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RESEARCH PAPER

Impact of Good Governance on Dividend Payout Ratio: Moderated Mediation Effect of legal Origin and Corporate Reputation

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ABSTRACT

This study investigates whether legal origin moderates the relationship between corporate governance and dividend payout policies, mediated by corporate reputation, among Fortune 500 firms (2014–2022). Corporate governance, reputation, and dividend payout significantly impact corporate finance. Nevertheless, their combined influence across legal systems, especially common-law versus civil-law jurisdictions, remains underexplored. This quantitative study analyzed panel data of 324 Fortune 500 companies, yielding 2,808 firm-year observations across common-law and civil-law countries. Corporate governance and financial data were collected from Bloomberg, reputation rankings from Fortune, and country-level controls from the World Bank. Statistical analysis involved panel regressions and moderated mediation models. Robustness checks employed alternative dividend measurements and verification tests. Common-law countries exhibited strong governance enhancing corporate reputation and subsequently increasing dividends. Conversely, civil-law jurisdictions demonstrated weaker governance impacts, diminished reputational influence, and lower dividend payouts. Common-law regulators and managers should reinforce governance standards to sustain dividends via reputation. Civil-law jurisdictions must improve investor protections and governance frameworks for similar effectiveness.

KEYWORDS Corporate Governance, Corporate Reputation, Dividend Payout Ratio, Legal Origins, Civil Law, Common Law, Moderated Mediation

Introduction

Corporate governance has become a cornerstone of modern business practice, providing the structural rules and cultural norms that encourage firms to act responsibly while delivering long-term economic value (Bhagat & Bolton, 2008). As markets grow more interconnected and investors more vigilant, regulators and scholars alike now insist on governance frameworks that not only protect capital but also anchor decision-making in openness and ethical reasoning (Daines, 2001; Agrawal & Chadha, 2005; Malik, et. al., 2023). A string of high-profile failures, from Enron to 1MDB, underscored the costs of lax oversight, prompting renewed attention to controls that assure accurate reporting and limit self-serving behaviour by senior executives (Ameyaw, Idemudia, & Iyelolu, 2024). Because board composition, reward systems, and channels for shareholder voice directly shape how firms manage risk and report results, observers routinely judge governance quality through these tangible, observable features (Brickley et al., 1997; Muzaffar, et. al., 2023). Corporate reputation has come to be seen as a valuable intangible asset that mold's a company identity and the way stakeholders understand it. When a firm boasts a positive reputation, it enjoys increased credibility, stronger investor confidence, and greater ease in pursuing goals like retaining talent, earning regulatory favour, and staying ahead of rivals (Roberts & Dowling, 2002; Lai et al., 2010; Pradhan, 2016). Research shows that well-governed companies usually develop richer reputational capital, a pattern often traced back to ethical leadership, steady engagement in corporate social responsibility, and robust risk-management practices (Treviño et al., 2000; Ho et al., 2022; Love et al., 2017; Muzaffar, et. al., 2024). Still, the link between governance and reputation does not operate in a vacuum; it depends on the institutional and legal context in which a firm functions. In that regard, a country's legal origin-whether it follows a common-law or civil-law tradition-acts as a key moderator of how strong and how effective the underlying governance tools turn out to be. In common-law countries such as the United States and the United Kingdom, the legal framework centres on protecting investors, enforcing rigorous disclosure rules, and allowing boards significant discretion; as a result, corporations face higher expectations for accountability and transparency (La Porta et al., 2008; Klapper & Love, 2002). By contrast, many civil-law nations-for example, France and Germany-structure governance around codified statutes and often concentrate ownership in a small group, features that can weaken reputational incentives and move the spotlight away from minority-shareholder rights (Chhaochharia & Grinstein, 2004; Gillan, 2006). These contrasting systems therefore shape not only the adoption of specific governance mechanisms but also the way those mechanisms play out in areas like firm reputation and final choices about actions such as dividend distributions (Kim, 2021; Shah et al., 2025).

Scholars have produced a mountain of research linking corporate governance to how well a firm performs, yet nobody seems to agree about the role that local laws and culture play when boards decide how much cash to send out as dividends. Too many studies treat governance rules-trustworthy directors, clear financial reporting-and dividend decisions as separate puzzles, missing the way reputations, legal risks, and institutional pressures can tune the relationship either up or down (Chung et al., 2010). Because of that blind spot, we still do not know whether an independent board and open books actually push a company to pay steady dividends when investors know the courts will back their claims under heavy common-law protections instead of weaker civil-code rules (Gillan, 2006; Kim, 2021; Batool, et. al., 2023). Researchers accept that the origin of a country's legal system-common or civil law-shapes investor rights and boards effectiveness (La Porta et al., 2008), but they have not yet tied that insight directly across-border differences in dividend habits. By leaving this link unexplored, the literature misses a basic piece of the puzzle: how governance tools filtered through laws and reputations produce shareholder returns in the form of cash payouts. Scholars have said a lot about corporate reputation and why it matters for firms, but nobody has yet looked closely at how reputation sits between board-level rules and a company's actual dividends, especially across different countries. We know a strong name builds trust with customers, cheers up investors, and usually ends up showing up in better profits, yet no one has really spelled out or tested how that same reputation carries the weight of governance to the dividend line (Roberts & Dowling, 2002; Love et al., 2017; Pradhan, 2016). Even fewer papers check whether that silent job of reputation bends one way or another depending on a country's legal history or the strength of investor shields (Shah et al., 2025; Ho et al., 2022), and that lack makes it hard to see the full picture because firms living under strict laws disclose more, answer to more watchdogs, and carry different reputational burdens than firms in looser regimes. On top of that, most tests do their work in only one nation or drop the interaction piece altogether, which boxes in the findings and leaves readers guessing whether the results would hold elsewhere. With this project, we intend to lift those limits by putting reputation in the middle, tying it to legal origin as a backdrop, and thus giving a clearer, side-by-side, institution-minded view of how good governance steers dividend decisions.

