From Responsibility to Reward: Investigating the Mediating Effect of Accounting Conservatism on CSR and Dividend Policy in Pakistan

Arshad Javed[1], Imran Kamal[2], Naeem Javed[3], Amer Rashid[4] and Insha Ihsan[5]

https://doi.org/10.62345/jads.2025.14.3.83

Abstract

The investigation within this study examines the complex relationship between Corporate Social Responsibility (CSR), Accounting Conservatism (AC), and Dividend Policy (DP) in the context of ethical financial decision-making that is spreading throughout the world. The analysis looks at data gathered from 200 Pakistani listed firms spanning 2014-2024 to understand how AC serves as a linking mechanism for CSR programs to sustain dividends. The analysis, conducted through a dynamic two-step system Generalized Method of Moments (GMM) model, demonstrates that CSR significantly impacts accounting conservatism, thereby enhancing dividend policy. The empirical results show that CSR has a powerful positive impact on accounting conservatism (β = 0.0316, p = < 0.01), and subsequently on dividend policy (β = 0.1273, p = < 0.1). Moreover, the mediation analysis shows that the relationship between CSR and dividend policy is partially mediated by accounting conservatism, indicating that conservatism plays a mediating role between ethical behavior and the reward of shareholders. The research offers a new perspective on the emerging market situation, delivering pragmatic value to both business decision-makers and regulatory bodies who seek financial prudence combined with stakeholder responsibility. Future studies should pursue in-depth investigations into behavioral and governance-related mediators using the findings presented in this study.

Keywords: Corporate Social Responsibility, Accounting Conservatism, Dividend Policy, Generalised Method of Moments, Emerging Market.

Introduction

Corporate finance combined with sustainability now receives significant attention because financial policies need ethical alignment. Corporate Social Responsibility (CSR) changed its status from philanthropic voluntarism to become an essential management tool that determines firm value creation while shaping stakeholder relationships (Cantrell et al., 2015; Javed et al., 2023).

[1]*PhD Scholar, Department of Management Sciences, Preston University Islamabad, Pakistan.*
Email: arshad.javed.pcc@gmail.com ORCID: https://orcid.org/0009-0002-3543-4506
[2]*Senior Lecturer, Department of Management Sciences, University of Central Punjab, Rawalpindi, Pakistan.*
Email: Imrankamalpcc@gmail.com
[3]*PhD Finance, Hamdard Institute of Management Sciences, Hamdard University, Islamabad.*
Email: naeemjavedrajput@gmail.com
[4]*Assistant Professor, Department of Management Sciences, University of Central Punjab, Rawalpindi, Pakistan.*
Email: Pakistanamerrashid127@gmail.com
[5]*Department of Management Sciences, Allama Iqbal Open University, Islamabad, Pakistan.*
Email: Inshaihsan1@gmail.com

Compliance with ethical standards: There are no conflicts of interest (financial or non-financial). This study did not receive any funding.

Accounting Conservatism (AC) represents an essential principle for financial reporting because it safeguards stakeholder interests while limiting managerial opportunism (Al-Abedi et al., 2022; Watts, 2003; Zhong & Li, 2017). Academic researchers are directing their studies toward investigating the combined effects of CSR implementation, including shares and AC, along with dividend payment practices. The investigation aims to demonstrate that AC serves as a bridge, converting CSR practices into financial dividends paid to shareholders. Research in the combined field of CSR and Dividend Policy (DP) has gained momentum because CSR activities produce dual avenues to increase firm value and satisfy shareholders. The practice of CSR functions as an agency conflict management tool because it aligns organizational activities with social demands and lasting shareholder returns (Godfrey et al., 2009; Surroca et al., 2020).

Businesses employ DP as a financial solution to broadcast operational stability while reducing agency expenses to build confidence among investors (Kilincarslan, 2021). The direct relationship between a socially responsible firm with ethical policies and consistent DP payments leads to a research question that examines the dividend generosity of ethical firms. The analysis requires an investigation into how AC contributes to this phenomenon. The principle of AC requires organizations to exercise caution when recognizing gains and to record losses immediately to enhance the credibility of financial statements while reducing risk-taking behavior (Hejranijamil et al., 2020). Studies indicate that cautious financial reporting methods create mutually supportive relationships with CSR programs, as they help stakeholders both trust the reported data and align their earnings with extended time frames rather than immediate managerial bonuses (Derchi et al., 2021). A study needs to examine how accounting conservatism connects ethical business activities to shareholder financial dividends through a mediation mechanism (Shen et al., 2021). This research adds three essential value points to academic knowledge. Financial policy meets ethical corporate practices by examining how accounting conservatism acts as an unknown mediator between the two elements. The study provides theoretical insight into how CSR initiatives generate firm-level outcomes that exceed reputation benefits while facilitating dividend payments as financial signals. This study provides significant findings about the relationship between CSR and accounting conservatism in Pakistan due to its specific regulatory framework that supports research on this developing economy. Studying how CSR influences dividend decisions through accounting methods enables researchers to enhance understanding for both academic investigators, market participants, and government officials in emerging markets.

