

Do firms consider stakeholder interests as a means to create
shareholder value or as the ultimate goal?
Evidence from Japanese dividend policies

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ABSTRACT

By using data on Japanese firms, this study investigates empirically whether value creation for non-shareholder stakeholders can be interpreted as a means to maximize shareholder value or is in itself the ultimate goal. We examine the impact of stakeholder management on firms' dividend policies. Because a firm's board of directors determines whether to pay dividends and how much to pay, dividend policies are appropriate measures of firms' orientations toward shareholder value maximization. Our findings show no relationship between stakeholder management and dividend policies in most estimations. However, we find some evidence of a positive relationship between stakeholder management and dividend policies for firms with negative earnings. The overall results suggest that providing value to non-shareholder stakeholders is not the ultimate goal of stakeholder management.

Keywords: stakeholder management; shareholder primacy; dividend; payout policy; Japan

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INTRODUCTION

Different countries have different perspectives about those for whom a firm should be managed. In countries such as the United States and the United Kingdom, the idea of shareholder primacy is widely accepted as the goal of a firm; namely, managers primarily have a duty to maximize shareholder value. In contrast, firms in European countries such as France and Germany, and in Japan, are said to be stakeholder-oriented; namely, firms' managers give explicit consideration to the interests of non-shareholder stakeholders such as employees, customers, suppliers, creditors, and local communities. Yoshimori (1995) surveys the managers of major corporations in the United States, the United Kingdom, France, Germany, and Japan and finds that over 70 percent in the United States and the United Kingdom state, "shareholder interests should be given the first priority." (76% and 71% respectively) However, 78 percent, 82 percent, and, surprisingly, 97 percent of managers in France, Germany, and Japan respectively state, "a company exists for the interests of all stakeholders." This evidence is consistent with the conventional view that firms' management in the United States and the United Kingdom prioritizes shareholder primacy, while that in France, Germany, and Japan prioritizes stakeholder management.

However, the ultimate objective of stakeholder management is problematic. A manager may seek to balance shareholders' interests against the interests of other stakeholders even if this causes a deterioration of shareholder wealth. Thus, providing value to non-shareholder stakeholders is in itself the ultimate goal of the firm. However, a manager may attempt to maximize shareholder value by providing optimal value to other stakeholders. For example, a firm may supply high-quality products or services at reasonable prices because such an approach drives customer satisfaction and loyalty, which in turn increases future profits and creates shareholder value. Hence, the manager treats non-shareholder stakeholders fairly because a firm's intertemporal value maximization often balances current sacrifices against potential future profitability. Thus, providing value to non-shareholders is

a means to maximize shareholder value; consequently, shareholder-oriented firms and stakeholder-oriented firms have the same ultimate goal.

By using data on Japanese listed firms from 2005 to 2010, this study investigates empirically whether value creation for non-shareholder stakeholders can be interpreted as a means to maximize shareholder value or is in itself the ultimate goal. To this end, we examine the impact of stakeholder management on firms' dividend policies. If providing value to non-shareholder stakeholders is the ultimate goal, firms with stakeholder management should pay fewer dividends than firms with shareholder primacy. However, if providing value to non-shareholder stakeholders is a means to maximize shareholder value, firms with stakeholder management should not pay fewer dividends than firms with shareholder primacy. We find that stakeholder management has no impact on firms' dividend payments, indicating that stakeholder management is a means to maximize shareholder value.

We also examine the impact of stakeholder management on firms' total payouts which consist of dividend payments and share repurchases. Further, we examine the impact of stakeholder management on dividend and payout policies for firms with negative earnings. We also examine a shorter time period, fiscal 2005 through fiscal 2008, because this reduces the chance that sample firms' missions changed during the test period. We find no relationship between stakeholder management and dividend and payout policies in most estimations. However, we find some evidence that stakeholder management adds value to shareholder value. Our study's results are robust according to an alternative estimation method that controls for a potential selection bias problem associated with the comparison between stakeholder management and shareholder primacy. Overall, the results indicate that providing value to non-shareholder stakeholders is not the ultimate goal of stakeholder management.

There are two strands of literature related to the current analysis. One is the literature regarding the empirical relationship between stakeholder management and firms'

financial performance. Although the positive relationship dominates, the results are mixed. Waddock and Grave (1997), Ogden and Watson (1999), Hillman and Keim (2001), Ruf *et al.* (2001), and Berrone, Surroca, and Tribo (2007) find a positive relationship between stakeholder management and financial performance, while Mezner, Nigh, and Kwok (1994), Moore (2001), and Omran, Atrill, and Pointon (2002) find a negative or no relationship.

The other strand is the literature regarding the determinants of dividend payments.¹ Such literature examines various factors affecting a firm's dividend choices such as corporate and personal taxes (e.g., Dhaliwal and Erickson, 1999; Desai and Jin, 2011), agency problems among the firm's claimants (e.g., Agrawal and Jayaraman, 1994; La Porta *et al.*, 2000), and information asymmetry between the firm and market participants (e.g., Miller and Rock, 1985; Michaely, Thaler, and Womack, 1995). However, to our knowledge, no study has explored the relationship between firms' stakeholder orientations and dividend policies.

