Organization Capital, Dividends and Firm Value: International Evidence

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Abstract

This study investigates the relationship between organizational capital, dividends, and firm value across 30 countries. We find that organization capital relates to higher dividend payouts. Our results also show that this relationship is stronger among countries with a more flexible labor market. We document that the market places a premium on dividend payouts for firms with higher organization capital. Further analysis reveals that the above effects are more pronounced in environments marked by substantial agency costs. The robustness of our evidence is affirmed through various endogeneity tests and supports the agency view of organizational capital.

Keywords: organization capital, intangible capital, dividends, payout policy, firm value; agency theory

JEL classification: G30; G32; E22

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1. Introduction

Organizations need to adapt and innovate to navigate the challenges brought about by globalization, technological advancements, and customer demands. In this endeavour, modern corporations rely increasingly on intangible assets (Falato et al., 2022). Organization capital accounts for roughly 30% of total intangible assets and refers to the collective knowledge and expertise of employees, skills, the organization's culture and values, networks and relationships with external stakeholders, organization structure, and process systems (Corrado et al., 2009; Eisfeldt and Papanikolaou, 2014; Peters and Taylor, 2017). A large body of literature emphasizes the benefits of investing in organization capital, as it documents its positive relationship to improved output, investment, innovation capacities and efficiency, as well as future operating performance (Kaplan and Norton, 2004; Lev et al., 2009; Leung et al., 2018; Hasan and Cheung, 2018). However, several studies reveal its negative side.

Eisfeldt and Papanikolaou (2013) suggest that organization capital poses a risk to shareholders since it is embodied in the firm's key talents, which are movable. Consequently, firms with high organization capital are more susceptible to experiencing volatile cash flows due to the potential loss of key personnel and the risk of rivals appropriating trade secrets. Finally, organization capital, given its intangible nature, presents a heightened difficulty in valuation, potentially amplifying information asymmetries (Gu and Wang, 2005; Falato et al., 2022). The negative traits of organization capital provide theoretical links to dividend payouts.

A voluminous part of the theoretical and empirical research recognizes the use of dividends as a tool to mitigate agency costs and/or a signalling device. Supporters of the agency perspective contend that dividends serve as a deterrent to undesirable managerial behaviour (e.g., empire building) by diminishing assets under managerial control (Easterbrook, 1984; Jensen, 1986; Renneboog and Szilagyi, 2020; Brockman et al., 2022). Simultaneously, dividends enhance the probability of external financing, subjecting the firm to heightened market scrutiny and monitoring. Similarly, advocates of signalling

theory argue that managers utilize cash dividends to signal enhanced performance and promising prospects to external parties, particularly in environments characterized by high information asymmetry (Bhattacharya, 1979, 1980; John and Williams, 1985; Grinstein and Michaely, 2005). In this respect, Hasan and Uddin (2022), based on a sample of US firms, document a positive relationship between organization capital and dividends. Their overall empirical analysis is consistent with the agency view of organization capital and the role of dividends as a mechanism to mitigate agency issues.

Yet, Hasan and Uddin's (2022) study, as well as most of the organization capital versus corporate outcomes research, is US-based. Without testing the robustness of these findings outside the US, it is not feasible to assess whether these correlations are merely spurious and discriminate between alternative theories. Thus, the first objective of our study is to investigate the relation between organization capital and dividends in a global setting. Beyond the benefits of an increased sample size and an expanded scope of investigation, our international setting allows for larger variations in agency and information asymmetries than available in the commonly used single-country (US) setting.

Considering the discussion in the previous paragraphs, we aim to answer the following questions: Does the positive relationship between organization capital and dividends hold in a global setting? Is this relationship consistent with the agency view of organization capital? After our results provide an affirmative answer to these questions, we proceed to a third and equally important question: Does the market value dividends paid by high organization capital firms at a premium, in line with the agency view of organization capital? We hypothesize that if investors view organization capital as a source of agency concerns, then dividend distributions from high organization capital should be valued comparatively more.

To address our set of research questions, we employ an international sample of 83,714 firm-year observations, from listed firms across 30 countries, between 1991 and 2020. We document that organization capital relates to higher dividends and that this relationship holds in both our full and non-

US samples. The economic effect is substantial, as, we find that a one standard deviation increase in organization capital to total assets increases the dividend payout rate of a firm's total assets by 9.03%, relative to the mean. This result is consistent with both agency and signalling based explanations.