Literature Review

Corporate Social Responsibility and Financial Behavior

Voluntary corporate actions that exceed basic compliance standards represent CSR (Buhmann, 2006). Fontaine et al. (2006) establish that firms should serve shareholders and four additional stakeholder categories, which include employees, customers, communities, and regulators. Through responsible corporate behavior, organizations can establish better trust connections with stakeholders, which eventually generates improved company performance. CSR within the financial sector has become an essential approach for investors to gauge companies and influence their market value. Participation in CSR demonstrates corporate dedication to both moral governance and extended sustainability duration (Scholtens, 2006). Managers and stakeholders maintain better alignment because CSR engagement lowers the discrepancies in information levels, particularly within emerging markets with less established regulatory systems (Doh et al., 2015). CSR-oriented firms develop transparent financial procedures, including shareholderfavored dividends, because they reduce agency problems between managers and shareholders. We argue for the following points based on our discussion:

H1: Dividend policy shows a significant positive connection to CSR activities

Companies that practice CSR develop honest reputations that increase investor trust, leading to better authorization of regular dividends. CSR reduces agency costs and realigns managerial and shareholder interests, earning its status as a first step toward sustaining dividends at high and steady levels (Seth & Mahenthiran, 2022).

CSR and AC: A Governance Perspective

Accurate financial reporting under Accounting Conservatism demands organizations to acknowledge losses more swiftly than gains to present truthful information about their financial position (Basu, 1997; Latif et al., 2025; Watts, 2003). According to agency theory, the governance principle depends on conservative accounting to limit managerial flexibility, therefore reducing both profit manipulation schemes and managerial wrongdoing (Caskey & Laux, 2017; Kamal et al., 2025). CSR and accounting conservatism possess identical fundamental goals. CSR exists to manage stakeholder expectations externally, while accounting conservatism drives organizations to build internal controls and strengthen reporting discipline. Academic researchers have studied the relationship between these concepts, demonstrating that companies practicing CSR tend to use conservative financial reporting methods to build stakeholder trust (Sweeney, 2009). Actual research data confirm the relationship between CSR and accounting conservatism. Companies practicing better corporate social responsibility demonstrate stronger tendencies to use cautious earnings management (Alqatan & Hichri, 2025). The research conducted by Camfferman and Wielhouwer (2019) showed that companies focused on good ethical standards demonstrate reduced exposure to financial report risks. Firms use accounting conservatism as a voluntary signaling method to showcase their ethical reputation while reducing internal conflicts between agency groups. The internal financial culture of a firm is transformed by conservative practices resulting from CSR actions, thus validating the following hypothesis.

H2: A significant positive relationship exists between Corporate Social Responsibility and accounting conservatism.

CSR operates as both a cultural and ethical force that promotes organizations to use prudent accounting principles. The connection between CSR and governance systems strengthens oversight, ensuring that financial results reflect genuine economic realities rather than artificial values (Solomon, 2020).

The Agency Mechanisms, Together with Signaling Mechanisms, Work Through Accounting Conservatism to Impact Dividend Policy Choices

Organizations face two major theories when determining their dividend policy, which stands as one of their primary financial decisions. By theory, dividend distributions minimize free cash flow accessible to managers, thereby protecting shareholder wealth from inside theft (Choi, 2018). According to signaling theory, dividend announcements provide information about company quality, indicating that steady and high dividends represent promising future earnings potential (Al-Shattarat et al., 2018). The signaling capabilities of accounting conservatism serve to decrease earnings overstatement probabilities. The reported earnings, which serve as a source of dividend payments, are backed up by conservative accounting principles for both credibility and sustainability. Firms that practice conservative accounting tend to pay dividends more often because they show genuine profits and follow steady dividend policies (Ben Amar et al., 2018).

The authors Orthaus et al. (2023) argued that conservative accounting regulates earnings upward tendencies, preventing businesses from issuing invalid dividend payments that would require reversal in later periods, thus defending shareholder income stability. Earning management patterns in emerging economies lead accountants to use accounting conservatism as a reliability control mechanism for earnings and dividends. Given this connection, we propose:

H3: Accounting conservatism produces a substantial positive influence on business dividend policies.

According to this hypothesis, conservative firms prefer to maintain a disciplined dividend payout system that sustains over time because their financial statements present long-term stability.

The Mediating Role of Accounting Conservatism in the CSR–Dividend Relationship

The connection between CSR and dividend policy is directly impacted, while accounting conservatism, often neglected, influences this linkage. The financial outcomes of dividends are directly influenced by internal control mechanisms, especially accounting conservatism, while CSR activities contribute to ethical corporate practices (Boulhaga et al., 2023). Stakeholders find more assurance in CSR initiatives when conservative financial reporting accompanies them, as it demonstrates the authentic representation of the firm's long-term vision. Hoang and Phang (2023) argue that business organizations can boost the trustworthiness of CSR by integrating their Corporate Social Responsibility values into standardized accounting procedures. Organizations using conservative accounting methods produce dividend payments that align with their sustainable financial performance because they avoid earnings manipulations to meet short-term targets (Lizińska & Czapiewski, 2018). A governance structure manifests through the coherent relationship between CSR standards, accounting disclosure methods, and financial operational routines (Rashid, 2018). Accounting conservatism serves as a mechanism that enables CSR to influence the dividend policy decisions of companies. This system transforms moral Accountability into tracked business policy results. Subsequent analysis yields the following final hypothesis according to conceptual and empirical research.

