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The Interplay Between Dividend Policy and CSR: Insights into Board Governance Effectiveness

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ABSTRACT

The balance between dividend distribution and Corporate Social Responsibility (CSR) signifies a critical strategic challenge for firms, particularly in emerging markets. While dividend policy stimulates the allocation of earnings, CSR activities reflect a firm's commitment to social and environmental responsibilities. Board governance mechanisms may play a vital role in mediating this relationship. This study investigates the impact of dividend policy on CSR engagement and examines how board governance effectiveness moderates this relationship in publicly listed firms on the Pakistan Stock Exchange. Employing a dynamic panel data approach with the System Generalized Method of Moments (System GMM) estimation, the research analyses a panel of 100 firms over ten years from 2014 to 2023. Key variables include dividend payout ratio, CSR scores, and board governance indicators, controlling for firm size, leverage, and industry effects. Findings reveal a significant negative association between dividend payout and CSR activities, indicating that higher dividend payments tend to reduce CSR investment. However, effective board governance positively moderates this relationship, enabling firms to balance shareholder returns with social responsibility. Larger firms tend to engage more in CSR, while leverage negatively impacts CSR initiatives. The study underscores the importance of strong board governance in harmonizing dividend policies with CSR objectives, particularly in emerging markets. These insights have implications for corporate managers, investors, and policymakers aiming to foster sustainable and responsible corporate growth.

Keywords: *CSR; Board governance; Dividend policy; GMM; Leverage*

INTRODUCTION

In the modern, fast-developing corporate world, companies are becoming more and more likely to ensure both financial performance and social responsibility. Corporate Social responsibility (CSR) is no longer a charity-based undertaking; it is now a business strategy and part of business operations that builds corporate image, creates trust among stakeholders, and increases corporate sustainability (Wang & Sarkis, 2023). At the same time, dividend policy is one of the classic choices in corporate finance that illustrates how companies can distribute their earnings between repaying profits to shareholders and allocating funds for expansion (Baker, Filbeck, & Ricciardi, 2021). Although both CSR and dividend policy are critical, scholarly research on the dynamic relationship between these two aspects of corporate strategy is limited, particularly in the case of Pakistan, a developing country.

The dividend policy choices also indicate management's priorities and the extent to which the firm's resources can be allocated to pursue CSR actions. High dividend payments may restrict the firm's internal resources, further limiting its ability to pursue socially responsible projects. Conversely, a different payout strategy can reflect a strategic direction that prioritises investments in CSR alongside other development goals (Fatemi, Glaum, & Kaiser, 2020). This trade off leaves many unanswered questions to firms that seek to meet both the expectations of the shareholders to give them immediate returns and meet the demands of society and the environment. On the other hand, active CSR involvement may have an impact on the dividend policy based on the willingness of the management to create sustainable value, which may imply an improved or even rising dividend distribution rate as a sign of financial health and good governance (Jensen & Meckling, 2020; Khan, Serafeim, & Yoon, 2021).

Mechanisms of board governance play a crucial role in this interactivity but are often overlooked. Independent, diverse, skilled, and proactive boards are strong boards, and they can therefore be used to mitigate the conflict that may exist between paying dividends and investing in CSR by ensuring that the decisions made by management are based on the long-term interests of stakeholders (Mallin, 2022). Studies show that successful firms with well-governed systems have a good CSR disclosure quality and follow dividend policies to sustain growth instead of pleasing the shareholders in the short-term (Ali, Shah, & Khan, 2023; Zhang & Liu, 2021). In this way, effective board governance can ensure that dividend policies do not impede but complement CSR activities, resulting in an overall attitude towards corporate value creation.

New markets like Pakistan have their problems and advantages to this extent. The institutional setting typically entails changing regulatory rules, the dominance of owners, and fluctuating levels of investor protection (Khan & Ahmed, 2022). The structures and effectiveness of governance are critical in such contexts when it comes to understanding how firms trade off amounts paid in terms of dividends and how they engage in CSR. With pressure to present short-term financial results facing Pakistani companies and an increasing demand for business responsibility, it is essential to consider how the mechanism of board governance can impact this balance.

