(.015)
Risk	0

	(0)
CH	-.001
	(.012)
LCP	.01
	(.001)
Tang	.035***
	(.009)
Cons	-.013
	(.008)
Obs	1276
Within R^2	0.239

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Subsequently, model 2 presents the results of direct impact of firm shariah compliance status on dividend policy (table 9). Model 2, we are only presenting the results of OLS because when we run tests for random effects or fixed effects, the software omits the main variable, which is Shariah compliance in this case. Firm SC status has positive and significant impact on pay-out in Pakistan. Because as we can see coefficient value of shariah compliance is 0.009 and probability value is 0.011(α=0.009, $p<0.05$) table 9. SC significantly influences the dividend policies of Pakistani firms, attributed to financial characteristics such as firm size, higher profitability, lower debt ratio, reduced leverage, low cash holdings, and higher retained earnings to total equity (Omran & Pointon, 2004; Skinner & Soltes, 2011). The investment hypothesis argues that SC firms, constrained by Islamic laws that limit investment options, often give shareholders higher dividends, particularly when they cannot find suitable investment opportunities due to higher retained earnings (Ben-Nasr & Ghouma, 2022). The control variables reveal a positive association between profitability and dividend, supported by (Imamah et al., 2019). Conversely, leverage exhibits a significantly negative coefficient, aligning with the views of Jensen (1986); Vo and Nguyen (2014), suggesting that debt can be used as a replacement for agency issues.

Table. 10 Model 3 Estimation

	(OLS)	**(Random Effect)**	**(Fixed Effect)**
	DR	**DR**	**DR**
CSRP	.001***	.001***	.001** *
	(0)	(0)	(0)
CSR*SC	-.001**	0	.001**
	(.001)	(.001)	(0)
Lev	-.011***	-.016	-.034***
	(.013)	(.01)	(.011)
Prof	.126***	.146***	.244***

	(.026)	(.027)	(.021)
CFO	-.015	-.012	.006
	(.01)	(.01)	(.013)
Risk	0	0*	0
	(0)	(0)	(0)
CH	-.033	.027*	-.002
	(.016)	(.015)	(.013)
LCP	0	0	-.001
	(0)	(0)	(.001)
Tang	.007***	.012	.037***
	(.006)	(.008)	(.009)
Cons	.019**	-.013	-.01
	(.009)	(.008)	(.007)
Obs	1276	1276	1276
Within R^2	0.210	0.228	0.241

Robust standard errors are in parentheses
*** p<.01, ** p<.05, * p<.1

In addition, model 3 reflect the moderating role of firm shariah compliance status on CSR and dividend payment (table 10). Suggested that firm shariah compliance status positively and significantly moderate the association of dividend payments and CSR performance because the coefficient value of moderator (CSR*SC) is 0.001 and probability value is 0.01 (β=0.001, P<0.05) table 10. Enterprises that perform better in CSR typically give their shareholders larger dividends. This connection is reinforced in firms with higher shariah compliance status, as per modern stakeholder theory (Freeman, 1984; Rakotomavo, 2012). Islamic principles promote charity and social welfare, with shariah-compliant firms actively engaged in both community welfare and dividend distribution (Al-Malkawi & Javaid, 2018; Farooq & Tbeur, 2013). Islamic principles emphasize wealth redistribution, aligning with stakeholder theory and highlighting the link between firm CSR, shariah compliance indices, and dividend policy (Abubakar, 2016; Usmani, 2010).

5. Conclusion

Dividend policy is a debatable issue in corporate finance because it impacts on firm's financial and investment decisions. The primary goal of a firm is to maximize the wealth of shareholders. For several years the relationship between finance and CSR has received much of recognition from business professionals, communities, media, and academics. For this, reason study intends to examine the impact of CSR performance on firm payouts, shariah compliance effect dividend payouts and CSR performance influenced the dividend payouts with the interecting role of shariah compliance in non- financial listed firms in Pakistan. For this purpose, study utilized a dataset spanning from 2011 to 2021, comprising 116 non-financial listed firms on the PSX and employed various statistical techniques to examine the facts. The study's outcomes are as follows; the study found a significant positive impact of CSR performance on firm dividend policy. This implies that