A major issue in interpreting our findings is that the association between organization capital and dividend payouts could be driven by unobservable factors associated with both organization capital and dividends. Another issue is reverse causality. Elevated dividend payments restrict the availability of internal capital, and are thus likely to impede investment capabilities, including those in organization capital (Fazzari et al., 1988; Bond and Meghir, 1994a, 1994b; Hubbard et al., 1995; Campello et al., 2010). Finally, we may also have the case that differences in observable characteristics between firms with high and low levels of dividends might drive our results. Under these assumptions, any identified relationship between organization capital and dividend payments may be a result of a combination of differences in underlying fundamentals and the causal impact of organization capital.

To improve our identification strategy, we initially use changes in the country-level of the employment protection legislation (EPL) index that reflect the stringency of national labour regulation concerning job terminations and the use of temporary contracts in recruitment. Leung et al. (2018) suggest that a higher EPL index decreases managers outside opportunities, and this may reduce the risk associated with organization capital. Exploiting country-level changes in the EPL index as exogenous shock to organization capital, we expect and find the impact of organization capital on dividend payouts to be less pronounced in countries when the EPL index increases. Moreover, we follow Hasan and Uddin (2022) and Lewbel (2012) and employ an instrumental variable (IV) analysis and an IV approach with heteroscedasticity-based instruments, respectively. Finally, we follow Hasan et al. (2021) and Hasan et al. (2022) and utilize the method of entropy balancing. Notably, none of these methods change our initial conclusions.

To explore whether the effect of organization capital on dividend payouts is consistent with agency and/or signalling based explanations, we examine whether the above relationship becomes more pronounced in environments marked by substantial agency costs and information asymmetries. Our international setting allows us to utilize both firm and country-level proxies for agency concerns. For firm-level proxies of agency costs, we use ownership dispersion and a measurement of overinvestment in organization capital. For our country-level proxy of agency costs, we utilize the anti-self-dealing index, which measures the extent to which minority shareholders are safeguarded from self-dealing that favours controlling shareholders (Djankov et al., 2008).[1] For firm-level proxies of information asymmetries, we use trading volume and R&D intensity (Elbadry et al, 2015; Hassan and Uddin, 2022). We also classify firms into bank and market-based economies as an indicator of country level information asymmetries.[2] The relevant results suggest that the positive relationship between organization capital and dividends is more pronounced for firms exposed to higher level of agency issues. Our results show no support to the signalling-based explanation.

The second part of our analysis seeks to explore the relationship between organization capital and firm value through its impact on dividend payouts. To serve this purpose, we utilize valuation regressions (Fama and French, 1998; Pinkowitz et al., 2006) and document that the market values dividend distributions for firms with high organization capital more compared to firms with low organization capital. Specifically, in firms with high organization capital, a dividend payout rate of 1% of a firm's total assets boosts firm value by 8.31%, an effect twice the size of the 3.68% increase in the low organization capital group.

[1] As Brockman et al. (2022) underline, the anti-self-dealing index is influenced by the legal tradition of the country and thus constitutes a reliable predetermined proxy for agency costs in the presence of endogeneity.
[2] Banks have a relative advantage in gathering information and are more motivated to monitor firms compared to other providers of capital (Hoshi et al., 1991; Dewenter and Warther, 1998; Chakraborty and Ray, 2006).

We further assess the consistency of the above result with the agency view of organization capital by considering only high organization capital firms and exploring the differential effects of dividend payouts on firm value in subsamples of high/low firm and country-level agency issues. Our results suggest that the premium placed on dividend payouts for firms with high organization capital increases if such firms also exhibit high ownership dispersion, high overinvestment in organization capital, and belong to countries with a low anti-self-dealing index.

We contribute to the literature in several ways. Our study extends ongoing research on the nexus between organization capital and financial decisions. Specifically, it is the first study to explore the relationship between organization capital and dividends in an international context. By doing so, it presents novel evidence that the positive relationship between organization capital and dividends manifests internationally and is not US-specific; while it amplifies in countries and firms more prone to agency issues. As such, our results offer insights into how firms navigate financial decisions in different regulatory environments. In this respect, our study validates organization capital as a determinant of dividend payouts.