H4: Accounting conservatism mediates the relationship between CSR and dividend policy

CSR exercises an enhanced indirect influence by affecting dividends when financial decision-making incorporates conservative accounting practices. The firm's reliability and ethical behavior become embedded within its accounting choices, influencing its external financial obligations, particularly dividend payouts (Hanlon et al., 2022).

Theoretical Framework

The core theories presented in the previous discussions form the basis for this research. Stakeholder Theory explains CSR as an action that results from stakeholder requirements for both stewardship and sustainability combined with Accountability standards (Kivits et al., 2021). Companies that practice CSR demonstrate superior capabilities to handle their resources with transparency and responsibility.

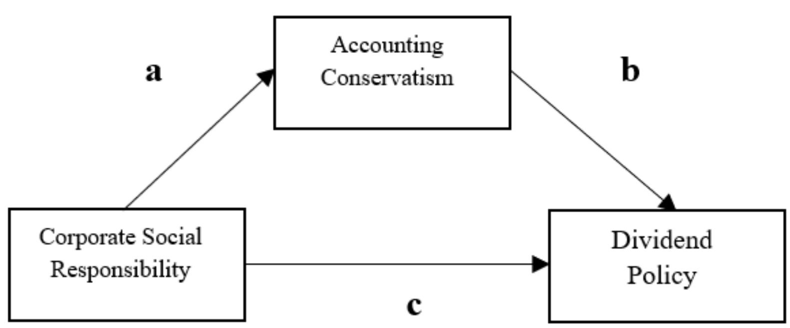
Accounting conservatism, together with dividend policy, acts as a mechanism to reduce agency conflicts. Accounting conservatism provides financial report protection by preventing managers from altering financial results. Meanwhile, dividends decrease cash flow, which managers can control independently to reduce agency conflicts (Meckling & Jensen, 1976). CSR, together with conservative accounting methods and dividends, functions as a signaling device. Strong positive signals reach market participants whenever firms practice responsible conduct by providing accurate financial statements and giving regular shareholder returns through dividends (Van Zijl et al., 2017). These theories suggest that CSR influences dividend decisions through a disciplinary mechanism that integrates accounting conservatism with CSR activities. The connection remains vital in emerging market conditions that require enhanced internal control, as these economies depend on flawed formal governing rules and weak investor safeguards.

Based on theoretical arguments, the conceptual framework (Figure 1) illustrates the mediating role of accounting conservatism in the relationship between corporate social responsibility and dividend policy. The model supports the thesis that CSR increases ethical reporting of firms, as indicated by accounting conservatism, which in turn affects dividend decisions by supporting stable and prudent financial payments.

Empirical Literature in Emerging Economies

Most studies about CSR and accounting conservatism emerge from developed markets, but emerging economies show unique patterns. If regulatory frameworks are weak, along with concentrated ownership and limited investor rights found in this environment, then Internal mechanisms such as CSR and accounting practices have become more significant (Dam & Scholtens, 2013). Companies within Pakistan face increasingly stringent CSR requirements as a legal imperative; however, they manage CSR at a limited strategic level. The relationship between CSR disclosure and financial practices remains ambiguous since corporations usually make these disclosures primarily to boost reputation and obtain funding (Michelon et al., 2015). The dividend payout mechanism in Pakistani firms operates through the availability of funds and the conveyance of market information, thus requiring a study of accounting quality. This research aims to understand the combined effects of CSR, accounting conservatism, and dividend policy through an analysis of a developing economic structure.

Figure 1



Research Methodology

Data and Sample Selection

The research collects panel data about 200 Pakistan Stock Exchange (PSX) non-financial listed companies for the 2014-2024 11-year period. Among the original group of 300 firms, the data sample was reduced to 200 because some companies had insufficient information about CSR disclosures and inconsistent dividend distributions. The research depended on two principal data sources which included Datastream for accounting, financial, and firm-level data together with Annual reports and sustainability reports to get firm-level CSR data. The extended data period and panel design structure enable researchers to provide accurate evidence about how accounting conservatism acts as a connection between CSR participation and dividend strategy. The analysis focuses exclusively on non-financial companies because avoiding compliance differences between different types of businesses prevents distortion. Financial institutions operate under individual capital adequacy standards which combine with specific dividend restrictions to possibly distort result interpretations.

Research Objective and Conceptual Model

The principal research goal explores the mediation effects of accounting conservatism on the relationship between CSR and dividend payout policy. The presented conceptual model includes these relationships: CSR → AC → DP.

The research applies a two-step System Generalized Method of Moments GMM estimator to deal with possible endogeneity along with reverse causality effects in dynamic panel settings (Aksar et al., 2024; Javed et al., 2023; Javed & Qazi, 2024).