This paper adds to empirical studies on stakeholder management in at least two ways. First, we use data on Japanese firms, which typically consider stakeholder interests in management decisions. Most studies report evidence from either the United States or the United Kingdom where shareholder primacy is considered the standard firm objective. In this context, the studies consider the influence of capital market issues, such as hostile takeovers, and reward systems, such as executive stock options.² Thus, it is important to examine the relationship between stakeholder orientation and shareholder value creation within a corporate governance system that is different from that of the United States and the United Kingdom where shareholder primacy is prevalent. Second, we use dividend as an alternative measure of shareholder value creation rather than previously used firm performance measures such as market value added (Hillman and Keim, 2001; Berrone, Surroca, and Tribo,

¹ See Kalay and Lemmon (2008) for a detailed review of the literature on payout policy.

² Berrone, Surroca, and Tribo (2007) are an exception. They examine the relationship between stakeholder management and firm performance by using data on 398 firms from 26 countries.

2007), stock returns (Ogden and Watson, 1999; Omran, Atrill, and Pointon, 2002; Bird *et al.*, 2007), and accounting return measures (Waddock and Graves, 1997; Moore, 2001; Ruf *et al.*, 2001; Omran, Atrill, and Pointon, 2002; Berrone, Surroca, and Tribo, 2007). The benefit of using dividend payments is that a firm's board of directors determines dividend amount, whereas its stakeholder orientation may affect, but not determine, its financial performance measures. Thus, the usage of dividend payments enables us to assess the firm's attitude toward stakeholder orientation more directly than prior studies.

In the next section of this paper, we review studies of the relationship between stakeholder management and firm performance, and develop hypotheses. Next, we describe the sample selection procedure, empirical methodology, and empirical results, followed by robustness checks. Finally, we summarize our findings and conclude the paper.

PRIOR STUDIES OF STAKEHOLDER MANAGEMENT AND THIS STUDY'S HYPOTHESES

The debate about whether firms should consider the interests of stakeholders other than shareholders can be traced back to the 1930s. On the side of shareholder primacy, Berle (1931: 1049) argues that "all powers granted to a corporation or to the management of a corporation, or to any group within the corporation ... are necessarily and at all times exercisable only for the ratable benefit of all the shareholders." In contrast, on the side of stakeholder orientation, Dodd (1932: 1160) contends that "a sense of social responsibility toward employees, consumers, and the general public may thus come to be regarded as the appropriate attitude to be adopted by those who are engaged in business."

Freeman (1984) argues in his seminal book, *Strategic Management: A Stakeholder Approach*, that firms should be managed not only in the interests of shareholders but also in the interests of other stakeholders. He asserts that stakeholder interests should be considered an instrument to enhance firm performance, an approach that later became known as

instrumental stakeholder theory. More recently, Jensen (2001) maintains that the maximization of shareholder value is compatible with stakeholder management. He says that firms must meet the interests of all stakeholders, other than purely shareholders, in order to maximize long-term firm value. In contrast, Tirole (2001) proposes the notion of the “stakeholder society,” which is compatible with the widespread public opinion that firms should be socially responsible. In the stakeholder society, managers internalize the externalities that their management decisions impose on various stakeholders even if this results in a reduction of overall profits.³

Although the relationship between stakeholder management and firm performance has been widely studied, the empirical evidence has been mixed.⁴ By using the Kinder, Lydenberg, Domini (KLD) database on the corporate social performance of Standard & Poor’s (S&P) 500 firms, Waddock and Graves (1997) and Ruf *et al.* (2001) show that social performance improves financial performance. Hillman and Keim (2001) also use the KLD database on corporate social performance, but their approach differs to those of Waddock and Graves (1997) and Ruf *et al.* (2001) because they separate social performance into stakeholder management (i.e., building better relations with a firm’s non-shareholder stakeholders) and social issue participation (i.e., using resources for social issues unrelated to non-shareholder stakeholders and thereby following policies such as refusing to sell goods to the military). By examining the pure impact of stakeholder management on corporate financial performance in this way, Hillman and Keim (2001) find that stakeholder management increases shareholder value, while social issue participation, which has no direct relationship with stakeholder management, decreases shareholder value. By using data on the U.K. water supply industry,

³ Shareholder primacy may impose negative externalities on other stakeholders as a consequence of shareholder value maximization choices. For example, closure of an unprofitable business plant may decrease employment opportunities and the profits of suppliers, thereby damaging the local economy.

⁴ See Agle *et al.* (2008) and Laplume, Sonpar, and Reginald (2008) for detailed reviews of the literature on stakeholder management.

Ogden and Watson (1999) demonstrate that stakeholder management enhances the interests of customers and shareholders simultaneously; thus, the authors conclude that stakeholder management improves shareholder value. Berrone, Surroca, and Tribo (2007) show that by using a cross-country data set, firms with a strong corporate ethical identity achieve greater stakeholder satisfaction, thereby leading to better financial performance. They also show that better financial performance leads to a greater degree of social performance; thus, they infer that stakeholder management is positively associated with better social performance.