Moreover, our study addresses an unexplored yet significant question: Does the market value dividend distributions from firms with comparatively high organization capital more? In this regard, we reveal that dividend payouts from high organization capital firms are valued at a premium, and this premium increases in countries and firms more susceptible to agency concerns. Thus, collectively, our evidence supports the agency view of organization capital. In this regard, our study contributes to the literature that reveals the 'negative' aspects of organization capital (see Falato et al., 2022; Hassan and Uddin, 2022; Khoo and Cheung, 2023).

Our findings have profound implications for investors, managers, and policymakers. Investors who prefer dividend paying firms should take into consideration the impact of investments on organization

capital on dividend levels. Furthermore, from our managerial perspective, our study shows that investors may consider organization capital as an important factor in firm valuation. Thus, firms that strategically deploy their intangible assets to enhance global competitiveness should acknowledge the agency view of organization capital. Finally, our results may have implications for global regulatory bodies in terms of considering policies that recognize the role of organization capital in decision-making.

2. Sample Selection Procedure and Methodology

2.1 Sample Selection Procedure

Our sample covers a global sample of firms spanning the period between 1991 and 2020 covered by Compustat North America and Compustat Global database. Consistent with previous studies (e.g., Attig et al., 2021; Long et al., 2024), we exclude financial firms (SIC codes 6000-6999) and regulated utilities (SIC codes 4900-4999). We also obtain country-level specific data from the World Bank and OECD. We remove firm-year observations with negative values for retained earnings, total common equity, and cash dividends. To ensure meaningful representation, we exclude firms with physical capital lower than $5 million (following Peters and Taylor, 2017). Additionally, we set a requirement of at least 20 firm-year observations per country. Finally, to mitigate the impact of outliers, we winsorize all continuous variables at 1% and 99% of their distributions. Our final sample consists of 8,689 firms and 83,714 firm-year observations from 30 countries.

2.2 Measurement of Organization Capital

We follow Peters and Taylor (2017) and measure organization capital by accumulating a fraction of past SG&A expenditure using the perpetual inventory method:

$$OC_{i,t} = (1 - \delta_0)OC_{i,t-1} + (SG\&A_{i,t} \times \theta_0) \quad (1)$$

where $SG\&A_{i,t}$ denotes firm *i*'s selling, general and administrative expenditure at time *t*, δ_0 signifies the depreciation rate of organization capital, $SG\&A_{i,t}$ denotes the expenses allocated to organization capital, θ_0 indicates the percentage of SG&A expenditure directed towards organization capital, and $OC_{i,t}$ denotes firm-specific organization capital at time t.

The initial stock of organization capital for each firm is estimated as follows:

$$OC_{i,t_0} = \frac{SG\&A_{i,t_0} \times \theta_0}{g + \delta_0} \tag{2}$$

where g represents the growth in the flow of organization capital, determined as the average growth of firm-level SGA expenditure. In line with existing literature (Eisfeldt and Papanikolaou, 2013; Peters and Taylor, 2017), we adopt a 20% depreciation rate for organization capital. Finally, we follow prior literature (Francis et al., 2021; Gao et al., 2021; Kim et al., 2021) and scale the stock of organization capital by firms' total assets ($OrgCap_{PT}$).

2.2 Empirical Design

To examine the impact of organization capital on dividend payouts, we estimate the following baseline empirical specification:

$$DIV_{i,t} = \beta_0 + \beta_1 OrgCap_{PT} + \beta_2 Control\ Variables + Fixed\ Effects + \varepsilon_i \tag{3}$$

where *DIV* is calculated as the ratio of cash dividends to total assets. The main independent variable is $OrgCap_{PT}$ which is organization capital, as measured by Peters and Taylor (2017), and scaled by total assets.

We also incorporate various firm and country characteristics that prior research has identified as potential factors influencing dividend payouts. These variables are included to isolate the specific impact of organization capital on dividend payments and to eliminate alternative explanations. We follow Louis and Urcan (2015) and Attig et al. (2021) and use the natural logarithm of total assets (*Firm Size*), earnings before interest (*Profitability*), and firms' annual stock returns (*StockReturn*) to control for asymmetric information and profitability. Additionally, we account for earnings volatility (*EarningVol*) and firm age (*Firm Age*) to capture the uncertainty in the operation environment (Balachandrana et al., 2018; Blouin et al., 2011).