Literature Review

Research shows that good corporate governance can make-or-break how well a company performs, how much investors trust it, and the way the public thinks about its brand. In a study of 1,500 S&P firms, Bhagat and Bolton (2008) linked stronger governance—including independent directors, solid shareholder rights, and executive pay tied to long-term goals—with higher stock valuations. They argued that these practices reduce agency problems and boost transparency, which earns shareholders and other stakeholders more confidence. Sarhan and colleagues (2018) reached a similar conclusion, finding that boards rich in diverse and independent voices build a stronger reputation, leading to steadier and larger dividend payments. Their work underscored how effective governance is especially valuable in markets where information is unevenly shared. Moving to emerging economies, Al-ahdal and his team (2021) looked at companies in India and the Gulf and reported that tougher governance rules lifted key performance numbers like return on equity (ROE) and return on assets (ROA). They added that independent, accountable boards also polish a firms' reputation, making it easier to attract outside capital. A recent study by Nour et al. (2023), which focused on the Palestine Exchange, supports this global pattern. Researchers found that weak governance usually goes hand-in-hand with a higher chance that a company will fail, and they traced most of the trouble back to boards that don't watch things closely and to rules that are easy to slide around in many civil-law countries. The mediating effect of corporate reputation between governance and financial outcomes has received increasing attention in recent studies. Leon et al. (2018), using structural equation modelling, empirically validated the mediating role of corporate reputation, demonstrating that well-governed firms cultivate a positive corporate image, which subsequently drives sustainable financial performance and strengthens long-term stakeholder relationships. Sarhan et al. (2018) echoed this perspective by showing that firms with high reputational scores are more committed to dividend consistency, serving as a reliable signal to investors and a strategic buffer against market uncertainty. Their findings, however, point to a gap in methodological rigour, as many of these studies have yet to apply moderated mediation approaches to assess governance, reputation, and external institutional influences simultaneously. Kang, Kim, and Oh (2019) further expanded the empirical discourse by explicitly linking dividend yields, stock returns, and corporate reputation, demonstrating that reputable firms consistently rewarded shareholders through higher dividend yields, reinforcing the reputation-dividend nexus. Supporting this argument, Vavilina et al. (2019) found similar patterns among Russian firms, emphasising that dividend policies in firms with stronger corporate reputations were perceived as critical signals of managerial credibility, especially in emerging and transitional economies. Their results underscored the interdependent dynamics between corporate reputation and dividend policies, arguing for reputation's crucial mediating role in bridging governance practices and dividend payout decisions. Extending this discussion to competitive market environments, Kang and Kim (2021) empirically illustrated how intense product market competition amplifies the importance of corporate reputation in dividend signalling. When markets get rough and rivals move fast, many firms opt to raise rather than cut dividends. This simple act works like a loud badge, telling investors that management is confident and finances are solid. By doing so, they also polish their public image during times when every headline can sway stock prices. The underlying reason lies in the rules that govern each market, a theme developed by La Porta and colleagues back in 2008. Their work showed that companies based in common-law nations generally enjoy tougher legal shields, clearer accounting, and judges who enforce the rules with regularity. Because of these features, such firms tend to pay out bigger dividends and run sturdier boards than counterparts in civil-law regimes. Supporting this view, Daines explored Delaware-listed U.S. companies in 2001 and found that firms living under those strong legal norms carried higher valuations and better cash flows, largely thanks to shareholder-friendly practices. Building on that insight, Ghuslan and co-authors showed in 2021 that a nation's legal code also shapes how governance feeds into corporate reputation. In markets ruled by common-law principles, tighter monitoring and a more forgiving press together build a smoother, faster link between good governance and a positive public image. Compared to the more fragmented rules that typify common law countries, civil law systems tend to operate through centralised enforcement agencies and a more uniform code of statutes, qualities that appear to blunt the links between corporate conduct and public perception. Sarstedt et al. (2023) assembled nationwide datasets showing that both the drivers and fallout of corporate reputation behave in predictable ways when scholars factor in legal origin, lending fresh weight to the idea that future governance research should treat a nation's legal pedigree as an independent moderator rather than just descriptive background. More recently, Naveed and Bhutta (2025) reviewed a set of high-profile ESG scandals and found that stronger board oversight and transparent audit trails straightaway tempered reputational harm, which in turn helped firms uphold dividend payouts. By tracing these causal steps, they illustrated how thin reputational capital becomes during sustainability crises and argued that robust governance shields finance teams from panic-driven cuts in shareholder returns. Their moderated-mediation framework further teased apart the interplay of institutional quality, reputation management, and national legal culture, offering researchers a clearer empirical road-map for studying governance effectiveness outside a one-size-fits-all model. Even so, important questions remain about how reputation actually mediates governance actions and how legal origin shades that process, leaving room for scholars to dig deeper into the governance-dividend link. Most research looks at how governance, company reputation, and dividend decisions work together one at a time, but few studies put all three into a single model and test their links at the same time (Pham & Trần, 2020). This methodological gap restricts the depth and causal clarity achievable in prior empirical research, underscoring the necessity of advanced analytical methods to fully elucidate the interactive effects among governance practices, corporate reputation, and legal institutions. Given these empirical insights and methodological gaps, this study addresses a critical empirical void by examining how corporate governance influences dividend payout through corporate reputation, conditioned by legal origin. By employing a rigorous moderated mediation approach within a panel data analysis, this study aims to provide a more integrated, methodologically robust, and cross-jurisdictional examination of the governance–reputation–dividend interrelationship, significantly extending existing empirical literature in corporate finance and governance.