Some studies report evidence that stakeholder management has no relationship to, or a negative impact on, shareholder value. Mezner, Nigh, and Kwok (1994) examine the stock market reaction to the announcement of a firm's withdrawal from South Africa in order to determine whether social issue participation (i.e., avoiding businesses in the apartheid-based country because of social demand) deteriorates shareholder value. They find that such an announcement had a significant negative impact on stock returns, indicating that stakeholder consideration can reduce shareholder value. Further, although many works on stakeholder management use a single social performance measure, Moore (2001) uses 16 measures of corporate social performance from various data sources for the U.K. supermarket industry such as annual reports and the Ethical Investment Research Services database. Consequently, Moore (2001) shows that financial performance is negatively associated with stakeholder management. In addition, by using the mission statements of U.K. listed firms to identify their orientations toward stakeholder management, Omran, Atrill, and Pointon (2002) find no significant difference in stock returns between shareholder-oriented and stakeholder-oriented firms.

In the following analyses, we use firms' dividend payments to measure managerial orientations toward shareholders. The benefit of using dividend payments as the measure of stakeholder orientation is that the board of directors determines the amount of a firm's dividend; namely, the board sets a dividend-per-share amount. Thus, dividend payments

reflect the firm's orientation toward stakeholder management more directly than accounting-based measures (e.g., return on assets, return on equity, and sales growth rate) and market-based measures (e.g., market value added, market-to-book ratio, and stock returns) used by prior studies. If providing value to non-shareholder stakeholders is in itself the ultimate goal of stakeholder management, stakeholder-oriented firms are less likely to pay dividends to shareholders. Thus, we propose the following null hypothesis.

Hypothesis 1: Stakeholder management is not associated with dividend payments.

Further, if providing value to non-shareholder stakeholders is the ultimate goal of a firm, the firm is less likely to pay dividends, particularly during a period of negative earnings. This is because a firm can only make dividend payments by using retained cash or, more importantly, at the cost of decreasing wealth distribution to non-shareholder stakeholders (i.e., through the reduction of employees' working hours and wages). However, if stakeholder management is a means to maximize shareholder value, a firm is likely to maintain dividend payments during a period of negative earnings. In this instance, the manager of the firm wishes to maintain a long-term target level of dividends because dividend cuts would be penalized by significant stock price decline, thereby destroying shareholder wealth.⁵ Thus, we propose the following null hypothesis.

Hypothesis 2: Stakeholder management is not associated with dividend payments even during a period of negative earnings.

Yoshimori (1995) reports in his survey research that over 95 percent of managers in

⁵ The practice of maintaining relatively constant dividend payments is known as "dividend smoothing" (Lintner, 1956).

Japan answered that job security is more important than dividend payments, whereas in sharp contrast, about 90 percent of managers in the United States and the United Kingdom answered that dividend payments are more important. Yoshimori (1995: 33) concludes, “clearly, Japan puts the interest of employees before that of shareholders.” In addition, Dore (2000) asserts that in Japanese firms the interests of shareholders are subordinate to the interests of other stakeholders such as customers, suppliers and subcontractors, creditors, and local communities. He argues that a firm can be interpreted as a community of employees; hence, the rights of shareholders are circumscribed by the rights of employees. He concludes that “in Japan, hitherto, there has been little doubt that employees come a clear first (p. 10).” Thus, we propose the following null hypothesis.

Hypothesis 3: Stakeholder management is not associated with dividend payments at firms that emphasize the importance of employees as stakeholders.

EMPIRICAL ANALYSES

Sample selection and data

In our analyses, we use cross-sectional time-series data on Japanese firms from fiscal 2005 to fiscal 2010. To identify firms’ stakeholders, we use their mission statements, which usually include references to stakeholders.⁶ Mission statements are considered important tools with which to communicate firms’ values and principles, and guide firms’ strategic decision making for both internal and external stakeholders (e.g., Klemm, Sanderson, and Luffman, 1991;

⁶ Many empirical studies on the stakeholder management of U.S. firms (Waddock and Graves, 1997; Hillman and Keim, 2001; Ruf *et al.*, 2001; Berrone, Surroca, and Tribo, 2007; Bird *et al.*, 2007) use the KLD database on corporate social responsibility. The data contain nine areas of social performance, including employee relations, community relations, and product characteristics, for about 800 firms (in which S&P 500 firms are included). In this study, we use mission statements to identify firms’ stakeholder orientations because there is no counterpart to the KLD database for Japanese firms.

Campbell, 1997; Leuthesser and Kohli, 1997).⁷ The stakeholders considered in this study are shareholders, employees, customers, suppliers, and the local community.⁸ The source of our data on firms' mission statements is *SYAZE SYAKUN 4th Edition* (in English, *Mission Statement and Vision*) edited by the Japan Productivity Center (2004). This contains the mission statements (or equivalent) of 983 Japanese companies as of 2004. A mission statement remains relatively constant over time because it describes a firm's basic values and purposes. Thus, we assume that the mission statements in our sample remain the same during the test period, although there may be subtle changes in phrasing. However, we exclude firms that merged with other firms from our sample because their missions might have changed at the time of merger. We also exclude private companies and financial institutions. Note that we are interested in comparing dividend policies between firms with shareholder primacy where shareholders are only considered stakeholders and firms with stakeholder management that have multiple stakeholders including shareholders. Hence, we exclude firms with mission statements that do not refer to shareholders. Consequently, we are left with 690 firm-year observations, among which 72 are firms with shareholder primacy, and the remaining 618 are firms with stakeholder management. Among the final observations for the firms with stakeholder management, 70 percent refer to employees in their mission statements, 84 percent to customers, 29 percent to suppliers, and 14 percent to the local community.