Prior literature also suggests that asset tangibility may have conflicting effects on dividends, potentially increasing payouts by facilitating access to external financing or decreasing payouts by restricting the availability of cash flows (John et al., 2011). Therefore, we include firm tangibility (*Tangibility*) in our model to account for this factor. In addition, we use firm leverage (*Leverage*) to acknowledge the role of debt as an alternative mechanism against agency problems. He and Zhang (2022) also document that firms with high levels of leverage are more inclined to pay cash dividends, whereas Byrne and Connor (2017) show that firms with high leverage exhibit less payouts.

Furthermore, we control for investment and growth opportunities by using, market-to-book (*MKTB*), research and development expenditures (*R&D*), and capital expenditures (*Capex*), (Canil et al., 2023; Mekhaimer et al., 2022). Considering that firms operating in more competitive industries are less likely to distribute higher dividends (Hoberg et al., 2014), we account for industry concentration (*HHI*). Furthermore, we follow He and Zhang (2022) and Balachandrana et al. (2018) and include cash reserves (*Cash Holdings*) and stock repurchases (*Repurchases*) in our model.

In our last set of control variables, we adhere to previous research (Leung et al., 2018; Brockman et al., 2022; Balachandrana et al., 2018) and incorporate the following country-related variables: the ratio

of stock market capital to Gross Domestic Product (GDP) (*FinMarketDepth)*, *GDPGrowth*, and the natural logarithm of GDP per capita (*LnGDP*). To address time-invariant and unobservable firm-specific effects and to mitigate heterogeneity, we include both year- and firm-fixed effects in all regressions and we cluster standard errors at firm level (Petersen, 2009; Attig et al., 2021; Brockman et al., 2022; Leung et al., 2018). We provide detailed definitions of all variables in Appendix A.

3. Empirical results

3.1 Descriptive Statistics

Table 1 displays the distribution of firm-year observations within our sample, along with the average values of dividend payouts and organization capital, across various countries (Panel A), years (Panel B), and industries (Panel C). Results in Panel A show that Japanese firms (JPN) have the highest number of observations (44.41%), with the USA (33.48%) and the UK (8.30%) following. These countries also exhibit the highest investment in organization capital ($OrgCap_{PT}$). Specifically, for the average Japanese firm organization capital accounts for 34.1% of the total value of book assets, while the respective values for the US and the UK firms are 33.4% and 31.1%. In terms, of dividend payouts (*DIV*), the highest values belong to Hungary (HN), New Zealand (NZL), and Australia (AUS).

[Insert Table 1 about here]

Panel B shows that most of our firm-years belong to the manufacturing (20.1%) and the wholesale and retail (19.55%) sectors. The average firm in the consumer non-durables (Oil & Gas) sector displays the highest (lowest) value of organization capital accounts, i.e., 59.2% (8%). The highest average dividend payout belongs to firms in the business equipment sector (3%) and the lowest in consumer durables (1.5%).

Panel A of Table 2 presents the descriptive statistics for all variables used in our baseline model. The average age of our sample firm is 13 years, and the mean book value of total assets is 0.92$ billion. Moreover, for the average firm, organization capital represents 31.4% (29.4%) of book assets and tangible assets (*Tangibility*) account for 29.4% of total assets, while 15.9% is held in cash (*Cash Holdings*). The mean dividend and repurchase payout ratios are 1.6% and 0.8%, respectively. Also, the average firm has a market to book ratio of 1.473 and a profitability ratio of 11.7%. Investment in capital expenditures (*Capex*) amounts to 4.6% of total assets, while investments in research and development (*R&D*) to 1.4%. Finally, the average firm exhibits a leverage ratio of 18.2%.

[Insert Table 2 about here]

Panel B of Table 2 shows that firms with higher organization capital exhibit higher dividend (*DIV*) and repurchase (*Repurchases*) payouts than their low organization capital counterparts, a result consistent with Hasan and Uddin (2022). In addition, high organization capital firms are characterized by higher growth opportunities and higher but more volatile profits. Moreover, they earn higher stock returns, have fewer tangible assets, and hold more cash. These differences are significant at the 1% level. These results are consistent with the notion that firms with high organization capital are riskier than low organization capital firms, and thus, earn higher returns and hold more cash (Eisfeldt and Papanikolaou, 2013; Falato et al., 2022). Moreover, firms with high organization capital invest comparatively more in R&D than capital expenditure.