Although scholars have spent years studying how corporate governance, firm performance, and dividend policy fit together, we still know surprisingly little about how these same forces talk to each other when corporate reputations are added to the mix-and how that talk changes from one legal setting to another. Much of the empirical work up to now has either examined each of the key concepts in isolation or modeled their links using straightforward, one-way arrows, so it has missed the richer, tangled web of influences that the theory suggests (Leon et al., 2018; Sarhan et al., 2018). Researchers agree that sound governance can lift a firms value and that a strong reputation may give directors the confidence to raise dividends, yet studies that test reputation as a genuine go-between for governance and payout-an idea with clear managerial and policy stakes-remain few and far between. This gap matters even more in a world of mixed legal families-because whether a country follows common or civil law shapes the power of rules, the strength of investor shields, and in turn the financial choices managers feel able to make (La Porta et al., 2008; Ghuslan et al., 2021). Recent empirical studies stress the importance of analysing governance within its specific context, yet very few work systematically apply this insight to formal quantitative models. Work by Nour et al. (2023) and Al-Ahdal et al. (2021) shows that governance functions quite differently in various emerging markets and that its reputation-sensitive features depend on the unique mix of local rules and informal practices. In a comparable vein, Azzahra et al. (2024) find that firms pursue diverse risk-management and oversight strategies depending on the industry they occupy and the legal framework governing their operations, pointing to a pressing need for models that think about these cross-cutting differences together rather than in isolation. Still, the great majority of published tests treat legal origin as an afterthought, if they mention it at all, leaving scholars unsure about how statutes from, say, common-law or civil-law countries truly steer governance mechanisms or affect the way firms build and protect their reputation. As a direct result, we know very little about whether, and how, dividend decisions guided by reputational considerations vary across legal traditions, especially within populations still defined by mixed institutional histories. A central shortcoming in the current body of work is the uneven use of advanced statistics that could clarify the indirect and conditional ties among governance, reputation, and dividend policy. Most empirical studies still rely on basic linear regressions or static designs, and in doing so they miss important pathways that operate out of view (Pham & Trần, 2020). Only a handful of authors have used moderated-mediation models or conditional-process tools, like those outlined by Hayes (2018), to track how governance affects dividend choices through corporate reputation and how that effect shifts across different institutional contexts. By overlooking these richer methods, the literature has fallen short of offering strong causal claims and fine-grained policy guidance. Scholarly examinations of how ESG controversies, corporate governance, and dividend decisions influence one another continue to overlook methodologically rigorous designs, even though researchers increasingly recognize that environmental, social, and governance factors profoundly shape corporate reputation (Naveed et al, 2025). Moreover, recent work by Kang and Kim (2021) and by Vavilina and colleagues (2019) shows that both market rivalry and corporate standing steer dividend payouts, yet neither study tests how such relationships might be moderated by differing institutional rules and conventions. Sarstedt et al. (2023) amassed a broad cross-national dataset revealing that both the causes and effects of corporate reputation change in systematic ways across legal, cultural, and economic environments, thereby underscoring the pressing need for research models that can capture these contextual subtleties. To fix the problems that earlier studies left behind, we use a fresh moderated-mediation setup and a panel-data approach. By treating corporate reputation as a middle link and legal origin as a moderating force, we directly probe the governance-dividend connection that past research only hinted at. This tighter focus fills critical gaps and shows how a firm s internal rules and a legal system work together to shape financial outcomes. With these strong tests, we hope to offer sharper theories and clear tips for managers crafting dividend policies across different legal worlds.

Research on corporate governance has mostly focused on three theories—agency theory, signaling theory, and institutional theory—to explain a firm's behavior and its fiscal policy choices. Agency theory, as explained by Jensen and Meckling in 1976, describes the enduring conflict of interest between a firm's owners, i.e., the shareholders, and the managers who operate the business. The divergence of interests along with asymmetric information incurs agency costs which threaten value. Governance frameworks which include independent boards, CEO/Chair role separations, and institutional investors, aim to alleviate these conflicts and curb value-destroying managerial behavior. These governance mechanisms seek to incentivize value- enhancing management, counter abuse of discretion, and enhance accountability (Bhagat & Bolton, 2008). There is strong empirical support that better governed firms have stronger performance, lower cost of capital, and greater trust among stakeholders. An important addition to agency theory comes from signaling theory, which interprets dividend payments as signals to outside audiences regarding a firm's financial performance and the health of its governance structures. In settings with high information asymmetry, dividends act as credible signals of managerial confidence regarding earnings and serve crucial functions (Bhattacharya, 1979). The signaling effect is stronger when governance structures, such as independent audit committees, earn transparency that legitimizes a dividend announcement scholarship (Brickley et al., 1997). Dividends are primarily used by reputable firms which gained their status through ethical behavior and strong leadership, effective governance, and are used to maintain trust of investors and strengthen stakeholder relations (Sarhan et al., 2018; Syed et al., 2018). These firm-level approaches are placed within wider national frameworks by institutional theory and the legal origins hypothesis. La Porta et al. (2000; 2008) maintained that a nation's legal system has a profound impact on the effectiveness of corporate governance, with common law systems like the U.S. and UK providing stronger investor protections and enforcement than civil law systems, like France or Germany. In common-law settings, governance and reputational signals tend to have more weight and effectiveness on dividend policy. On the other hand, civil-law regimes are characterized by rigid codified law and highly centralized regulation which tendars governance and the credibility of signals, such as dividends, ineffective. Hence, institutional theory emphasizes that while the same governance-reputation-dividend strategy may be employed, differing contexts will yield differing results. This paper approaches the issue of governance quality, corporate reputation, and dividend behavior through an integration of the three theories mentioned above, with legal origin serving as an important moderating variable.