We acquire the accounting and stock price data that are necessary for our empirical analyses from the Nikkei NEEDS FinancialQUEST database.

⁷ Studies indicate that mission statements affect firm performance at Japanese firms. Wang (2009) shows that corporate missions of Japanese firms have some effects on corporate social performance, human resource management, and growth potential. Hirota *et al.* (2010) show that Japanese firms with a formal mission statement exhibit superior financial performance than those without one.

⁸ We consider shareholders primary stakeholders of a firm when the mission statement refers to profitability, firm value, and/or shareholders. Although creditors, particularly commercial banks, are thought to be important stakeholders in Japanese firms, no mission statement that we use includes a reference to creditors.

Methodology

To test Hypothesis 1, we estimate the following equation:

$$\begin{aligned} DIVIDEND_{i,t} = & \alpha + \beta_1 STAKE_{i,t-1} + \beta_2 SIZE_{i,t-1} + \beta_3 AGE_{i,t-1} + \beta_4 M/B_{i,t-1} + \beta_5 VOL_{i,t-1} \\ & + \beta_6 CASH_{i,t-1} + \beta_7 ROA_{i,t-1} + \beta_8 INDUSTRY_i + \beta_9 YEAR + \varepsilon_{i,t} \end{aligned} \quad (1)$$

We use two main dividend payment measures for the dependent variable: the propensity to pay dividends and dividend yield. The propensity to pay dividends is a dummy variable that takes the value of one if a firm is a dividend payer and zero if it is a non-payer, whereas the dividend yield is the ratio of cash dividends to the market value of total equity.⁹ We use the two variables to examine if stakeholder management affects the decision about whether or not to pay dividends and the decision about how much to pay. We use a logit model (Tobit model) to examine whether stakeholder management can explain the propensity to pay dividends (dividend yield).

With regard to the independent variables, STAKE is the value of our primary interest. This dummy variable takes the value of one if a firm's management is stakeholder-oriented and zero if it is shareholder-oriented. A negative (positive) coefficient estimate indicates that stakeholder-oriented firms pay fewer (more) dividends than shareholder-oriented firms, implying that stakeholder management reduces (adds value to) shareholder value. An insignificant coefficient estimate indicates that management's orientation toward shareholder value maximization is the same between firms with stakeholder management and firms with shareholder primacy.

We use the remaining independent variables to control for other factors that can affect a firm's dividend payments. SIZE is the natural log of total book assets, which proxies

⁹ As a robustness check, we also use two alternative measures of dividend yield: dividends scaled by total book equity and dividends scaled by total book assets. However, empirical results remain qualitatively similar.

for the degree of information asymmetry between a firm and investors. Because larger firms have more analysts' coverage and receive more attention from investors, they do not need to provide incremental information about future prospects to investors through dividend payments. Thus, we expect that dividend payments decrease as a firm grows in size. AGE is a firm's age from the time of incorporation as defined by Grullon, Michaely, and Swaminathan (2002) and Fink *et al.* (2010). Grullon, Michaely, and Swaminathan's (2002) "maturity hypothesis" suggests that as a firm becomes older, its investment opportunities shrink and capital expenditure declines; hence, the firm pays out a larger amount in the form of cash flow. Thus, we expect that dividend payments increase as a firm ages. M/B is the ratio of the market value of total assets to book value, which proxies for a firm's investment opportunities (e.g., Grullon and Michaely, 2002; DeAngelo, DeAngelo, and Stulz, 2006). We expect that a firm with good investment opportunities pays fewer dividends. VOL is the standard deviation of daily equity returns over the most recent three years. It proxies for cash flow uncertainty because stock price fluctuation is positively associated with the unpredictability of cash flow (Chay and Suh, 2009). We expect that dividend payments are positively associated with cash-flow uncertainty. CASH is a firm's cash holding measured by the sum of cash and short-term investments scaled by total book assets. ROA is operating profitability measured by operating income scaled by total book assets. We expect that firms with high cash holdings and high profitability make more dividend payments. INDUSTRY is a set of industry dummy variables based on the Tokyo Stock Exchange industry classifications, and YEAR is a set of year dummy variables that control for any industry-specific and time-specific effects on dividend payments.

To test Hypothesis 2, we add an independent variable LOSS and a cross term LOSS*STAKE to the baseline regression equation (1):

$$\begin{aligned}
DIVIDEND_{i,t} = & \alpha + \beta_1 STAKE_{i,t-1} + \beta_2 LOSS_{i,t-1} + \beta_3 LOSS_{i,t-1} * STAKE_{i,t-1} + \beta_4 SIZE_{i,t-1} \\
& + \beta_5 AGE_{i,t-1} + \beta_6 M / B_{i,t-1} + \beta_7 VOL_{i,t-1} + \beta_8 CASH_{i,t-1} + \beta_9 ROA_{i,t-1} \\
& + \beta_{10} INDUSTRY_i + \beta_{11} YEAR + \varepsilon_{i,t}
\end{aligned} \tag{2}$$

where LOSS is a dummy variable that takes the value of one if a firm reports negative earnings and zero otherwise. The variable of interest in Eq. (2) is LOSS*STAKE, which is the cross term of the stakeholder management dummy and the negative earnings dummy variables. We expect the coefficient to be positive if shareholder-oriented firms are more likely to pay dividends when they are in deficit than stakeholder-oriented firms. However, if stakeholder-oriented firms are equally or more likely to pay dividends during a period of negative earnings, the coefficient should be nonnegative.