3.2 The Relationship Between Organization Capital and Dividends

Table 3 displays the outcomes of estimating the association between organization capital and dividends based on Equation (3). Column (1) presents results for the full sample, while Column (2) focuses

on the non-US sample. The coefficients of organization capital ($OrgCap_{PT}$) are 0.005 and 0.004, respectively, and statistically significant at the 1% level. These results indicate a positive and significant relationship between organization capital and dividends, and notably, this association extends beyond the US context. Furthermore, the economic significance of this relationship is evident. We find that a one standard deviation increase in organization capital to total assets increases the dividend payout rate of a firm's total assets by 9.03% ((0.005×0.289)/0.016). Notably, the coefficient of organization capital for the non-US sample (0.004) is remarkably similar to that reported by Hasan and Udin (2022) in their US-based study (i.e. 0.003). This suggests that the relationship between organization capital and dividends is of equivalent magnitude for the average non-US firm.

[Insert Table 3 about here]

Regarding the control variables in our model, results suggest that more profitable firms and firms with higher cash holdings distribute higher dividends. This supports the role of dividends as a mechanism against agency costs of free cash flows. Also, in line with this notion is the negative relationship between dividends and leverage, as both financial decisions are considered alternative mechanisms against agency costs of free cash flows, (Jensen,1986). Finally, we find that smaller firms, firms with high R&D intensity and low stock returns distribute more dividends, which is consistent with the signalling theory.

4. Identification Issues

Our results, thus far, suggest a positive relationship between organization capital and cash dividends. However, it is plausible that our empirical analysis is susceptible to endogeneity concerns. Despite the incorporation of *year x industry* and *firm* fixed effects to mitigate omitted industry-specific,

time-varying disparities, a notable empirical challenge is that omitted unobservable characteristics may influence both organization capital and dividend payouts in a similar manner. Moreover, the observed relationship between organization capital and dividend payouts may be driven by differences in the observable characteristics between firms with high and low organization capital, which may lead to biased estimates in our primary results. In the subsequent subsections, we employ various methods in an effort to address these identification challenges.

4.1 Quasi-natural Experiment: Employment Protection Legislation Index

To obtain additional heterogeneity, we use variations in the country-level employment protection legislation index as a quasi-natural experiment associated with the level of dividend payments. The EPL index gauges the stringency of national labor regulations concerning job terminations and the utilization of temporary contracts in recruitment (Long and Siebert, 1983; Li et al., 2020). Consistent with this idea, Gangl (2003) contends that labour protection limits mobility by reducing the ease with which employers can terminate individual contracts and by limiting external job opportunities for employees. In a similar vein, Autor et al. (2007) show that less protective labour regulations are linked to increased employment turnover and higher rates of new firm entries.[3] As such, we anticipate that stringent employee protection (i.e., increases in the EPL index) would decrease managers outside options and their bargaining position, and thus reduce organization capital associated risk.

We construct a variable (*EPL Index Changes*) which is equal to +1 for firms headquartered in countries with increases in their EPL index; equal to -1 for firms headquartered in countries with decreases in their EPL index; and equal to 0 otherwise.[4] The resulting treated firms from this quasi-natural

[3] EPL index ranges from 0 to 6, and higher values imply better employment protection.
[4] For example, Australia had a decrease in its EPL index in 2007. Thus, EPL Index Changes takes the value of -1 for firms headquartered in Australia in 2007.

experiment are 5,591 out of 8,689.[5] To test the above hypothesis, we add *EPL Index Changes* and the product of $OrgCap_{PT}$ and *EPL Index Changes* to our baseline regressions. The variable of interest is the interaction term ($OrgCapPT \times EPL\ Index\ Changes$), the coefficient of which is predicted to be positive, consistent with the expectation of a stronger impact of organization capital on dividend payments when the employment protection increases.[6] Our results in Table 4 show that the interaction term is negative, implying that the impact of organization capital on cash dividends is less pronounced when there are fewer employment opportunities.