Conceptual Framework

This study is based on a multidimensional conceptual framework that incorporates agency theory, signaling theory, and institutional theory in explaining the impact of corporate governance practices on the dividend payout policy, mediated by corporate reputation and moderated by legal origin. Per agency theory (Jensen & Meckling, 1976), the delineation of ownership and control in modern firms leads to probable interest disputes between the firm's shareholders and its managers. Corporate governance mechanisms, including independent boards, functioning audit committees, and responsible management, seek to reduce agency costs by contracting with the principals, which brings a firm's management in tandem with its shareholders. Effective corporate governance, in principle, should promote disciplined financial management, which ensures the payment of cash available after expenses in the form of dividends, instead of indulging in inefficient or self-serving investments (Bhagat & Bolton, 2008). Signaling theory (Spence, 1973; Bhattacharya, 1979) complements this relationship by explaining how dividend payments act as signals of firm reputation to external stakeholders. Firms that are well-known and governed with high levels of transparency are more likely to use dividends to signal fiscal soundness and integrity in management. A firm's corporate reputation, which emerges from maintaining ethical business behavior, social responsibility, and the quality of governance, not only builds stakeholder trust but also enhances firm valuation and lowers information asymmetry (Roberts & Dowling, 2002; Sarhan et al., 2018). Thus, corporate reputation acts as a mediating variable that helps transmit the impact of governance structures or mechanisms onto the dividend policy.

La Porta et al. (2000) suggest applying an institutional framework to organizational behavior considering legal systems and culture as boundaries within which firms operate. The legal origin of a nation—whether it follows a common-law or civil-law system—automatically determines the enforcement and the level of sophistication of corporate governance, protection of minority shareholders, and disclosure of relevant organizational information (Klapper & Love, 2002). Countries with common-law traditions have better documented protective regimes, market driven supervision, and discretionary powers of the courts, which improve governance and enhance the credibility of reputation signals. Civil-law countries are worse off because they depend on codified laws and have highly centralized governance which leads to poor investor protection and weak governance (La Porta et al., 2008). Based on such frameworks, the study proposes a moderated mediation model. It is expected that higher corporate governance will lead to lower dividend payout and that this relationship will be mediated by corporate reputation. Furthermore, legal origin of the firm's home country is expected to moderately influence the strength of this indirect effect. Thus, corporate reputation mediates the governance–dividend relation, while legal origin moderates the strength of this mediation effect. This conceptual framework resolves important gaps in the literature by showing the relationships between firm-level governance mechanisms, organizational intangibles such as reputation and legal origin as an institutional environment that influences financial decisions. It stresses the need to place reputation governance scholarship within broader legal and institutional contexts to produce more precise, universal, and policy-oriented outcomes.

The hypotheses in this study are grounded in a multidimensional theoretical framework that combines agency theory (Jensen & Meckling, 1976; Muzaffar, & Choudhary, 2017), signaling theory (Spence, 1973), and institutional theory (La Porta et al., 2000). Agency theory posits that conflicts arise when corporate managers act in their own interests rather than in the interests of shareholders. Corporate governance (CG) practices)—such as board independence, the separation of the CEO and chair roles, and transparency measures—help to mitigate agency costs and curb opportunistic behavior aligning the management's activities with the interests of the shareholders. Among stakeholders, these governance measures may enhance confidence and project an image of the corporation as a responsible leader and a good manager of financial resources (Treviño et al., 2000; Love et al., 2017). In line with signaling theory, firms with strong reputations and transparent dividend policies convey strong signals to external stakeholders about their financial health and sustainability, thereby enhancing their market reputation (Bhagat & Bolton, 2008; Brickley et al., 1997). Such signaling reduces the level of information asymmetry and enhances confidence in managerial performance.

Reputation is an intangible asset that directly affects how stakeholders regard a firm's trustworthiness, operational efficacy, and overall management (Sarhan et al., 2018; Leon et al., 2018). Several studies have reported stronger reputations of firms attracting loyal investors, receiving better credit terms, and achieving consistent dividend payments (Gillet et al., 2008; Kim, 2021; Syed et al., 2018). Reputation, remarkably, is an output, as well as an input of governance quality—it serves as a mechanism through which governance impacts other firm outcomes like capital allocation and shareholder returns. Evidence from the mediation literature supports this pathway and suggests that reputation serves as a conduit linking internal control systems with financial policy decisions (Pham & Trần, 2020; Eddy et al., 2023). Based on this evidence, the study claims that corporate governance has a direct and indirect effect, through corporate reputation, on influencing the dividend payout ratio.

H1: Corporate reputation mediates the relationship between corporate governance and dividend payout ratio

In addition to internal mechanisms, the broader institutional environment—particularly the legal system—can shape the effectiveness of governance structures and their ability to foster reputation and support financial outcomes. Legal origin theory distinguishes between common law and civil law systems, with the former typically characterized by strong investor protections, market-based regulation, and judicial discretion, while the latter rely more on codified statutes and centralized control (La Porta et al., 2008). These differences affect how firms design governance structures and how stakeholders respond to governance signals. Empirical research demonstrates that governance is generally more effective in common law systems due to robust legal enforcement and active financial markets that reward reputational capital (Daines, 2001; Klapper & Love, 2002; Rakha, 2023). For instance, show that firms in stronger legal environments tend to achieve better alignment with shareholders, which often results in improved reputational standing and more consistent dividend practices. Legal origin can therefore act as a contextual moderator that conditions the strength of the indirect effect of governance on dividend policy via reputation. In jurisdictions with common law traditions—such as the U.S., U.K., and Australia—the institutional infrastructure facilitates greater scrutiny and responsiveness to corporate governance, reinforcing the reputational and financial consequences of governance decisions. In contrast, in civil law countries like France or Germany, weaker investor protections and less effective enforcement may attenuate these effects (Lu & Batten, 2023; Nour et al., 2023). Consequently, the study expects the mediation effect of reputation to be stronger in common law contexts, where governance mechanisms are more potent and reputational cues are more impactful for dividend decisions.

H2: The indirect effect of corporate governance on dividend payout through corporate reputation is moderated by legal origin, such that the mediation is stronger in common law countries than in civil law countries.

Together, these hypotheses reflect an integrated analytical model that accounts for both firm-level dynamics and macro-institutional differences. By theorizing and empirically testing the conditional indirect pathway from governance to dividends via reputation—subject to the influence of legal origin—this study advances a comprehensive understanding of how internal and external factors jointly determine firm outcomes.