To test Hypothesis 3, we add a cross term EMP*STATE to Eq. (1):

$$\begin{aligned}
DIVIDEND_{i,t} = & \alpha + \beta_1 STAKE_{i,t-1} + \beta_2 EMP_{i,t-1} * STAKE_{i,t-1} + \beta_3 SIZE_{i,t-1} + \beta_4 AGE_{i,t-1} + \beta_5 M / B_{i,t-1} \\
& + \beta_6 VOL_{i,t-1} + \beta_7 CASH_{i,t-1} + \beta_8 ROA_{i,t-1} + \beta_9 INDUSTRY_i + \beta_{10} YEAR + \varepsilon_{i,t}
\end{aligned} \tag{3}$$

where EMP is a dummy variable that takes the value of one if a firm's stakeholders include employees and zero otherwise. Thus, the coefficient of EMP*STATE indicates the effect of stakeholder management on dividend payments at firms that consider employees one of the primary stakeholder groups. If employees are overwhelmingly important to these firms, the firms are less likely to pay dividends because wealth distribution to employees takes priority over dividend payments to shareholders. Thus, the coefficient should be negative.

Results

Table 1 presents descriptive statistics for our entire sample and for subsamples of firms with shareholder primacy and firms with stakeholder management. The table shows that there is no significant difference in the propensity to pay dividends between shareholder-oriented and

stakeholder-oriented firms. The dividend yield is greater at stakeholder-oriented firms than at shareholder-oriented firms, indicating that the ultimate goal of stakeholder management is not providing value to non-shareholder stakeholders. The propensity to pay out and the total payout to equity ratio are also greater at shareholder-oriented firms than at stakeholder-oriented firms, but the differences are insignificant. We also see from the table that dividend and payout yields exhibit distributions that are skewed to the lower end, indicating that a small number of firms pay a large amount of dividends and purchase a large amount of their own shares. The table also shows that VOL is smaller, and CASH and ROA are significantly greater, at stakeholder-oriented firms than at shareholder-oriented firms.

[Table 1 here]

Table 2 presents the correlation matrix for the key variables. The variables representing dividend and payout policies and STAKE are not significantly correlated, indicating that providing value to non-shareholder stakeholders is not the ultimate goal of stakeholder management. Further, we can see from Table 2 that the variables representing dividend and payout policies are highly correlated with each other, as would be expected.

[Table 2 here]

Table 3 presents the industrial classifications of the sample based on stakeholder orientations. The proportion of stakeholder-oriented and shareholder-oriented firms differs among industries. However, there is a reasonably good spread across the industries.

[Table 3 here]

Columns (1) and (2) of Table 4 present the estimation results of Eq. (1) for the propensity to pay dividends and dividend yield respectively. In both regressions, STAKE has no impact on dividend payments, indicating that providing value to non-shareholder stakeholders is not the goal of stakeholder management.

[Table 4 here]

Columns (3) and (4) of Table 4 present the estimation results of Eq. (2) for the

propensity to pay dividends and dividend yield respectively. In both regressions, the coefficient of LOSS is negative and significant, indicating that firms make fewer dividend payments during periods of negative earnings. The coefficient of STAKE*LOSS is positive and significant in both regressions, indicating that stakeholder-oriented firms make more dividend payments than shareholder-oriented firms during periods of negative earnings. The results suggest that stakeholder management is a means to improve shareholder value.

Columns (5) and (6) of Table 4 present the estimation results of Eq. (3) for the propensity to pay dividends and dividend yield respectively. The coefficient of STAKE is insignificant, as shown in columns (1)–(4). The coefficient of EMP*STATE is also insignificant in both regressions, suggesting that firms that include employees as primary stakeholders in their mission statements pay dividends as large as those of firms with mission statements that do not refer to employees. This result is contrary to the conventional view that employees are considered overwhelmingly important within the management of Japanese firms.

With regard to other independent variables, the coefficient of AGE is negative and significant in all regressions, suggesting that in accordance with the “maturity” hypothesis, older firms pay more dividends. M/B is negative and significant in five out of six regressions, suggesting that firms with good investment opportunities pay fewer dividends. VOL is negative and significant in the regressions of columns (1), (3), and (5), suggesting that cash flow uncertainty is negatively associated with firms’ decisions to pay dividends, but is unrelated with the amount. ROA is positive and significant in all regressions, suggesting that profitable firms are more likely to pay dividends. SIZE and CASH are insignificant in all regressions. Thus, firm size and cash holding have no effect on dividend payments.

Robustness checks

To check the robustness of the results presented in the prior subsection, we estimate Eqs. (1)–(3) using total payouts instead of dividends, where the total payouts are the sum of dividend

payments and share repurchases. Table 5 presents the estimation results. The results remain qualitatively the same throughout most of the regressions. The coefficient of STAKE is insignificant in all regressions, indicating that providing value to non-shareholder stakeholders is not in itself the goal of stakeholder management. The coefficients of STAKE*LOSS in columns (3) and (4) are positive and significant, indicating that stakeholder-oriented firms make more dividend payments than shareholder-oriented firms during a period of negative earnings. The coefficients of EMP in columns (5) and (6) are insignificant, indicating that firms that include employees as primary stakeholders in their mission statements pay dividends as large as those of firms with mission statements that do not refer to employees.