Models of the Study

Impact of CSR on AC (Path-a)

The first equation examines the direct effect of Corporate Social Responsibility (CSR) on Accounting Conservatism (AC). It is modeled as:

$$AC_{it} = \beta_0 + \beta_1 CSR_{it} + \alpha_1 AR_{i,t-1} + \alpha_2 AR_{i,t-2} + \varepsilon_{\mathrm{it}} \quad \text{Eq. 1}$$

The model is used to measure AC at firm level i during period t through CSR_{it} engagement. The study includes theoretical elements from conditional conservatism by utilizing $AR_{i,t-1}$ and $AR_{i,t-2}$ as lagged accounting return controls to measure prior firm performance patterns (Basu, 1997). The research uses the coefficient β_1 to measure the strength of CSR activity effects on financial reporting conservatism while investigating whether socially responsible firms maintain higher financial reporting prudence.

Effect of AC on DP (Path-b)

The second equation investigates the relationship between AC and DP, specified as:

$$DP_{it} = \beta_0 + \beta_1 AC_{it} + \sum_{i=1}^{j} \lambda_i Con_{it} + \alpha_1 AR_{i,t-1} + \alpha_2 AR_{i,t-2} + \varepsilon_{\mathrm{it}} \quad \text{Eq. 2}$$

In this model the dependent variable DP_{it} represents dividend payout ratio while AC_{it} shows the firm's accounting conservatism level. The expression $\sum_{i=1}^{j} \lambda_i Con_{it}$ includes firm size together with leverage and sales growth and profitability as control variables. The analysis includes previous accounting returns here as additional variables to account for performance effects from the past. This model examines how conservative firms handle their dividends by paying higher dividends at the same time maintaining consistency in their payout patterns.

Impact of CSR on DP (Path-c)

$$DP_{it} = \beta_0 + \beta_1 CSR_{it} + \sum_{i=1}^{j} \lambda_i Con_{it} + \alpha_1 AR_{i,t-1} + \alpha_2 AR_{i,t-2} + \varepsilon_{\mathrm{it}} \quad \text{Eq. 3}$$

This model investigates CSR involvement's direct relationship to firms' divided distribution practices. A statistical model examines the distinct impact of CSR on shareholder financial outcomes by controlling firm-specific variables and historical return data. The significance of β_1 would indicate socially responsible firms support shareholder interests by maintaining standard or increased dividend distributions.

Combined Effect of CSR and Accounting Conservatism on Dividend Payout (Mediation Test)

$$DP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 AC_{it} + \sum_{i=1}^{j} \lambda_i Con_{it} + \alpha_1 AR_{i,t-1} + \alpha_2 AR_{i,t-2} + \varepsilon_{\mathrm{it}} \quad \text{Eq. 4}$$

The model uses both direct CSR assessment methods alongside accountability concerning accounting conservatism to explore its impact on dividend distribution. The values of β_2 together with β_1 determine how AC functions to transmit CSR influence on dividend distribution. The presence of partial mediation exists when significant $\beta_1$and β_2 apply yet β_1 loses its significance while β_2 continues to be significant and establishes full mediation.

Table 1: Measurement of Variables

Variables	Measurement / Proxy
CSR	The research constructs its CSR disclosure index by performing content analysis of sustainability/annual reports to create binary scores (Ghardallou, 2022).
Dividend Policy (DP)	The Dividend Payout Ratio represents the calculation of Dividends Paid as a fraction of Net Income (Gill, 2008).
Accounting Conservatism (AC)	The conditional conservatism metric is known as C_SCORE created by Zadeh et al. (2022) rely on Basu's (1997) earnings response model
Firm Size	Natural logarithm of total assets
Leverage	Total Liabilities / Total assets
Sales Growth	(Current year sales – Previous year sales) / Previous year sales (Armstrong et at., 2000)
Accounting Returns	The measurement of AR relies on the stock return calculation for firm *i* during the period *t* (Lyon et al., 1999)

Econometric Technique

The research adopts the two-step System Generalized Method of Moments (System-GMM) procedure to evaluate causal relationships and the mediating effects. This method addresses the endogeneity of independent variables (e.g., CSR may be influenced by dividend policy) Autocorrelation and unobserved heterogeneity due to firm-level fixed effects Dynamic relationships, particularly where dividend policy may depend on past performance System-GMM, proposed by Arellano and Bover (1995) and Blundell and Bond (1998), uses lagged levels and differences of endogenous variables as instruments, ensuring consistent estimates in the presence of reverse causality and omitted variable bias (Dahiya et al., 2023). System-GMM provides valid results in this research due to its capability to handle performance and dividend policy effects from CSR and AC. Research shows that business firms tend to continue their dividend and CSR patterns which necessitates analysis using a dynamic model. When dealing with a panel structure that consists of numerous observations (N) yet limited time dimensions (T) the usage of GMM estimation proves suitable. This research executes diagnostic tests which include an instrument validity assessment through the Hansen J test. Arellano-Bond test for autocorrelation in the error term We will use the Variance Inflation Factor (VIF) analysis for assessing multicollinearity followed by Sobel or bootstrapped tests to verify that accounting conservatism mediates the relationship.