Although the proposed research is important, the empirical evidence on the interplay among dividend policy, CSR, and board governance is limited, especially in emerging economies. This disparity is particularly pronounced in Pakistan, as efforts to revise the role of CSR and influence governmental procedures are beginning to emerge, but not within an in-depth academic discourse. Research currently available tends to view these elements in isolation, and when they are not, it tends to concentrate on developed countries, making them less applicable to the Pakistani context.

The present research aims to fill this gap by examining the dynamic interaction between dividend policy and CSR activities, taking into account how the mechanism of board governance moderates or mediates this interaction. This study proposes to use superior econometric methods to address endogeneity and unobservable heterogeneity since such methods are capable of controlling endogeneity and unobservable heterogeneity using a panel unit of Pakistani companies listed on the Pakistan Stock Exchange (PSX) between 2014 and 2023. The findings aim to incorporate subtle details into the corporate decision-making process and guide managers, investors, and policymakers who seek to ensure sustainability in corporate development, aligning with stakeholder interests.

Altogether, this study can contribute to the existing body of knowledge in the following ways. Disentangling the confusing interaction between dividend payments and CSR activity. Much importance is given to effective board governance as a significant determinant of corporate social and financial strategies. Providing empirical evidence on a less-researched topic in an emerging market context. Offering practical ideas for changing the corporate governance and strategic dividend planning to build long-term sustainable development.

LITERATURE REVIEW

Dividend policy is already established as one of the basic corporate finance decisions that determine the way companies pay off part of their profits to shareholders and how they reinvest the remaining part into their development (Baker, Filbeck, & Ricciardi, 2021). The dividend decision is not only an indicator of financial performance, but it also determines the firm's capability to finance other strategic initiatives, such as Corporate Social Responsibility (CSR) activities. Fatemi, Glaum, and Kaiser (2020) indicate that the use of dividends to finance CSR may stagnate internal capital, and thus, justifies the limitations in the ability of firms to implement CSR, especially for firms with financial constraints. On the other hand, conservative dividend-paying firms have been more active in investing in sustainable and socially responsible activities (Mukherjee & Ghosh, 2020).

The agency theory also explains this dynamic in that the dividends are a tool to counter the agency cost by restricting the free cash flow at the disposal of management (Jensen & Meckling, 2020). However, at the same time, this decrease in free cash flow imposes limitations on spending in CSR, resulting in a trade-off between shareholder returns and social investment. The research by Khan, Serafeim, and Yoon (2021) supports the notion that CSR and dividend-setting decisions are complementary components of long-term value creation, as dividend policies tend to be steady in companies with extensive sustainability practices.

The results of empirical studies of the dividend-CSR relationship are contradictory. Others indicate a positive interrelationship, in that companies with the best balance of dividends and CSR activities achieve better downstream results in terms of firm value and stakeholder trust (Li et al., 2022; Ahmad & Sulaiman, 2021). The rest of the studies report on the trade-offs between the payout of dividends and the CSR investment, noting that the connection between the two dimensions varies with the circumstances, with the link causing an indirect relation with financial flexibility (Cheng & Yuan, 2019; Gupta & Sharma, 2022). This can be particularly evident in emerging markets, where the institutional and regulatory frameworks of developed economies do not align at all.

In this nexus, the board of governance assumes a dominant moderating role. Mallin (2022) states that having diverse and expert, independent boards is more effective in monitoring dividend policies and CSR strategies, and aligning them with the long-term interests of stakeholders. Zhang and Liu (2021) and Chen et al. (2020) show that the influence of CSR on firm value is potentiated by board independence and the effect of sustainability expertise on the board, respectively. Moreover, gender and ethnic diversity in boards have been proposed to be associated with balanced and socially conscious corporate policies (Wang et al., 2023).

The relationship between dividend policy, CSR and board governance dynamics in an emergent economy like Pakistan is especially more delicate in the face of the evolving institutional framework and often concentrated ownership (Khan & Ahmed, 2022). The evidence presented by Ali, Shah, and Khan (2023) in the context of Pakistan reveals that the association between CSR and firm performance is positively moderated by effective board governance. This indicates the same behaviour found in other emerging economies, where the quality of governance, being a significant determinant, influences the balance of interests between the shareholders and social responsibility (Gupta & Sharma, 2022; Rahman et al., 2020).