We also explore the validity of the difference-in-difference (DiD) analysis by testing the parallel trends assumption. In doing so, we create four variables (*EPL Index Changes*$_{t-2}$, *EPL Index Changes*$_{t-1}$, *EPL Index Changes*$_{t+1}$, *EPL Index Changes*$_{t+2}$) equal to +1 for firms headquartered in countries with an increase in the EPL index, one and two years before (after) the increase in the EPL index, equal to -1 for the firms headquartered in countries with a reduction in the EPL index, one and two years before (after) the reduction in the EPL index, and 0 otherwise. Our findings indicate that, the interactive terms between *EPL Index Changes* and organization capital remains negative and significant, whereas the interactive variables between *EPL Index Changes* in one and two years before the change in EPL index and organization capital are positive and statistically insignificant, suggesting that our DiD satisfies the parallel trends assumption.[7]

[Insert Table 4 about here]

Recent causal inference studies have pointed out potential challenges in the application of staggered difference-in-difference (DiD) methods, often stemming from the common practice of using

[5] We identify 2,477 firms in countries with increased EPL index and 3,114 firms in countries with decreased EPL index.
[6] Any changes in the EPL index at the country-level are unlikely to be influenced by the actions of a specific firm. Therefore, these changes can be considered as external and unrelated to a firm's organization capital.
[7] Our observations are fewer than the previous regressions due to data unavailability on EPL index.

already-treated firms as control groups. However, the comparison between a group treated earlier and a group treated later may be susceptible to estimation bias due to variations in treatment effects or differences in the timing of treatment (Baker et al., 2022; Goodman-Bacon, 2021; Sun and Abraham, 2021). In our context, this issue is pertinent as the effects of an enhanced or weaker EPL index are introduced gradually and may vary over an extended sample period. To address these concerns, we conduct two robustness checks using alternative estimators proposed by Baker et al. (2022): (1) the stacked regression estimator (Cengiz et al., 2019) and (2) the Callaway and Sant'Anna (2021) estimator. We utilize all observations before and after treatment, ensuring that control groups are "clean" or "good" in the sense that they are either untreated or not yet treated (Krueger et al., 2023). Panel B of Table 4 presents the results indicating that the negative interaction between *EPL Index Changes* and organization capital persists when the outcome variable is dividend payments.

4.2 Instrumental Variable Analysis

We also consider the scenario under which an unobserved variable that is not necessarily fixed influences organization capital and dividend payouts. To mitigate this issue, we employ a two-stage instrumental variable (IV) analysis. We need our instrument to explain firms' investments in organization capital (satisfy the relevance condition) and have no direct impact on dividend payouts (satisfy the exclusion criterion). In doing so, we follow previous research (Francis et al., 2021; Leung et al., 2018) and use industry-level growth uncertainty as our instrument. To measure industry-level growth uncertainty (*Ind_GRU*), we first estimate firm-level standard deviations of yearly assets growth rates over the previous four years, and then take the industry median of those firm-level standard deviations (excluding the focal firm).

Carlin et al. (2012) posit that companies operating in industries characterized by rapid changes allocate fewer resources to organization capital due to the increased risk of technological obsolescence. Thus, we anticipate that industry-level growth uncertainty to relate negatively to organization capital. However, a problem with the above instrument may arise if industry trends influence firms' decisions regarding investments in organization capital, thereby impacting payout policies. In addressing this concern, and eliminate the impact of industry-level payouts from the variable representing industry-level growth uncertainty, we firstly follow Francis et al. (2021) and Leung et al. (2018), and estimate the following regression for each industry (two-digit SIC) and use the residuals (*Ind_Gr_Res*) from this regression as our instrument:

$$Ind\_GRU_{j,t} = \alpha + IND\_DIV_{j,t} + \varepsilon_{j,t} \quad (4)$$

In addition to the above, we follow Hasan et al. (2022) and Hasan et al. (2021) and employ an instrumental variable regression estimation developed by Lewbel (2012) using heteroscedasticity-based instruments. This method uses heteroscedasticity in the data to create internal instruments, suggesting that our new instrument overcomes any issues with the exclusion criterion. To construct this instrument, we firstly regress our current instrument (*Ind_Gr_Res*) and the other control variables on the organization capital, and we then regress the same variables as well as the residuals from the previous regression on dividend payouts.