[Table 5 here]

We also estimate Eqs. (1)–(3) for a different time period: fiscal 2005 through fiscal 2008. We run the same regressions for a shorter period because this reduces the possibility that sample firms' missions changed during the test period.¹⁰ Table 6 (Table 7) presents the regression results when dividend (total payout) is used as the dependent variable. STAKE is insignificant in all regressions in Table 6, but positive and significant in two regressions in Table 7. Thus, there is some evidence that stakeholder management adds value to shareholder wealth.

[Tables 6 and 7 here]

Further, to mitigate a potential sample selection problem associated with the comparison between stakeholder orientation and shareholder orientation, we investigate a matched sample of the two differently oriented types of firm. Specifically, we use a propensity score matching method developed by Rosenbaum and Rubin (1983) with a one-to-one nearest neighborhood matching procedure with replacement. First, we estimate a probit regression of

¹⁰ Tables 6 and 7 do not show the result of the Eq. (2) regression because a dependent variable (propensity to pay dividends) and an independent variable (STAKE) are perfectly correlated.

a binary variable that takes the value of one if a firm is stakeholder-oriented and zero if it is shareholder-oriented. We use VOL (the standard deviation of monthly equity returns), CASH (a firm's cash holding scaled by total book assets), ROA (return on assets measured by operating income scaled by total book assets), and industry dummy variables as independent variables.¹¹ All the variables are averaged over the sample period. Using the propensity scores from the estimated probit regression, we create a matched sample of stakeholder-oriented and shareholder-oriented firms. Then, using the matched sample, we rerun the OLS regressions for dividends and total payouts. Although unreported, the results remain qualitatively similar. We find no relationship between stakeholder management and dividend and payout policies in most estimations. We also find some evidence of a positive relationship between stakeholder management and payout policies for firms with negative earnings. Overall results suggest that providing value to non-shareholder stakeholders is not in itself the ultimate goal of stakeholder management.

CONCLUDING REMARKS

By using data on Japanese listed firms from fiscal 2005 to fiscal 2010, this study investigated empirically whether value creation for non-shareholder stakeholders can be interpreted as a means to maximize shareholder value or is in itself the ultimate goal. In this regard, the study examined the impact of stakeholder management on firms' dividend policies. Because a firm's board of directors determines whether to pay dividends and how much to pay, dividend policies are appropriate measures of firms' orientations toward shareholder value maximization. We also examined the impact of stakeholder management on firms' total payouts which consist of dividends and share repurchases. In most estimations, we found no relationship between stakeholder management and dividend and payout policies; however, we found some evidence

¹¹ We use VOL, CASH, and ROA as independent variables because they are significantly different between stakeholder-oriented and shareholder-oriented firms, as shown in Table 1.

of a positive relationship between stakeholder management and dividend and payout policies for firms with negative earnings and for the sub-period fiscal 2005 to fiscal 2008. Overall results indicate that providing value to non-shareholder stakeholders is not in itself the ultimate goal of stakeholder management.

Note that it is implicit in this study that stakeholder management has a uniform impact on firms' orientations toward dividend and payout policies regardless of the differences in the constituency of stakeholder groups across firms. However, the stance a firm takes toward its multiple stakeholder groups varies across industries and firms. For example, a firm in a competitive industry may face powerful customers; hence, it takes customer satisfaction more seriously than a firm in an oligopolistic industry. Further, a firm that is more exposed to the global capital market may take shareholder value more seriously because global investors exert greater pressure on firms in all countries to adopt shareholder value creation as a primary goal. Thus, the degree of stakeholder orientation needs to be measured more carefully by taking into account the possibility that firms perceive the importance of their multiple stakeholder groups differently at any given time. This limitation of the current study must be addressed in future research.

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Table 1. Descriptive statistics

Variables	Full sample				Stakeholder-oriented firms				Shareholder-oriented firms				Difference t-stat
	Obs	Mean	Median	Stdev	Obs	Mean	Median	Stdev	Obs	Mean	Median	Stdev	
Propensity (dividend)	690	0.909	1	0.288	618	0.914	1	0.28	72	0.861	1	0.348	1.25
Dividend/equity (%)	690	1.696	1.474	1.136	618	1.72	1.493	1.141	72	1.491	1.338	1.08	1.69 *
Propensity (payout)	690	0.917	1	0.275	618	0.924	1	0.265	72	0.861	1	0.348	1.48
Payout/equity (%)	690	2.38	1.669	2.412	618	2.422	1.72	2.441	72	2.015	1.454	2.126	1.51
ASSETS (million yen)	690	447,000	79,256	1,020,000	618	425,000	79,256	964,000	72	632,000	83,751	1,380,000	-1.23
AGE	690	57.535	58	20.203	618	57.82	58	20.684	72	55.083	57	15.377	1.37
M/B	690	1.176	1.077	0.407	618	1.177	1.074	0.416	72	1.164	1.096	0.321	-0.33
VOL (%)	685	2.353	2.267	0.743	613	2.316	2.205	0.74	72	2.675	2.645	0.701	-4.09 ***
CASH (%)	690	13.823	11.643	9.495	618	14.396	11.921	9.745	72	8.902	8.128	4.723	8.07 ***
ROA (%)	690	5.87	5.148	5.188	618	6.066	5.308	5.095	72	4.188	3.995	5.698	2.67 ***
LOSS	690	0.143	0	0.351	618	0.141	0	0.348	72	0.167	0	0.375	-0.56