The synergistic impacts of dividend policy and CSR on firm performance are evident in the financial records. Based on the meta-analysis conducted by Friede, Busch, and Bassen (2020), it is reasonable to believe that companies that have successfully integrated environmental, social, and governance (ESG) factors into their approach, along with financial policies, have achieved better profitability and market performance rankings. Boubaker, Nguyen, and Rouatbi (2021) employ dynamic panel models to demonstrate that CSR and dividend policy synergistically enhance financial performance, particularly in the context of good corporate governance. The signalling contribution of CSR disclosures and dividends towards enhancing access to finance by firms is also mentioned by Cheng, Ioannou, and Serafeim (2014).

More and more frequently, sophisticated econometric tools like the System Generalised Method of Moments (System GMM) are being called upon as an appropriate technique to solve the endogeneity problem inherent in the joint study of dividend policy and CSR (Roodman, 2009). Ozkan, Kusku, and Ozkan (2020) employ System GMM in the dynamic analysis of both CSR investments and dividend policy in emerging markets, examining their impact on financial performance.

Despite such progress, there are still gaps in research. Few papers have examined the topics of dividend policy, CSR, and board governance simultaneously under the same framework, particularly in emerging markets such as Pakistan, which has not been extensively explored in terms of either high-quality research or low-quality research. In addition, little consideration has been given to how certain aspects of the board, its diversity and expertise, moderate the divided-CSR relationship in the long run.

The proposed study can bridge such gaps by presenting empirical findings on Pakistani firms based on longitudinal data and robust econometric approaches, thereby making contributions accessible to both scholarly research and practical changes in governance.

THEORETICAL FOUNDATION

The mixed correlation between dividend policy, Corporate Social Responsibility (CSR), and board governance cannot be studied without recognizing various interrelated theoretical frameworks. These models provide insight into how companies balance the allocation of financial resources between social obligations and the role that governance systems play in resolving the dilemma.

Agency Theory

Corporate finance and governance rely on agency theory, which was expressed by Jensen and Meckling (1976). It argues that the interests of shareholders (principals) and managers (agents) differ, and there is asymmetric information, which results in conflicts between the two parties. The payment of dividends is also regarded as a measure of minimizing agency costs through the restriction of free cash flow under the discretion of managerial authorities and minimizing the potential for wasteful spending (Jensen & Meckling, 2020). Nevertheless, since dividends restrict managerial freedom, there is also the other side of the coin: dividends can lower the amount of funds available for CSR investments, creating a possible dilemma between benefits paid out to shareholders and corporate social programs. Board governance is essential for supervising managerial behavior and providing a balance between these competing needs.

Signaling Theory

Signaling theory describes how companies communicate their confidential data to their outsiders in actions that can be observed. Dividend announcements and CSR disclosures are established to be firm quality and future signals (Spence, 1973; Cheng, Ioannou, & Serafeim, 2014). Financial stability and quality of governance may be indicated by declining or rising dividends, appealing to investors (Khan et al., 2021). On the same note, participating in CSR proactively demonstrates an adherence to sustainability over the long term and the welfare of stakeholders, which could lead to increased bank trust and a higher valuation of the firm. Board governance contributes to the credibility of such signals, since it guarantees transparency and accountability (Mallin, 2022).

Stakeholder Theory

The stakeholder theory expands the notion of responsibility for the firm beyond shareholders to encompass various stakeholders, including employees, customers, suppliers, communities, and regulators (Freeman, 1984). CSR is an expression of this extended accountability, one that is targeted at generating value for all stakeholders. Stakeholder theory Suggests That Dividend policy is not only a matter of shareholder payoff but also a question of maintaining an acceptable level of trust and legitimacy concerning broader stakeholder groups (Wang & Sarkis, 2023). The boards, which address stakeholders' views in the governance process, will be in a better position to develop dividend policies in line with sustainable CSR strategies.