Material and Methods

To build a strong and trustworthy set of findings, this study pulls information from several well-known, reliable databases. Details on corporate governance and individual firms financial figures come straight from Bloomberg. Data about a companys reputation is taken from the Worlds Most Admired Companies list. Country-level legal rules and economic facts, such as GDP growth and overall governance quality, are gathered from the World Banks World Governance Indicators (WGI) and the International Country Risk Guides (ICRG). Using many sources not only cross-checks the data but also helps explain the different ways legal systems and governance work around the globe (Klapper & Love, 2002; Bhagat & Bolton, 2008). This research looks at the years 2014 through 2022, covering nine straight fiscal years so that the effects of governance changes after the global financial crisis can be fully seen. From the Fortune 500 list, 324 companies were picked because their reputation scores showed up every year during that time. The group includes businesses from many industries and from both common-law and civil-law countries, which lets the study compare how different legal systems influence reputation. Altogether there are 2,808 firm-year records in the final dataset, giving analysts enough data to spot long-term trends while smoothing out any brief ups and downs.

The dependent variable is the dividend payout ratio (DIV_PAY_RATIO), operationalized as the percentage of net income distributed as dividends. The key independent variable is corporate governance (GOV_PIL_SCORE), a composite index incorporating board structure, shareholder rights, executive compensation, and audit practices. The mediating variable is corporate reputation (COM_REPUTATION), measured using the reputation rankings published annually for Fortune 500 companies. The moderating variable is legal origin (LEGAL_ORIGIN), a binary dummy coded as 1 for common law countries and 0 for civil law countries (La Porta et al., 2000). Control variables include firm size (log of total assets), leverage (total debt to equity ratio), and GDP growth (annual %) at the country level. These controls are essential to isolate the net effects of governance and legal systems on dividend policy (Nour et al., 2023).

The mean, median, standard deviation, and the highest and lowest recorded values sit side-by-side, letting researchers see where each score clusters and whether oddball outliers lurk. This early look builds confidence in the later regression models and fine-tunes the understanding of how firm-specific traits dance with wider country-level forces. We start by building a Pearson correlation matrix to see how each variable moves with the others and to check for any signs of overlapping influences, or multicollinearity. To keep our results clean, we make sure that no pair of independent variables shows a correlation higher than 0.80. Staying below that level helps us trust the separate weights that each predictor will get in the final regression model. Overall, this stage sets the groundwork for the later multivariate work by keeping the explanatory variables independent from one another. The study uses pooled cross-sectional data and runs both fixed and random effects models so it can account for differences across firms and over time. A Hausman test is then carried out to see which of the two options fits the data better. For the mediation and moderation tests, the panel-ready version of Hayes PROCESS macro Model 7 is used, making it possible to look at conditional indirect effects (Hayes, 2018). First, the classic Baron and Kenny (1986) step-by-step guide checks whether corporate reputation acts as a middle link between governance and dividend policy, and bootstrapped confidence intervals confirm whether that link is real. The moderation part asks whether legal origin changes the way governance shapes reputation and payout. An interaction term between governance and legal origin is added to see if that joint effect reaches statistical significance. Finally, a moderated mediation setup tests whether the indirect route-from governance to dividends via reputation-only holds under specific legal regimes (Hayes, 2018). To keep the estimates solid, Variance Inflation Factors (VIFs) are calculated for every explanatory variable. A VIF score over 10 usually points to multicollinearity problems, making standard errors larger and confusing which predictors really matter (Gujarati & Porter, 2009). In our work, every

VIF stays well below that mark, so we're confident that multicollinearity isn't hurting the accuracy of our regression models.

Results and Discussion

The empirical results of this study offer a comprehensive view of how corporate governance, corporate reputation, and legal origin interact to influence dividend payout policies. Using a panel dataset of 324 Fortune 500 firms from 2014 to 2022, the analysis begins with descriptive statistics and correlation matrices, followed by multivariate regression models and moderated mediation analysis. These results aim to rigorously test the proposed hypotheses and reveal both the direct and indirect pathways through which governance mechanisms impact firm outcomes. Particular emphasis is placed on the mediating role of corporate reputation and the moderating influence of legal systems (common law vs. civil law), thereby offering a multidimensional perspective on firm behavior within varying institutional contexts. Table 1 presents the sample distribution by each year.

The sample firms over a nine year period from 2014 to 2022 are spread across 27 countries which can be seen in Table 1. The table shows an equilibrium distribution of firm-year observations per country for both common-law and civil-law jurisdictions. The dataset has 2,808 firm-year observations, which is comprised of 324 Fortune 500 firms. The sample is markedly led by the United States with 2,606 observations which amounts to 75% of the sample. Roughly represented are Japan (99), Germany (90), Switzerland and the United Kingdom (72 each), and France (63). Moderately represented are China, Canada, Ireland, and South Korea, with a number of European and Asia-Pacific countries contributing a lower but steady amount of entries throughout the years? This extensive distribution enables country comparisons and strengthens the considerate examination of the legal origin as an institutional governance factor in the dividend policy decision-making process.

Table 1
Sample description

Country	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Australia	1	1	1	1	1	1	1	1	1	9
Austria	1	1	1	1	1	1	1	1	1	9
Belgium	1	1	1	1	1	1	1	1	1	9
Bermuda	1	1	1	1	1	1	1	1	1	9
Canada	2	2	2	2	2	2	2	2	2	18
China	4	4	4	4	4	4	4	4	4	36
Denmark	2	2	2	2	2	2	2	2	2	18
Finland	1	1	1	1	1	1	1	1	1	9
France	7	7	7	7	7	7	7	7	7	63
Germany	10	10	10	10	10	10	10	10	10	90
India	1	1	1	1	1	1	1	1	1	9
Ireland	4	4	4	4	4	4	4	4	4	36
Japan	11	11	11	11	11	11	11	11	11	99
Luxembourg	1	1	1	1	1	1	1	1	1	9
Mexico	1	1	1	1	1	1	1	1	1	9
Netherlands	2	2	2	2	2	2	2	2	2	18
Singapore	3	3	3	3	3	3	3	3	3	27
South Korea	2	2	2	2	2	2	2	2	2	18
Spain	1	1	1	1	1	1	1	1	1	9
Sweden	3	3	3	3	3	3	3	3	3	27
Switzerland	8	8	8	8	8	8	8	8	8	72
Taiwan	3	3	3	3	3	3	3	3	3	27
U.K.	8	8	8	8	8	8	8	8	8	72
U.S.	234	234	234	234	234	234	234	234	234	2,106
Total	**312**	**312**	**312**	**312**	**312**	**312**	**312**	**312**	**312**	**2,808**