Propensity (dividend): propensity to pay dividends; Dividend/equity: the ratio of cash dividends to market value of total equity

Propensity (payout): propensity to payout; Payout/equity: the ratio of payout to market value of total equity

Table 2. Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Propensity (dividend)	1											
(2) Div/equity	0.469 ***	1										
(3) Propensity(payout)	0.759 ***	0.371 ***	1									
(4) Payout/equity	0.298 ***	0.658 ***	0.299 ***	1								
(5) STAKE	0.060	0.064 *	0.069 *	0.054	1							
(6) SIZE	0.088 **	-0.105 ***	0.110 ***	-0.022	0.004	1						
(7) AGE	-0.130 ***	-0.108 ***	-0.113 ***	-0.117 ***	0.021	0.292 ***	1					
(8) M/B	0.110 ***	-0.308 ***	0.111 ***	-0.142 ***	0.008	0.191 ***	-0.258 ***	1				
(9) VOL	-0.423 ***	-0.072 *	-0.280 ***	-0.042	-0.148 ***	-0.157 ***	0.021	-0.131 ***	1			
(10) CASH	0.083 **	0.115 ***	0.069 *	0.069 *	0.179 ***	-0.180 ***	-0.198 ***	0.170 ***	-0.098 ***	1		
(11) ROA	0.370 ***	0.085 **	0.312 ***	0.089 **	0.111 ***	0.077 **	-0.209 ***	0.671 ***	-0.283 ***	0.291 ***	1	
(12) LOSS	-0.355 ***	-0.067 *	-0.254 ***	-0.034	-0.023	-0.100 ***	-0.009	-0.241 ***	0.184 ***	-0.029	-0.525 ***	1

* p<0.10, ** p<0.05, *** p<0.01

Table 3. Industrial classifications

Industry	Stakeholder-oriented firms	Shareholder-oriented firms	Obs
Construction	30	0	30
Foods	48	6	54
Textiles & apparels	24	0	24
Chemicals	96	6	102
Pharmaceutical	18	0	18
Rubber products	0	6	6
Glass & ceramics products	12	6	18
Iron & steel	12	0	12
Nonferrous metals	6	6	12
Metal products	18	6	24
Machinery	42	6	48
Electric appliances	90	6	96
Transportation equipment	6	0	6
Precision instruments	18	0	18
Other products	24	0	24
Electric power & gas	12	0	12
Land transportation	12	0	12
Marine transportation	6	6	12
Information & communication	33	6	39
Wholesale trade	33	6	39
Retail trade	24	0	24
Services	54	6	60
Total	618	72	690

Table 4. The results of logit and Tobit regressions for dividend: 2005–2010

	(1) Propensity	(2) Dividend/equity	(3) Propensity	(4) Dividend/equity	(5) Propensity	(6) Dividend/equity
STAKE	0.226 (0.938)	0.006 (0.219)	-0.393 (1.267)	-0.138 (0.203)	0.043 (1.003)	-0.034 (0.224)
LOSS			-2.884 ** (1.264)	-1.310 ** (0.660)		
LOSS*STAKE			1.923 * (1.140)	1.156 * (0.686)		
EMP*STAKE					1.105 (0.752)	0.308 (0.243)
SIZE	0.230 (0.219)	-0.002 (0.038)	0.200 (0.232)	-0.014 (0.037)	0.275 (0.238)	0.002 (0.039)
AGE	-1.790 * (0.984)	-0.507 ** (0.211)	-1.948 * (1.032)	-0.534 *** (0.206)	-2.114 * (1.147)	-0.554 *** (0.214)
M/B	-2.162 * (1.131)	-1.678 *** (0.193)	-1.793 (1.109)	-1.574 *** (0.193)	-2.082 * (1.213)	-1.697 *** (0.194)
VOL	-1.728 *** (0.506)	-0.172 (0.126)	-1.926 *** (0.519)	-0.191 (0.125)	-1.796 *** (0.539)	-0.180 (0.126)
CASH	0.002 (0.028)	0.002 (0.009)	-0.007 (0.026)	0.003 (0.009)	0.001 (0.029)	0.001 (0.009)
ROA	0.407 *** (0.082)	0.124 *** (0.018)	0.283 *** (0.103)	0.107 *** (0.018)	0.422 *** (0.085)	0.126 *** (0.018)
Constant	26.479 *** (3.780)	4.968 *** (0.925)	29.628 *** (4.119)	5.332 *** (0.942)	28.384 *** (4.235)	5.120 *** (0.915)
Observations	673	685	673	685	673	685
Pseudo R ²	0.524	0.161	0.542	0.168	0.530	0.164

Standard errors in parentheses are robust to heteroskedasticity and are adjusted for firm clustering.