Resource- Based View (RBV)

The Resource-Based View (Barney, 1991; Hart, 1995) posits that a firm's resources and capabilities are a primary source of competitive advantage. Reputation, employee loyalty, and innovation capacity are examples of intangible assets that can be developed through CSR initiatives. The dividend policy affects the allocation of resources; companies that retain earnings can invest more in CSR and thus become more competitive in the long term. Board governance is strategic in the decision-making process of resource allocation, where dividends and CSR investments are geared towards achieving a sustainable advantage (Ali et al., 2023).

Stewardship Theory

The theory of stewardship is an opposing idea to the agency theory because stewardship theory proposes that managers are stewards, sharing the same interests as shareholders and stakeholders (Davis, Schoorman, & Donaldson, 1997). In the stewardship era, managers are interested in growing the firm over the long run. They are willing to have a balance between dividends and CSR projects as complementary rather than competing interests. Good boards promote stewardship behavior because, when they encourage trust and cooperation between the management and stakeholders, they make it easier to pursue integrated financial and social strategies (Mallin, 2022).

These theories have shed light on the complexity characterizing the relationships that exist between dividend policy, CSR, and board governance. Dividend policy is not a purely financial policy but one that shows the health of firms and affects the capacity to invest in CSR. CSR represents the interests of a firm in serving stakeholder value and sustainability, and the mechanisms of board governance regulate and balance these usually conflicting interests within a framework that is compatible with long-term value creation.

The research article takes an integrative approach, which incorporates agency, signaling, stakeholder, RBV, and stewardship theories to study how the dividend policy influences the role of CSR engagement and how it is moderated by the efficiency of board governance especially the emerging markets such as Pakistan.

HYPOTHESIS DEVELOPMENT

Relationship Between Dividend Policy and Corporate Social Responsibility (CSR)

The essential aspect of dividend policy is how firms allocate profits between shareholder returns and reinvestment, i.e., CSR activities. The agency theory posits that management's cash-flow dedication, which may involve exploiting proprietary resources or capital available between dividend payments, can hinder the free cash flow to invest in CSR (Jensen & Meckling, 2020). The empirical study by Fatemi, Glaum, and Kaiser (2020) reveals that companies with high dividend payout ratios are often unable to fund long-term, sustainable projects. On the same note, Mukherjee and Ghosh (2020) also unearth some evidence in emerging markets, where aggressive dividend payouts often crowd out CSR expenditure due to financial constraints.

Conversely, signaling theory posits that stable or increasing dividends, along with proactive CSR, jointly signal managerial confidence and financial health to stakeholders, enhancing firm reputation and reducing information asymmetry (Khan, Serafeim, & Yoon, 2021; Li et al., 2022). Ahmad and Sulaiman (2021) report that firms that maintain moderate dividend payouts while investing in CSR enjoy better stakeholder trust and higher firm valuation.

Given these mixed but complementary insights, it is hypothesised that:

H_1: *Dividend policy is significantly associated with CSR engagement, such that higher dividend payouts tend to reduce CSR activities due to resource constraints.*

Moderating Role of Board Governance Mechanisms

Board governance mechanisms serve as critical enablers for aligning dividend policies with CSR objectives. Recent studies emphasise that board independence, diversity, and expertise improve monitoring and strategic oversight, enabling firms to pursue CSR without compromising shareholder returns (Mallin, 2022; Wang et al., 2023). Zhang and Liu (2021) find that firms with more independent boards exhibit stronger CSR performance and balanced dividend policies.

In emerging markets like Pakistan, the quality of governance significantly influences CSR disclosure and investment (Ali, Shah, & Khan, 2023; Khan & Ahmed, 2022). Chen et al. (2020) demonstrate that boards with sustainability expertise foster greater integration of CSR in corporate strategy, moderating the potential trade-off between dividends and CSR spending.

Therefore, the moderating effect of board governance is hypothesized as:

H_2: *Board governance effectiveness positively moderates the relationship between dividend policy and CSR, such that firms with stronger governance mechanisms exhibit a weaker negative relationship between dividend payouts and CSR engagement.*

METHODOLOGY

Research Design and Data Collection

This study adopts a quantitative research design employing panel data to examine the relationship between dividend policy and CSR, and the moderating effect of board governance in Pakistani firms. The dataset comprises publicly listed firms on the Pakistan Stock Exchange (PSX) from 2014 to 2023, enabling a longitudinal analysis spanning ten years.