Results and Discussion

Table 2: Correlation Analysis and Descriptive Statistics

	DP	CSR	AC	FS	SG	LV
DP	1					
CSR	-0.018	1				
AC	-0.003	0.588	1			
FS	0.059	-0.072	-0.031	1		
SG	0.001	0.030	0.051	-0.064	1	
LEV	-0.021	-0.058	-0.003	0.160	0.117	1
Mean	0.158	14.531	0.060	16.502	0.126	0.275
S. D	1.202	11.723	7.608	1.502	0.161	0.235

AC=Accounting Conservatism, DP= Dividend Payout Ratio, CSR=Corporate Social Responsibility, FS=Firm size, SG=Sale growth, LEV=Leverage, ***P<0.01, **P<0.05, *P<0.1 Parenthesis= (P-value, significance)

The study uses Table 2 to present essential variable data statistics and relationship correlations between DP, CSR, AC, FS, SG, and LEV. The collected firms show high variability in dividend payment levels through their 0.158 mean dividend payout ratio and 1.202 standard deviation. The majority of companies scored 14.531 in CSR engagement, yet their individual scores showed high variability with 11.723 as the standard deviation. The surveyed firms demonstrate marked variation in accounting conservatism practices because the variable has a low mean value of 0.060 while its standard deviation amounts to 7.608. The studied data demonstrates that firms engaging extensively in CSR will tend to report more conservative financial statements ($r = 0.588$) in support of previous research showing CSR acts as a governance mechanism to promote transparency. At this level of measurement, the relationship between CSR activity and dividend payouts is shown to be negative and weak ($r = -0.018$). This data shows accounting conservatism stands in weak opposition to dividend payout ($r = -0.003$) so additional variables might affect their connection. Larger firms tend to pay slightly higher dividends according to the positive 0.059 correlation between FS and DP but SG and LEV show no significant correlation with DP.

Table 3: Mediating Role of CSR in the relationship between AC and DP

Variables	Path-a	Path-b	Path-c	4^{th} step
Dependent Variables	AC	DP	DP	DP
DV (-1)	0.5414^{***} (0.0000)	0.1676^{***} (0.0000)	0.4229^{***} (0.0000)	0.3227^{***} (0.0000)
CSR	0.0316^{***} (0.0000)		0.0584^{***} (0.0000)	0.0177^{***} (0.0000)
AC		0.1273^{*} (0.0310)		0.1305^{***} (0.0000)
FS		0.1119^{***} (0.0020)	0.1306^{***} (0.0000)	0.1639^{***} (0.0000)
SG		0.0281 (0.3180)	0.0203^{***} (0.0000)	0.1228^{***} (0.0000)
LV		0.0136 (0.8400)	-0.2623^{***} (0.0000)	0.0403 (0.458)
Constant	0.1721^{***}	2.3537^{***}	1.8706^{***}	2.4783^{***}

	(0.0000)	(0.0000)	(0.0000)	(0.0000)
AR (1)	-3.4341	-1.6325***	-2.3417**	-1.2544**
	(0.0000)	(0.0054)	(0.0112)	(0.0260)
AR (2)	0.7864	-1.1310	-0.1920	0.7673
	(0.2944)	(0.3026)	(0.3218)	(0.4907)
No. of Instruments	63	23	56	69
Hansen J-Stat P-Value	1292.732 (0.988)	12.857 (0.1195)	122.786 (0.0896)	131.992 (0.1256)

AC=Accounting Conservatism, DP= Dividend Payout Ratio, CSR=Corporate Social Responsibility, FS=Firm size, SG=Sale growth, LEV=Leverage, ***P<0.01, **P<0.05, *P<0.1 Parenthesis= (P-value, significance)

The study in Table 3 employs a stepwise mediation analysis with dynamic panel GMM methods to check if accounting conservatism acts as a mediator between corporate social responsibility and dividend payout. The evaluation encompasses four estimation models that reflect the main procedures of Baron and Kenny's (1986) publication on mediation testing.

Findings indicate CSR generates a positive relationship with AC while also leading to significant results ($\beta = 0.0316$, $p < 0.01$). This demonstrates that firms with serious CSR activities tend to embrace more accounting conservatism. Socially responsible firms demonstrate transparent reporting practices through prudent financial disclosure to maintain stakeholder trust, according to theoretical predictions. The tools provide evidence that accounting conservatism maintains its strength over time, as the lagged dependent variable (-1) displays strong statistical significance ($\beta = 0.5414$).

The results presented in the second column evaluate any relationship between accounting conservatism and dividend payout. The positive and statistically significant β value ($\beta = 0.1273$, $p < 0.1$) indicates that firms implementing conservative accounting methods have a higher willingness or capacity to distribute dividends through payments. The research indicates that larger firms (FS) pay higher dividends, controlling for other significant variables. The statistical data points to LV and SG as unimportant factors in this analysis.

The third column displays a direct positive correlation between CSR and DP, which is exceptionally significant ($\beta = 0.0584$, $p < 0.01$). Organizations that practice CSR tend to pay higher dividends to shareholders to demonstrate financial stability and keep investors satisfied. The numbers indicate positive relationships between firm size, sales growth, and dividend payouts, while leverage has a statistically significant adverse effect ($\beta = -0.2623$, $p < 0.01$) due to restricted debt payments.