* p<0.10, ** p<0.05, *** p<0.01

Table 5. The results of logit and Tobit regressions for total payout: 2005–2010

	(1)	(2)	(3)	(4)	(5)	(6)
	Propensity	Payout/equity	Propensity	Payout/equity	Propensity	Payout/equity
STAKE	0.194 (0.803)	0.174 (0.373)	-0.811 (1.157)	-0.146 (0.324)	0.090 (0.850)	0.125 (0.379)
LOSS			-2.451 ** (0.972)	-2.927 ** (1.162)		
LOSS*STAKE			2.632 *** (0.875)	2.714 ** (1.174)		
EMP*STAKE					0.576 (0.709)	0.382 (0.308)
SIZE	0.296 * (0.171)	0.069 (0.081)	0.252 (0.167)	0.045 (0.083)	0.325 * (0.183)	0.074 (0.082)
AGE	-1.671 (1.039)	-0.948 ** (0.389)	-1.763 (1.087)	-1.001 ** (0.388)	-1.875 * (1.107)	-1.006 ** (0.393)
M/B	-0.642 ** (0.293)	-0.229 (0.195)	-0.766 *** (0.293)	-0.269 (0.195)	-0.654 ** (0.302)	-0.239 (0.195)
VOL	0.290 *** (0.055)	0.181 *** (0.031)	0.256 *** (0.074)	0.151 *** (0.035)	0.296 *** (0.057)	0.183 *** (0.031)
CASH	-0.002 (0.027)	-0.007 (0.013)	-0.009 (0.026)	-0.005 (0.013)	-0.002 (0.028)	-0.007 (0.013)
ROA	-1.146 (0.911)	-1.924 *** (0.388)	-0.858 (0.981)	-1.729 *** (0.400)	-1.154 (0.933)	-1.947 *** (0.395)
Constant	23.062 *** (3.778)	7.077 *** (1.693)	24.125 *** (4.137)	7.826 *** (1.724)	23.569 *** (3.872)	7.268 *** (1.691)
Observations	673	685	673	685	673	685
Pseudo R ²	0.310	0.063	0.327	0.066	0.313	0.063

Standard errors in parentheses are robust to heteroskedasticity and are adjusted for firm clustering.

* p<0.10, ** p<0.05, *** p<0.01

Table 6. The results of logit and Tobit regressions for dividend: 2005–2008

	(1) Propensity	(2) Dividend/equity	(3) Propensity	(4) Dividend/equity
STAKE	1.875 (1.237)	0.055 (0.170)	1.664 (1.353)	0.018 (0.175)
EMP*STAKE			2.345 (1.537)	0.278 (0.247)
SIZE	0.019 (0.256)	-0.037 (0.031)	0.148 (0.318)	-0.033 (0.032)
AGE	-4.274 ** (2.000)	-0.419 ** (0.180)	-5.658 ** (2.209)	-0.463 ** (0.183)
M/B	-0.398 (2.806)	-1.056 *** (0.179)	0.789 (2.658)	-1.070 *** (0.185)
VOL	-2.766 *** (0.700)	-0.153 (0.122)	-3.096 *** (0.748)	-0.164 (0.121)
CASH	-0.087 (0.080)	-0.002 (0.008)	-0.106 (0.069)	-0.002 (0.008)
ROA	0.403 *** (0.127)	0.074 *** (0.021)	0.452 *** (0.146)	0.076 *** (0.021)
Constant	39.189 *** (8.477)	4.453 *** (0.842)	43.675 *** (9.689)	4.611 *** (0.836)
Observations	406	455	406	455
Pseudo R ²	0.610	0.167	0.630	0.172

Standard errors in parentheses are robust to heteroskedasticity and are adjusted for firm clustering.

* p<0.10, ** p<0.05, *** p<0.01

Table 7. The results of logit and Tobit regressions for total payout: 2005–2008

	(1) Propensity	(2) Payout/equity	(3) Propensity	(4) Payout/equity
STAKE	0.356 (0.878)	0.498 * (0.285)	0.274 (0.923)	0.482 * (0.288)
EMP*STAKE			0.403 (0.848)	0.118 (0.412)
SIZE	0.417 * (0.239)	0.024 (0.077)	0.435 * (0.240)	0.026 (0.077)
AGE	-3.277 *** (1.208)	-0.733 * (0.442)	-3.421 *** (1.188)	-0.751 * (0.450)
M/B	-2.113 * (1.118)	-0.868 * (0.460)	-2.100 * (1.132)	-0.874 * (0.465)
VOL	-0.499 (0.372)	-0.207 (0.182)	-0.518 (0.394)	-0.211 (0.182)
CASH	-0.032 (0.038)	-0.016 (0.014)	-0.032 (0.038)	-0.016 (0.014)
ROA	0.323 *** (0.083)	0.095 *** (0.036)	0.326 *** (0.083)	0.096 *** (0.036)
Constant	26.572 *** (4.436)	5.570 *** (1.657)	26.980 *** (4.513)	5.637 *** (1.686)
Observations	447	455	447	455
Pseudo R ²	0.331	0.036	0.333	0.036

Standard errors in parentheses are robust to heteroskedasticity and are adjusted for firm clustering.

* p<0.10, ** p<0.05, *** p<0.01