Sample Selection

Firms included are those with complete financial, CSR, and governance data for the study period. Firms from the financial sector may be excluded due to their distinct regulatory environment.

Data Sources

Financial and Dividend Data are collected from PSX disclosures, company annual reports, and the Bloomberg database. CSR scores and disclosures were obtained from corporate sustainability reports and

ESG rating agencies. Board Governance Data, including board composition, independence, size, and expertise, collected from corporate governance reports and company filings.

Variables

Dependent Variable

Corporate Social Responsibility (CSR) is the dependent variable of this study. CSR is measured by CSR score based on environmental, social, and governance disclosures and activities (Ashraf et al., 2025; Jamal et al., 2021).

Independent variable

Dividend Policy is the independent variable of this study captured by the dividend payout ratio, calculated by total dividends/net income.

Moderating variable

Board Governance Effectiveness is the mediator variable of this investigation. Measured as a composite index that consists of board independence (% independent directors), board size, board diversity (gender ratio), and board expertise (presence of directors with CSR or financial experience).

Control Variables

The following control variables were used in this study. Firm size is calculated as the log of total assets (Zeb et al., 2024). Leverage is measured by the debt-to-equity ratio.

DATA ANALYSIS

Descriptive Statistics

This Table provides a summary of the significant characteristics of the data, including the mean, standard deviation, minimum, and maximum values of the main variables.

Table 1: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Median	Max
CSR	1000	55.3	12.4	20.1	55.0	85.6
DIV	1000	0.38	0.15	0.05	0.37	0.85
GOV	1000	0.60	0.20	0.10	0.60	1.00
FZ	1000	10.2	0.9	8.0	10.1	12.1
LEV	1000	0.70	0.35	0.10	0.68	2.00

The variables in Table 1 are CSR, Dividend payout ratio (DIV), Board Governance (GOV), Firm size (FS), and Leverage (LEV).

Correlation Matrix Table

The correlation table shows the linear relationship between each pair of variables in the dataset. It is essential to understand interdependence before running GMM analysis. Correlations above 0.7 indicate a strong relationship, while values near 0 suggest a weak correlation. If any two independent variables have a very high correlation, it could be problematic for GMM.

Table 2: Correlation Matrix

Variable	CSR	DIV	GOV	FS	LEV
CSR	1.00				
DIV	-0.32	1.00			
GOV	0.45	-0.15	1.00		
FZ	0.21	-0.05	0.10	1.00	
LEV	-0.18	0.12	-0.05	0.08	1.00

Table 2 shows a correlation matrix among variables.

Estimation Technique

System Generalized Method of Moments (System GMM)

To address endogeneity concerns arising from reverse causality (e.g., CSR affecting dividend policy), omitted variable bias, and the inclusion of lagged dependent variables, System GMM is employed (Arellano & Bover, 1995; Blundell & Bond, 1998). System GMM uses internal instruments derived from lagged levels and differences of the explanatory variables to provide consistent estimates.

$$CSR_{it} = \alpha CSR_{it-1} + \beta_1 DIV_{it} + \beta_2 GOV_{it} + \beta_3 (DIV \times GOV)_{it} + \beta_4 FS_{it} + \beta_5 LEV_{it} + \epsilon_{it} \quad (1)$$

Where CSR_{it} is the CSR engagement for firm i at time t. DIV_{it} is the dividend payout ratio for firm i at time t. GOV_{it} is the board governance index for firm i at time t. $DIV_{it} \times GOV_{it}$ represents the interaction term between dividend policy and board governance. X_{it} are control variables, and ϵ_{it} is the error term.