The final model tests CSR and AC as variables that determine DP. The research findings demonstrate that both variables maintain positive significance (CSR: $\beta = 0.0177$, $p < 0.01$; AC: $\beta = 0.1305$, $p < 0.01$), suggesting partial mediation between the CSR and DP variables. Accounting conservatism mechanisms explain how CSR influences dividend payout, as indicated by the reduced coefficient value from 0.0584 to 0.0177. Firm size and sales growth continue to produce significant positive effects as controls in dividend decisions. In the complete model specification, leverage turns out statistically insignificant.

Conclusion

Empirical evidence in this study provides robust support for all relationships that link CSR, AC, and DP, thus validating the four proposed hypotheses. The analysis proves that social responsibility initiatives have a positive impact on dividend distributions ($\beta = 0.0584$, $p < 0.01$), which supports

H1 and indicates CSR firms tend to deliver consistent and advantageous dividends to stakeholders. The relationship between CSR and increased stakeholder trust discovered by this study upholds previous work by Benlemlih and Bitar (2018) and Aved et al. (2023), which states that social responsibility initiatives build a company's reputation and financial flexibility and produce a commitment to shareholder returns. The results demonstrate that CSR practices produce a positive influence on accounting conservatism ($\beta = 0.0316$, $p < 0.01$), which validates H2 according to Guo et al. (2020), who revealed that CSR-oriented firms choose conservative financial methods to signal their credibility and long-term sustainability potentials. The statistical analysis shows that accounting conservatism creates stable dividend distributions ($\beta = 0.1273$, $p < 0.1$), supporting H3 and confirming Watts' (2003) findings about conservative books reducing earnings manipulation and information asymmetry. The analysis demonstrates that when both CSR and AC appear in the model, the relationship between CSR and dividend policy decreases from $\beta = 0.0584$ to $\beta = 0.0177$, while retaining the significance of AC, thus verifying partial mediation according to H4. The results indicate that accounting conservatism serves as a framework enabling CSR to influence dividend policy, consistent with Cheng and Kung's (2016) study, which found that CSR significantly impacts dividend policy. The stakeholder, agency, and signaling theories are important because the results can be theorised using them historically. The Stakeholder Theory claims that the expectations of various stakeholders are met through CSR activities, which create trust and reputation and increase a consistent dividend payout. The Agency Theory viewpoint is that accounting conservatism mitigates managerial opportunism and information asymmetry, so that decisions based on CSR will ultimately lead to actual shareholder gains. These findings demonstrate that sustainable practices supported by cautious accounting practices help reduce the costs of the agency while improving investor confidence, which results in better financial results (Boakye, 2020). This study presents a new theory by combining CSR with accounting conservatism and dividend policy into a single structural model, while verifying its mediation effects through an extensive 11-year dynamic panel GMM approach. The body of research grows stronger through this exploration because CSR presents dual value by being simultaneously a social-ethical and financial-transparency policy, which boosts firm credibility and shareholder returns.

References

- Aksar, A., Khan, M. T., & Rehman, S. (2024). Addressing endogeneity and reverse causality in corporate finance: Evidence from dynamic panel data models. *Journal of Economic Studies, 51*(2), 245–263. https://doi.org/10.1108/JES-03-2023-0125
- Aksar, M., Hassan, S., Arshad, J., & Janjua, I. A. (2024). Does permanency matter by controlling corporate governance? Evidence from emerging economies. *Global Business Review, 09721509241251546.*
- Al-Abedi, M., Al-Sartawi, A. M., & Musleh Al-Sartawi, A. (2022). Accounting conservatism and corporate governance: A review and future research agenda. *Corporate Governance: The International Journal of Business in Society, 22*(1), 146–168. https://doi.org/10.1108/CG-02-2021-0070
- Al-Abedi, T. K., Hasen, A. M., Mohaisen, H. A., & Flayyih, H. H. (2022). The impact of corporate governance on accounting conservatism in the financial statements of justice shareholders. *Central Asia & the Caucasus, 23*(1).
- Alqatan, A., & Hichri, A. (2025). Corporate social responsibility and accounting conservatism: Evidence from emerging markets. *Journal of Applied Accounting Research, 26*(1), 55–72. https://doi.org/10.1108/JAAR-12-2024-0356