The descriptive statistics in Table 2 reveal essential characteristics of the dataset comprising 2,808 firm-year observations from 324 Fortune 500 firms across both civil and common law jurisdictions, spanning the period 2014–2022. The average dividend payout ratio (DIV_PAY_RATIO) stands at 39.70%, with a standard deviation of 22.55.7%, indicating substantial variation in dividend distribution policies across firms. Some firms have payout ratios close to 0%, suggesting reinvestment-oriented strategies, while others exceed 60%, reflecting mature, cash-rich business models. Corporate governance scores (GOV_PIL_SCORE) range from 12.37 to 94.44, with a mean of 66.737, highlighting cross-firm disparities in board effectiveness.

Table 2
Descriptive Statistics

Variable	Mean	Std. dev.	Min	Max
DIV_PER_SHR	1.722	1.675	0	20
DIV_PAY_RATIO	39.70	22.552	0	99.1
GOV_PIL_SCORE	66.737	15.295	12.37	94.44
CIVIL_COMMON	0.814	0.389	0	1
COM_REPUTATION	161.807	94.131	1	324
FIRM_SIZE	10.411	1.606	2.92	15.41
LEVERAGE	28.981	16.983	0	91.63
GDP_GROWTH	1.637	2.454	-11.32	24.37

Corporate reputation (COM_REPUTATION), measured via annual ranking indices, also varies widely, with higher scores observed in common law countries. Firm size, proxied by the logarithm of total assets, shows a right-skewed distribution, as expected in a Fortune 500 sample. Leverage levels vary with a mean debt-to-equity ratio of 28.981, showing mixed financial strategies among firms. Country-level GDP growth rates range from -11.32% to 24.37%, with developing civil law economies contributing to the higher-end values. These descriptive indicators confirm a heterogeneous and balanced sample conducive for panel regression and interaction effect modeling.

None of the correlation coefficients exceed 0.75, suggesting minimal concern for multicollinearity. Control variables behave as expected: firm size is positively correlated with dividend payouts (r = 0.101), and leverage is negatively associated (r = -0.01), indicating that more leveraged firms may retain earnings to cover liabilities. Importantly, legal origin is positively correlated with governance and reputation, confirming the moderating influence of legal institutions and aligning with prior studies (La Porta et al., 2000; Gillan, 2006). These correlation patterns validate the theoretical model and justify the progression to regression analysis.

Table 3
Correlation coefficients ad VIF

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	VIF
(1) DIV_PER_SHR	1.000								
(2) DIV_PAY_RATIO	0.349*	1.000							1.06
(3) GOV_PIL_SCORE	0.119*	0.066*	1.000						1.11
(4) CIVIL_COMMON	0.056*	-0.048	0.256*	1.000					1.47
(5) COM_REPUTATION	0.079*	0.061*	0.252*	-0.081*	1.000				1.48
(6) FIRM_SIZE	0.101*	-0.040	0.104*	-0.148*	-0.209*	1.000			1.07
(7) LEVERAGE	-0.001	0.126*	0.181*	0.171*	0.010	-0.156*	1.000		1.10
(8) GDP_GROWTH	0.015	0.030	0.080*	0.074*	-0.018	0.006	-0.099*	1.000	1.05

Note: *p<0.05

The main panel regression results depict in Table 4 indicate that **corporate governance** significantly and positively affects both corporate reputation and dividend payout ratios. Specifically, the governance score coefficient on dividend payout is **β =** 0.0071**, p < 0.05**, confirming that firms with stronger governance distribute more dividends. This finding aligns with agency theory, which suggests that governance mechanisms reduce agency conflicts and allow managers to distribute free cash flow instead of retaining it for self-serving projects (Jensen, 2023; Bebchuk & Fried, 2005). The coefficient for governance on corporate reputation is **β =** 0.7211, **p < 0.01**, reinforcing that well-governed firms are perceived more positively by stakeholders, media, and investors. Furthermore, corporate reputation itself positively affects dividend payouts ($\beta = 0.0031$, $p < 0.01$), supporting the notion that highly reputed firms are under greater pressure to maintain consistent dividend policies to protect stakeholder perceptions. These effects hold after controlling for firm size, leverage, and macroeconomic growth, providing a robust baseline for mediation analysis.

Table 4
Regression Results

	(1)	(2)	(3)
Variables	**Corporate Reputation**	**Dividend Per Share**	**Dividend Pay-out Ratio**
Corporate Reputation		0.0031***	0.0423**
		(0.0004)	(0.0192)
GOV_PIL_SCORE	0.7211***	0.0071**	-0.7176***
	(0.1807)	(0.0031)	(0.1583)
CIVIL_COMMON	0.2267***		
	(0.0527)		
GOV_PIL_SCORE* CIVIL_COMMON	0.8884**		
	(0.3975)		
Control variables			
FIRM_SIZE	0.1225	-0.3709***	-0.1357***
	(0.1375)	(0.0242)	(0.0123)
LEVERAGE	0.0738	0.1351***	-0.3272***
	(0.0815)	(0.0014)	(0.0716)
GDP_GROWTH	0.8481	0.0044	0.1613**
	(0.8080)	(0.0140)	(0.0711)
Constant	0.3413**	0.5181***	0.1559***
	(0.1493)	0.0259)	(0.0131)
Observations	2085	2085	2085
Adjusted R2	0.0689	0.1746	0.0928

Note: Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5.
Moderation results at 95% confidence interval

	Dividend Pay-out Ratio		Dividend Pay-out Ratio	
	Dy/dx	**Std. Err.**	**Dy/dx**	**Std. Err.**
GOV_PIL_SCORE at				
1	-0.0104	(0.36177)	-0.1717	(0.3527)
2	0.8779***	(0.1987)	0.9573***	(0.1972)

Note: Bootstrap results at 10,000, Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

The Table 5 results shown that in common law countries the relationship between good governance and dividend policy is positive and significant at the level 2 ($\beta=0.8779$, $p < 0.01$). Whereas, the moderating relationship is insignificant in civil law courtiers, which means that in civil law countries good governance does not translate dividend policy. The results also endorsed that in common law counties stronger market practices not only improve the corporate governance practices but also improve dividend pay-outs. Hence the investor should consider the legal framework while predicting how ESG impact on dividend pay-out. Figure 1 and Figure 2 shown the interaction results.