[Insert Table 5 About Here]

Table 5 reports the results. In Column (1) of Table 5, we find that industry-level growth uncertainty is negatively associated with organization capital, implying that companies in rapidly evolving sectors invest less in organization capital. Moreover, we conduct various tests to ensure the relevance and validity of our instrument. The values of F-statistics indicate that our instrument is not weak. In addition, the Hausman exogeneity test statistic is not significant, therefore, indicating that we can reject the hypothesis of exogeneity and that IV results are more reliable than OLS results. Finally, in Column (2) of Table 5 we document that the instrumented value of organization capital is positively associated with cash dividend payments. Overall, our findings are consistent with our baseline results.

4.3 Change Regression Analysis

To mitigate the issue of reverse causality, we follow prior literature (Li et al., 2017; Cheung et al., 2018; Hasan et al., 2021) and utilize a change analysis methodology. This regression approach is considered more resilient in elucidating the additional impact of organization capital on dividend payouts, as it minimizes potential noise in the model by eliminating unobserved effects that remain constant over time. Our results in Table 6 suggest that the coefficient of organization capital remains positive and statistically significant, providing additional support to our initial findings and showing that our results are not driven due to reverse causality.

[Insert Table 6 About Here]

4.4 Entropy Balancing

While the aforementioned tests contribute to mitigate endogeneity bias arising from unobservable heterogeneity, another potential source of endogeneity stems from factors influencing organization capital that are not adequately controlled in our models. This form of misspecification is typically ascribed to differences in observable characteristics between firms with higher/lower organization capital. For

example, Panel B of Table 2 shows that smaller firms and those with low levels of leverage invest more in organization capital. If these conditions hold true, any observed empirical correlation between organization capital and dividend payouts could stem from a combination of differences in fundamental characteristics and the causal effect of organization capital.

To address these concerns, we employ the method of entropy balancing (Hainmueller, 2012; Chapman et al., 2019; Colak et al., 2021). This approach ensures that the differences in the control variables between the treated and control groups potentially stemming from a latent (missing) variable issue, no longer hinder valid inferences. As illustrated in Panel A of Table 7, entropy balancing eliminates statistically significant distributional differences across a set of observable covariates between subsamples of firms with high and low organization capital. In Panel B of Table 7, we use the sample with the post-weighting observations, and re-run the regressions of Table 3. Panel B of Table 7 shows that in the entropy-balanced sample, the inferences from Table 3 remain unchanged.

[Insert Table 7 About Here]

5. Potential explanations

5.1 Agency Channel

Our findings, as discussed in the previous sections, show a positive relationship between organization capital and dividends. In this section, we seek to explore if this result is consistent with the agency view of organization capital, and the notion that firms disgorge cash as means to constrain managerial self-serving behavior (Easterbrook, 1984; Jensen, 1986). Thus, we posit that if firms with higher levels of organization capital are susceptible to more agency problems (Hasan and Uddin, 2022; Khoo and Cheung, 2023), one would anticipate that the positive relationship between organization capital

and dividend payouts to become more pronounced in environments characterized by significant agency concerns.

To test this conjecture, we re-evaluate our baseline regressions by incorporating interaction terms between organization capital and proxies for agency issues. The international context of our study enables us to employ both firm and country-level proxies for agency costs. Our first firm-level proxy for agency issues, following Hasan and Uddin (2022), is ownership dispersion (*DispersedOwn*). Research indicates that a larger shareholder base, reflects more dispersed ownership and potentially more agency problems (Ang et al., 2000).

Our second measure of firm-level agency issues, captures overinvestment in organization capital ($OverOrgCap_{PT}$) and relies on the notion that key talents may be motivated to engage in excessive investments in organization capital to maximize their personal benefits.[8] Finally, to capture country-level agency costs, we utilize the *anti-self-dealing index*, measuring the degree to which minority shareholders are protected from self-dealing favoring controlling shareholders (Djankov et al., 2008). As highlighted by Brockman et al. (2022), the anti-self-dealing index is influenced by the legal tradition of the country and serves as a reliable predetermined proxy for agency costs.