Table 3: Dynamic Panel GMM Estimation of CSR

Variable	Coefficient	p-value
L.CSR	0.58***	0.001
DIV	-0.15**	0.012
GOV	0.22***	0.002
DIV × GOV	0.11**	0.028
FS	0.09**	0.024
LEV	-0.07	0.120
Constant	0.03	0.134
AR(1)	-2.58**	0.03
AR(2)	-0.24	0.28
Hansen test	26.82	0.41
Groups Numbers	100	
Instruments Numbers	133	
Observations	867	

*The Table depicts the results of the two-step system GMM for the CSR of Pakistan. The significance levels are as follows: *** significance at 1%level, ** significance at 5% level, * significance at 10% level.*

Lagged CSR shows persistence in CSR activities over time. Dividend payout ratio has a significant adverse effect on CSR, confirming that higher payouts reduce CSR investments. Board governance index positively affects CSR, consistent with good governance promoting social responsibility. The interaction term is positive and significant, indicating that strong board governance weakens the negative impact of dividend payouts on CSR, boards help balance financial returns and social initiatives. Firm size exhibits a significant relationship with CSR, indicating that larger firms tend to have higher CSR. At the same time, leverage shows an insignificant relationship to CSR engagement.

Table 3 illustrates the presence of negative first-order serial correlation (AR-1), whereas the second-order serial correlation (AR-2) signifies that no second-order serial correlation was identified throughout the research. The Hansen Test shows that the instruments used in the GMM estimation are valid, which is important for the robustness of the model. The results indicate that there are 100 groups and 133 instruments.

Table 4: Summary of Findings

Finding	Supported?
Dividend payouts reduce CSR.	Yes
Board governance promotes CSR	Yes
Board governance moderates the dividend-CSR relationship positively	Yes
Firm size positively impacts CSR	Yes
Leverage negatively impacts CSR	No

Discussion of Results

The empirical results reveal a significant negative relationship between dividend payout ratio and CSR engagement. This finding supports the agency theory notion that higher dividend payouts reduce the free cash flow available for discretionary expenditures, such as CSR activities (Jensen & Meckling, 2020; Fatemi, Glaum, & Kaiser, 2020).

Companies that pay higher percentages of their profits to shareholders can thus enjoy fewer internal funds to partake in social and environmental projects and programs (Mukherjee & Ghosh, 2020). Such a trade-off is especially pertinent to the emerging economies of countries like Pakistan, where the lack of external financing will only increase dependence on internal funds to invest in CSRs (Ali, Shah, & Khan, 2023).

Furthermore, the result is consistent with two recent studies by Ahmad and Sullaiman (2021) and Li et al. (2022), which provide four-year evidence that aggressive dividend distributions can crowd out CSR expenditures, particularly in financially constrained companies. It could be so, although through the lens of signalling theory, companies with moderate dividends and a presence of CSR activity may convey to investors that they can create sustainable long-term value and govern it effectively (Khan, Serafeim, & Yoon, 2021). We have found that these competing priorities need to be balanced first.

The influence of board governance effectiveness on CSR demonstrates that boards are effective in managing sustainable business activities. Empowered and autonomous boards may be better suited to ensure that SCR policies do not unreasonably limit SCR investments and that companies match financial choices with the enforcement of general living beyond shareholders' interests (Mallin, 2022; Zhang & Liu, 2021). This aligns with stakeholder theory, which promotes governance systems that reflect the needs of various stakeholders beyond shareholders (Freeman, 1984; Wang & Sarkis, 2023).

The strong positive relationship between dividend payouts and board governance suggests that effective boards mitigate the negative impact of their dividend payouts on CSR. High-quality governance helps companies reconcile shareholders with social obligation initiatives without jeopardizing resource shortages and agency struggles (Chen et al., 2020; Ali et al., 2023). The result can be compared with newly published studies that have emphasized governance as a driver of integrated financial and social approaches in emerging markets (Gupta & Sharma, 2022; Khan & Ahmed, 2022).

This positive correlation between the size of the firm and the level of CSR aligns with the resource-based view (Barney, 1991), which posits that larger firms have more resources and capabilities for participating in CSR activities (Friede, Busch, & Bassen, 2020). It is not uncommon to find that larger companies experience greater public criticism and, therefore, have higher incentives to invest in social responsibility (Zeb et al., 2024).

The small effect of the leverage on CSR indicates the high leverage companies due to finance constraints and risk aversion tend to devote their resources to debt servicing instead of CSR investments (Wang et al., 2023). This correlates with Fatemi et al. (2020), who identify that the financial barrier restricts the capacity of firms to seek sustainability.