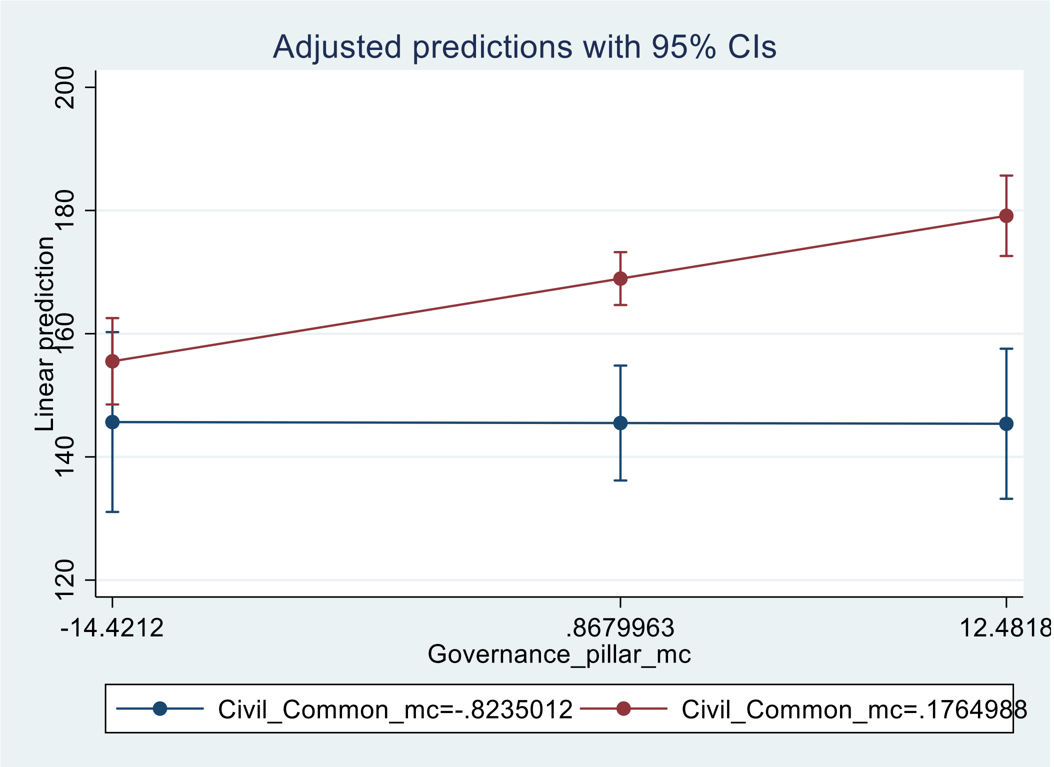

Figure 1: Civil vs Common law countries moderation between governance and dividend per share

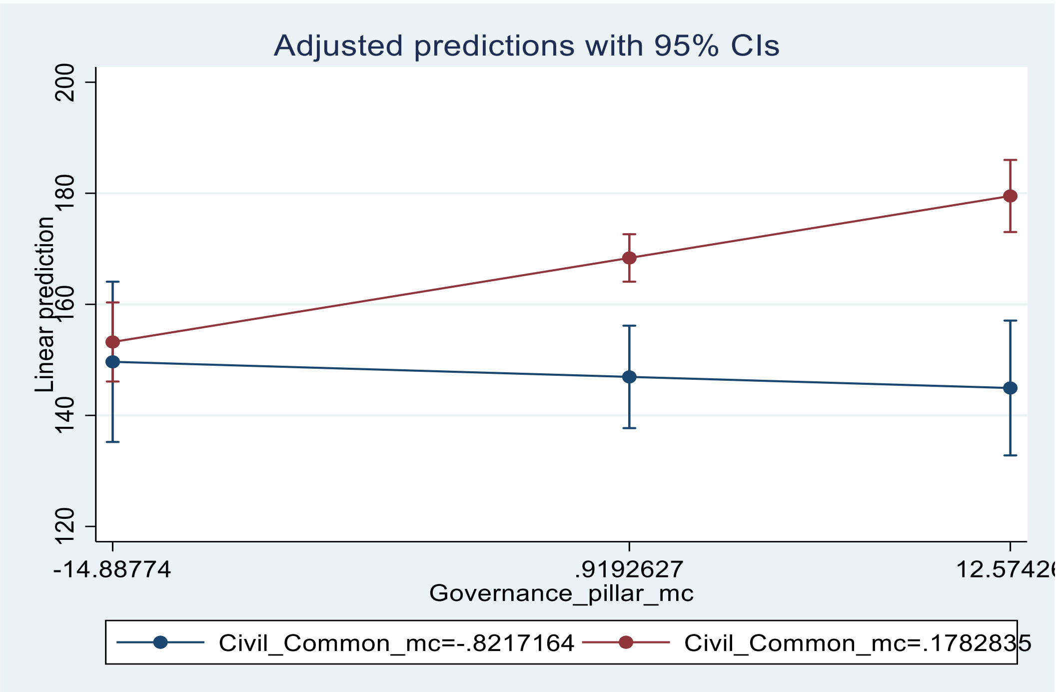

Figure 2: Civil vs Common law countries moderating role between governance and dividend pay-out ratio