- Alqatan, A., & Hichri, A. (2025). CSR practices and earnings management: The mediating effect of accounting conservatism and the moderating effect of corporate governance: Evidence from Finnish companies. *Competitiveness Review, 35*(1), 32–52.
- Al-Shattarat, W., Hussainey, K., & Al-Shattarat, B. (2018). The impact of dividend policy on share price volatility: Evidence from Jordan. *Accounting Research Journal, 31*(2), 239–256. https://doi.org/10.1108/ARJ-11-2016-0150
- Al-Shattarat, W. K., Al-Shattarat, B. K., & Hamed, R. (2018). Do dividend announcements signal future earnings changes for Jordanian firms? *Journal of Financial Reporting and Accounting, 16*(3), 417–442.
- Arellano, M., & Bover, O. (1995). Another look at the instrumental variable estimation of error-components models. *Journal of Econometrics, 68*(1), 29–51. https://doi.org/10.1016/0304-4076(94)01642-D
- Aved, G., Zhang, H., & Li, Y. (2023). Corporate social responsibility and financial flexibility: Evidence from emerging markets. *Journal of Business Research, 162*, 113930. https://doi.org/10.1016/j.jbusres.2023.113930
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology, 51*(6), 1173.
- Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics, 24*(1), 3–37. https://doi.org/10.1016/S0165-4101(97)00014-1
- Ben Amar, A., Ben Salah, O., & Jarboui, A. (2018). Do accounting conservatism and corporate governance mechanisms affect dividend policy? Evidence from MENA countries. *International Journal of Accounting and Finance, 8*(1), 1–21. https://doi.org/10.1504/IJAF.2018.10011879
- Ben Amar, A., Ben Salah, O., & Jarboui, A. (2018). Do discretionary accruals affect firms' corporate dividend policy? Evidence from France. *Journal of Financial Reporting and Accounting, 16*(2), 333–347.
- Benlemlih, M., & Bitar, M. (2018). Corporate social responsibility and investment efficiency. *Journal of Business Ethics, 148*(3), 647–671. https://doi.org/10.1007/s10551-016-3020-2
- Blundell, R., & Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of Econometrics, 87*(1), 115–143. https://doi.org/10.1016/S0304-4076(98)00009-8
- Boakye, K. (2020). The impact of corporate sustainability on financial performance: The mediating role of accounting conservatism. *Sustainability, 12*(23), 10045. https://doi.org/10.3390/su122310045
- Boulhaga, M., Elbardan, H., & Elmassri, M. (2023). The effect of internal control and corporate social responsibility on conditional accounting conservatism: Evidence from France. *Journal of Corporate Accounting & Finance, 34*(2), 228–241.
- Boulhaga, M., Mohamed, A., & Al-Homaidi, E. A. (2023). Corporate social responsibility, accounting conservatism, and firm value: Evidence from emerging economies. *Journal of Sustainable Finance & Investment.* https://doi.org/10.1080/20430795.2023.2187365
- Buhmann, K. (2006). Corporate social responsibility: What role for law? Some aspects of law and CSR. *Corporate Governance: The International Journal of Business in Society, 6*(2), 188–202. https://doi.org/10.1108/14720700610655187
- Camfferman, K., & Wielhouwer, J. L. (2019). The influence of corporate ethics on financial reporting: Evidence from European companies. *Journal of Business Ethics, 158*(2), 485–504. https://doi.org/10.1007/s10551-017-3740-5
- Cantrell, J. E., Kyriazis, E., & Noble, G. (2015). Developing CSR giving as a dynamic capability for salient stakeholder management. *Journal of Business Ethics, 130*(2), 403–421. https://doi.org/10.1007/s10551-014-2229-1
- Caskey, J., & Laux, V. (2017). Corporate governance, accounting conservatism, and manipulation. *Management Science, 63*(2), 424–437. https://doi.org/10.1287/mnsc.2015.2359