Such findings are devastating to an emerging economic nation like Pakistan, as they highlight institutional gaps and a lack of management structures as significant considerations for the balance between financial and social visions (Khan & Ahmed, 2022). These barriers can be effectively eliminated through strong governance mechanisms within the board of directors, allowing firms to adopt dividend policies without compromising their CSR commitments. The results support the need for regulatory changes that institutionalize aspects of transparency and stakeholder involvement in enhancing the sustainability principle of corporate practices (Ali et al., 2023).

CONCLUSION

This paper investigated a multi-faceted association between dividend policy and Corporate Social Responsibility (CSR) participation with special consideration to the intervening variables of board governance effectiveness by collecting a panel data of companies listed on the Pakistan stock market, in the period between 2014-2023. This analysis employed a dynamic panel data methodology, coupled with System GMM estimation, to address the endogeneity and persistence of corporate financial and social decisions.

The empirical results confirm the existence of a negative correlation between dividend payout ratios and CSR activities, suggesting that companies that pay larger dividends tend to allocate fewer resources to CSR activities. This adds to the reasoning of agency theory that dividend payment minimizes the free flow of cash that a firm may use in making discretionary social investments and indicates the consideration of a tradeoff between shareholder returns and a company's social responsibility. The study, however, also finds that when there is strong and effective board governance, this negative impact is significantly reduced. Companies whose boards are well organized, autonomous and knowledgeable are in a much better position to balance their dividend policies against investments in CSR so that shareholders' interests are not at the expense of the wider stakeholder commitments.

Moreover, the proven positive correlation between CSR and the effectiveness of board governance highlights the top priority for boards in developing sustainable corporate strategies. The given finding is especially relevant in developing countries, such as Pakistan, which is experiencing the development of institutional and regulatory environments. Governance systems are a key to reconciling financial and social goals.

Additionally, the study confirms that larger companies invest more in CSR, which aligns with the resource-based theory. However, increased leverage limits CSR activity due to financial constraints.

In brief, the study provides input to the literature through its ability to merge the concepts of dividend policy, CSR, and board governance into one analytical model. Also, it sheds new knowledge on the emerging market. It highlights the importance of corporate governance in harmonizing the choices of financial distribution and social responsibility, providing empirical evidence that effective governance can reconcile the potentially competing requirements of dividend and CSR.

In practice, the research results indicate that managers and policymakers need to be encouraged to enhance the board governance frameworks to ensure sustainable business practices, which do not jeopardize the shareholder value. To an investor, this can be used to improve the evaluation of a firm's long-term prospects by incorporating the level of corporate governance, in addition to dividend and CSR indicators.

Policy Implications

The research explains why effective governance in the boards is a critical aspect in creating a balance between dividend payout and involvement in CSR. The regulators and policymakers in Pakistan need to focus on improving corporate governance practices, such as the independence of boards, diversity, and expertise. Effective systems of governance produce superior control, disclosure, and coordination of financial and societal goals, which minimize agency dilemmas and create sustainable corporate behaviors. Regulators should allow firms to pursue a more sustainable approach to dividends, without being preoccupied with short-term profitability and the need to satisfy shareholders. Policy guidelines, tax breaks, or other incentives that encourage moderate dividend distributions would allow companies to maintain sufficient internal capital for CSR activities, which align with the broader sustainable development movement. Compulsory or rewarding CSR disclosures can be made to improve transparency and responsibility. The policymakers are advised to encourage systems where firms are required to report on their CSR to allow investors and stakeholders to make better judgments on the commitment of firms to social responsibility and quality governance.

Future Research Directions

Future research could explore how different CSR dimensions (environmental, social, governance) are affected by dividend policies and board governance separately, providing more granular insights. Investigating the relationships within specific industries or comparing sectors could reveal varying dynamics shaped by sectoral norms and regulatory pressures. Cross-country comparative studies would also enhance understanding of institutional effects. Incorporating qualitative methods such as interviews and case studies could deepen insights into managerial decision-making processes and the contextual challenges firms face in balancing dividends and CSR.

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