Firms that participate in CSR initiatives typically have more advantageous dividend policies. This finding aligns with previous research, suggesting that firms use CSR to demonstrate ethical wealth creation and dividend policy to signal their future prospects. SC and Dividend Policy: The investigation identified positive link among SC and pay-out of dividends. Shariah-compliant firms were found to have lower leverage, larger firm size, higher profitability, lower debt ratios, and higher retained earnings to total equity. This can be attributed to Islamic principles limiting investment opportunities and encouraging more generous dividend payments due to higher retained earnings. Moderating Effect of (CSR*SC): The study introduced the moderating term (CSR*SC) and found a significantly positive association with dividend pay-outs. This outcome aligns with the stakeholder theory explain that both CSR and Shariah compliance contribute positively to dividend policy, promoting wealth distribution in the economy. The study offers several policy recommendations: The government of Pakistan should increase its investment in corporate social responsibility activities to address social and environmental challenges effectively. Expanding and implementing CSR programs at all levels of the economy can help promote wealth distribution and address societal challenges. It's advisable for companies to consider increasing their spending on CSR activities while avoiding dividend cuts to maintain a positive reputation in the long run.

5.1 Implications of the Study

Beyond academic inquiry, the study's implications extend to various stakeholders. The study's findings not only serve as a valuable guide for finance experts and policymakers, providing insights into the complexities of dividend policies but also enable them to make decisions that align with both the immediate financial interests of shareholders and the overarching goal of maximizing long-term shareholder wealth. Moreover, in addressing agency-related conflicts, this study responds to shareholders' concerns regarding the potential negative impact of Corporate Social Responsibility (CSR) investments on returns. While there is a perceived conflict between shareholders and management, the study indicates a positive relationship between CSR and dividend pay-out. This suggests that engaging in CSR activities does not detrimentally affect shareholder returns, allowing firms to pursue socially responsible initiatives without compromising shareholder interests.

Furthermore, the study contributes not only empower managers to make informed and transparent dividend decisions but also lead to direct cost savings for investors. Reduced information acquisition costs contribute to creating a more efficient and accessible investment environment for shareholders, enhancing overall investor experience. Additionally, the study plays a significant role in assisting investors considering Islamic firms for investment. Addressing common concerns about interest prohibition and uncertainty about dividend distribution, the study instils confidence by highlighting the effective distribution of dividends in Islamic firms. It underscores a positive relationship between Islamic principles and dividend distribution, assuring investors that these firms can satisfy shareholder expectations with favourable dividend policies while adhering to Islamic values.

5.2 Limitations and Recommendations

Our findings could provide valuable recommendations regarding dividend distributions and CSR endeavour's for managers of firms. Gradually increasing the distribution of earnings as dividends and making investments in CSR activities can be costly. Moreover, CSR disclosures reveal the way companies balance their economic, social, and environmental objectives while addressing stakeholder expectations. Thus, an understanding that signalling via CSR disclosures and dividends are complementary may help relieve the financial pressure on smaller Pakistan growth firms trying to satisfy the broader mission of stakeholder relationships. Our study argues that not only does dividend distribution help resolve the principal-principal agency conflict but CSR activities and their disclosure of doing good also signal to stakeholders that help solve the information asymmetry between insiders and outside stake- holders and aid in building the firm's reputation. In addition, the study suggests that the Security and Exchange Commission of Pakistan should give more emphasis to Shariah compliance when formulating Corporate Social Responsibility (CSR) policies and dividend pay-out. This implies that integrating Islamic principles into CSR strategies can contribute to improved social development, human well-being and equal wealth distribution. This aligns with the idea that businesses adhering to Shariah principles may have a positive impact on the broader society and their wealth.

The findings are deemed to be applicable to Islamic countries, regardless of their developmental status (developed or developing). This implies that the recommendations are not limited to a specific economic or social context and can be considered as a broader guideline for countries with Islamic principles in shaping their CSR strategies and dividend policy. The study acknowledges several limitations, including the time required for data collection and measurement, sample size reduction due to missing data and companies that don't pay dividends and the financial industry excluded, small sample size, and the exclusion of more recent data due to non-availability of annual reports. To sum up, this investigation contributes valuable understanding regarding connections of firms' CSR performance, their dividend payments and Shariah compliance within the framework of the emerging Pakistan's market.

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