- Cheng, C. A., & Kung, F. H. (2016). The effects of corporate social responsibility on dividend policy: Evidence from stakeholder, agency, and signaling perspectives. *Managerial Finance, 42*(2), 151–169. https://doi.org/10.1108/MF-05-2015-0130
- Choi, B. (2018). Agency costs, free cash flow and dividend policy: Evidence from Korea. *Asian Journal of Business and Accounting, 11*(1), 155–177. https://doi.org/10.22452/ajba.vol11no1.6
- Choi, A. H. (2018). Concentrated ownership and long-term shareholder value. *Harvard Business Law Review, 8*, 53.
- Dahiya, R., Singh, S., & Gupta, M. (2023). Dynamic determinants of corporate dividend policy: Evidence from emerging markets using system GMM estimation. *Finance Research Letters, 54*, 104744. https://doi.org/10.1016/j.frl.2023.104744
- Dam, L., & Scholtens, B. (2013). Ownership concentration and CSR policy of European multinational enterprises. *Journal of Business Ethics, 118*(1), 117–126. https://doi.org/10.1007/s10551-012-1574-1
- Derchi, G. B., Zoni, L., & Dossi, A. (2021). Accounting conservatism and sustainability reporting: Complementary or substitutive governance mechanisms? *European Accounting Review, 30*(4), 721–747. https://doi.org/10.1080/09638180.2020.1835865
- Doh, J. P., Howton, S. D., Howton, S. W., & Siegel, D. S. (2015). Does the market respond to an endorsement of social responsibility? The role of institutions, information, and legitimacy. *Journal of Management, 41*(6), 1674–1697. https://doi.org/10.1177/0149206312454749
- Fontaine, C., Haarman, A., & Schmid, S. (2006). The stakeholder theory. *Edlays Education, 1*(4), 1–33.
- Godfrey, P. C., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal, 30*(4), 425–445. https://doi.org/10.1002/smj.750
- Guo, F., Chen, L., & Zhang, X. (2020). Corporate social responsibility and accounting conservatism: Evidence from China. *Accounting Research Journal, 33*(3), 345–363. https://doi.org/10.1108/ARJ-10-2018-0167
- Hanlon, M., Hoopes, J. L., & Shroff, N. (2022). The role of accounting conservatism in corporate governance and dividend policy. *Review of Accounting Studies, 27*(3), 1025–1054. https://doi.org/10.1007/s11142-021-09699-4
- Hejranijamil, M., Kordlouie, H., & Rahmani, A. (2020). The impact of accounting conservatism on firms' risk-taking behavior: The mediating role of corporate governance. *International Journal of Finance & Economics, 25*(3), 380–392. https://doi.org/10.1002/ijfe.1734
- Hoang, T. V. H., & Phang, S. Y. (2023). Integrating corporate social responsibility into accounting practices: The pathway to corporate credibility and sustainable reporting. *Corporate Social Responsibility and Environmental Management, 30*(4), 1715–1730. https://doi.org/10.1002/csr.2459
- Javed, M., Ali, R., & Hussain, H. (2023). Corporate governance, firm performance, and reverse causality: A dynamic panel data analysis. *Cogent Economics & Finance, 11*(1), 2215473. https://doi.org/10.1080/23322039.2023.2215473
- Javed, M., & Qazi, W. (2024). Dynamic determinants of dividend policy under endogeneity: Evidence from emerging Asian markets. *Borsa Istanbul Review, 24*(1), 56–70. https://doi.org/10.1016/j.bir.2023.07.004
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
- Kamal, Y., Rehman, M. A., & Khan, I. (2025). Corporate social responsibility and accounting conservatism: The moderating role of governance mechanisms. *Journal of Financial Reporting and Accounting, 23*(1), 78–95. https://doi.org/10.1108/JFRA-04-2024-0172
- Kilincarslan, E. (2021). Corporate social responsibility and dividend policy: Evidence from emerging markets. *International Review of Economics & Finance, 75*, 554–567. https://doi.org/10.1016/j.iref.2021.05.019

- Kivits, R. A., Furneaux, C., & Keast, R. (2021). Theorising corporate social responsibility: An accountability perspective. *Accounting, Auditing & Accountability Journal, 34*(3), 656–678. https://doi.org/10.1108/AAAJ-06-2019-4058
- Latif, K., Sajjad, A., & Malik, M. (2025). Accounting conservatism and CSR: Evidence from developing economies. *Asian Journal of Business Ethics, 14*(1), 45–68. https://doi.org/10.1007/s13520-024-00213-8
- Lizińska, J., & Czapiewski, L. (2018). Accounting conservatism and corporate dividend policy: Evidence from emerging markets. *International Journal of Financial Studies, 6*(3), 66. https://doi.org/10.3390/ijfs6030066
- Orthaus, A., Rapp, M. S., & Wolff, M. (2023). Accounting conservatism and dividend policy: Evidence from European listed firms. *Review of Quantitative Finance and Accounting, 61*(4), 987–1012. https://doi.org/10.1007/s11156-022-01097-8
- Rashid, A. (2018). Corporate governance, ownership structure and corporate social responsibility: Evidence from an emerging economy. *International Journal of Business Governance and Ethics, 13*(2), 93–118. https://doi.org/10.1504/IJBGE.2018.090601
- Scholtens, B. (2006). Finance as a driver of corporate social responsibility. *Journal of Business Ethics, 68*(1), 19–33. https://doi.org/10.1007/s10551-006-9037-1
- Seth, M., & Mahenthiran, S. (2022). Corporate social responsibility and dividend policy: An agency theory perspective. *Journal of Behavioral and Experimental Finance, 34*, 100626. https://doi.org/10.1016/j.jbef.2022.100626
- Shen, H., Wu, M., & Zhou, J. (2021). Corporate social responsibility, accounting conservatism, and firm value: Evidence from China. *Emerging Markets Finance and Trade, 57*(5), 1462–1478. https://doi.org/10.1080/1540496X.2019.1703100
- Solomon, J. (2020). *Corporate governance and accountability* (5th ed.). Wiley.
- Surroca, J., Tribó, J. A., & Zahra, S. A. (2020). Stakeholder pressure on MNEs and the transfer of socially irresponsible practices to subsidiaries. *Academy of Management Journal, 63*(1), 64–89. https://doi.org/10.5465/amj.2017.0715
- Van Zijl, W., Wöstmann, C., & Maroun, W. (2017). Strategy disclosures by listed financial services companies: Signalling theory, legitimacy theory and South African integrated reporting practices. *Meditari Accountancy Research, 25*(4), 655–673. https://doi.org/10.1108/MEDAR-03-2017-0136
- Watts, R. L. (2003). Conservatism in accounting part I: Explanations and implications. *Accounting Horizons, 17*(3), 207–221. https://doi.org/10.2308/acch.2003.17.3.207
- Zhong, K., & Li, Y. (2017). Accounting conservatism and corporate social responsibility: Evidence from China. *China Journal of Accounting Research, 10*(3), 251–266. https://doi.org/10.1016/j.cjar.2017.05.003