Table 6
Moderated Mediation Results

	(1)	(2)
VARIABLES	Dividend Per share	Dividend Pay-out Ratio
Index Moderated Mediation	0.00275**	0.0478**

	(0.00115)	(0.0232)
low	-0.0000324	-0.00727
	(0.000973)	(0.0133)
Medium	0.00272***	0.0405**
	(0.000705)	(0.0164)
High	0.00272***	0.0405**
	(0.000705)	(0.0164)
Observations	2,085	2,085

Note: Bootstrap results at 10,000, Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

The Table 6 report the moderated mediation results of the study model. The index of moderated mediation is statistically positive and significant (β= 0.00275, p<0.005). The results indicated that legal origin and corporate reputation significantly change the good governance indirect effect on dividend pay-out policy. The conditional effect at the low level is insignificant, explained that corporate governance framework does not work significantly where the corporate reputation is weak. In contrast, at high and medium level the result is statistically significant. The legal system does matter in shaping the corporate governance impact on dividend pay-out policy indirectly through corporate reputation, suggesting that the impact of governance on dividend payouts is stronger in **common law countries**. Similarly, the interaction term in the governance–reputation model is also significant, highlighting that legal frameworks influence the effectiveness of governance in shaping firm image. These findings substantiate the institutional hypothesis that common law environments—with stronger investor protections and enforcement mechanisms—amplify the benefits of good governance (La Porta et al., 2000). In contrast, civil law firms may suffer from institutional voids, limiting governance efficiency and thereby weakening their reputational and payout dynamics. To check the study results robustness, this study used an alternative measurement of study dependent variable dividend per share. The results in Table 4, 5 and 6 consistent with dividend payout and dividend per share proxies.

Discussion

The empirical findings underscore the impact of governance on corporate reputation and dividend policy. Well-governed firms with greater independence, oversight, transparency, and accountability build stronger reputational capital. As a result, such firms exhibit a commitment to regular dividend payments. This is consistent with stakeholder theory that suggests ethical governance resolves the dual concern of internal managers and outside stakeholders, thereby granting the firm greater legitimacy and improved standing in the market (Bhagat & Bolton, 2008). Reputation, as the data demonstrate, functions as a conduit through which governance operates on financial decisions, thus reinforcing its position as a strategic intangible asset rather than a passive outcome. Further examination using moderated mediation techniques reveals that a country's legal origin heavily influences the efficiency and operation of governance mechanisms. Within common-law regimes, where there is stronger protection of investors and more stringent regulation, the interplay of governance, reputation, and dividend policies is stronger. This supports the theory that the breadth and quality of institutions enhances the impact of governance mechanisms and allows them to convey favorable signals to the market (La Porta et al., 2008; Gillan, 2006). In civil-law jurisdictions, where compliance takes precedence over enforcement, the governance-dividend relationship is comparatively weaker. The legal governance framework of a nation is more important than merely context; it is influential in the financial consequences incurred. The legal origin of a nation expands the comparative literature on corporate governance, which is a positive development. The study's findings further refine agency theory by confirming governance mitigates agency costs not just in the short-run, but enhances reputation over time. Further, agency theory is expanded by showing that dividends are issued more credibly in strong institutional environments. With empirical backing, this view critiques institutional theory, which claims overarching legal frameworks shape—and at times, restrict—systemic legal architectures that determine corporate behavior (Villiers, 2023). This finding proposes a single reputation-governance-dividend construct across differing legal systems, thus intersecting and expanding the framework of reputation.

Conclusion

The study illustrates how effective governance structures, including independent boards, transparency, and accountable leadership, are essential for managing firm reputation and dividend policy. These internal controls build stakeholder confidence and guard against inefficient financial expenditures which motivates managers to act in the best interests of the shareholders. The findings from this research are more aligned with agency theory, which argues that enhanced governance reduces the level of interest divergence, increases firm performance, and stabilizes dividend policies. The influence of governance is largely dependent on a firm's institutional context. For instance, in common-law jurisdictions with strong enforcement mechanisms and investor protection, the reputation and governance practices of a firm tend to improve its standing within the market, in addition to resulting in higher dividend payouts. The moderated mediation model shows that the legal origin either enhances or dampens the indirect impacts of governance through reputation, indicating that the national legal framework is a major—not just background—factor driving governance outcomes. By illuminated how reputation serves as a mediating mechanism via which governance shapes financial practices, these observations deepen institutional theory. In civil-law jurisdictions, the combination of weak enforcement and rigid procedural rules circumscribes this avenue, undermining the impact of governance reforms. Therefore, reputation and governance, alongside dividend policy, cannot be treated as independent elements, but rather exist inextricably in the legal and societal tapestry of a given nation. With the globalization of economic activities, such differences become pivotal for multinational enterprises and policy strategists.

Recommendations

In the context of common law jurisdictions, where governance mechanisms are underpinned by institutional supporting frameworks, organization executives should pay greater attention to issues of transparency, ethical leadership, and integrity of audits. Addressing these concerns will add more reputational capital as well as strengthen dividend reliability. Also, compliance with these measures satisfies market expectations regarding ethics, interaction with stakeholders, and strengthens legitimacy and value in the firm over time. In countries adhering to the civil law tradition, the emphasis pivots towards institutional framework development. Governmental attention should focus on policy changes related to investor protection, judicial independence, and regulatory capacity building. With these reforms in place, governance mechanisms will function in a more facilitated context, allowing firms to strategically use reputation as leverage in financial policy decisions. Furthermore, voluntary governance frameworks, increased board independence, and compulsory straightforward reporting add value to these changes. Last but not least, for multinational companies operating in diverse legal environments, sensitive contextual governance is imperative. Boards of Directors should adapt their governance styles to each country's legal framework because the reputation-dividend nexus varies with institutional quality. Policymakers need to abandon homogeneous approaches and construct strategies based on distinctive national frameworks to improve governance outcomes internationally.

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