[Insert Table 8 About Here]

The outcomes of the regression analysis of our baseline model augmented with interaction terms between organization capital and agency costs are presented in Table 8, Columns (1) to (3). In Columns (1) and (2) the interactive term between organization capital and both firm-level proxies for agency

[8] Thus, we construct this measure in a manner akin to Richardson's (2006) overinvestment measure regarding CAPEX, R&D, and M&A activity. Specifically, we estimate a firm's optimal investment level in organization capital, as the predicted values from a dynamic regression of organization capital on several firm-level characteristics. We measure overinvestment in organization capital as the positive difference between observed and predicted organization capital.

concerns (i.e., dispersed ownership and overinvestment in organization capital) is both positive and statistically significant at the conventional level. Moreover, in column (3) the coefficient of the interactive term between organization capital and the anti-self-dealing index is positive and statistically significant at the 1% level.[9] In summary, the results of this analysis lend support to our agency-driven assertion that companies possessing higher organization capital tend to distribute more cash dividends as a strategy to mitigate the corresponding agency concerns.

5.2 Does the Signaling Channel Also Drive Our Results?

In the preceding section, our findings revealed an agency channel driving the positive relationship between organization capital and dividends. In this section, we aim to investigate the simultaneous existence of a signaling channel. Signaling theory suggests that managers employ dividends as a mechanism to communicate improved performance and optimistic prospects to external stakeholders, especially in environments marked by substantial information asymmetry (Bhattacharya, 1979, 1980; John and Williams, 1985; Grinstein and Michaely, 2005). In this respect, organization capital, due to its intangible nature, may aggravate information asymmetries (Gu and Wang, 2005; Falato et al., 2022). Thus, from a signaling perspective, the positive relationship between organization capital and dividends may be the outcome of managers using dividends to alleviate information asymmetries induced by the former. Consequently, one would anticipate that the positive correlation between organization capital and dividend payouts to becomes more prominent in environments marked by substantial information asymmetry.

To assess the above conjecture, we re-examine our baseline regressions by introducing interaction terms between organization capital and proxies for information asymmetries at both firm and country levels. To proxy for information asymmetries at the firm level we follow Elbadry et al. (2015) and use the

[9] In Column (2), we have fewer observations due to data unavailability.

natural logarithm of the number of shares traded annually divided by the number of common shares outstanding (*Share Turnover*). Elbadry et al. (2015) suggest that information asymmetry concerns relate to a lower trading volume. Our second firm level proxy is research and development expenditures (*R&D*), (see Hasan and Uddin, 2022). Previous research indicates that R&D intensive firms intentionally maintain higher levels of information asymmetry to leverage advantages in product development and market dynamics (Aboody and Lev, 2000). Finally, to capture country-level information asymmetries, we create an indicator variable equal to one for firms located in bank-based economies and equal to zero for firms located in market-based economies (following Demirguc-Kunt and Levine, 2001). Financial intermediaries possess a comparative advantage in information collection and exhibit stronger incentives to monitor firms than others providers of capital (Hoshi et al., 1991; Dewenter and Warther, 1998; Chakraborty and Ray, 2006).

The results of the regression analysis of our baseline model augmented with interaction terms between organization capital and information asymmetries are presented in Table 9, Columns (1) to (3). In Column (1) the interaction term between organization capital and trading volume is both positive and statistically significant at the 1% level, suggesting that in contrast to the signaling channel, the positive relationship between organization capital and dividends becomes more pronounced in the presence of lower information asymmetries. Moreover, in columns (2) and (3) the coefficient of the interactive terms between organization capital and the research and development expenditures and bank-based economies are insignificant. In summary, our results provide no indication that the signaling channel explains the positive relationship between organization capital and dividends.

[Insert Table 9 About Here]

6. Dividends and Firm Valuation: The Role of Organization Capital

So far, our empirical analysis documents a robust, positive relationship between organization capital and dividends, while lending strong support to the agency view of organization capital in an international setting. In this section, we aim to assess whether the market values differently dividends paid by high versus low organization capital firms. We hypothesize that if dividends paid from high organization capital firms, are perceived as an effort to address, or mitigate perceived agency issues associated with organization capital, then the market should value such disbursements at a premium. Thus, test this hypothesis, we employ the valuation regression of Fama and French (1998) and Pinkowitz et al. (2006). Specifically, we examine the market valuation of dividend payouts in low versus high organization capital firms by estimating the following equation:

$$\begin{aligned} MV_{i,t} = {} & \alpha + \beta_1 DIV_{i,t} + \beta_2 \Delta DIV_{i,t} + \beta_3 \Delta DIV_{i,t+1} + \beta_4 EARNINGS_{i,t} + \beta_5 \Delta EARNINGS_{i,t} + \beta_6 \Delta EARNINGS_{i,t+1} \\ & + \beta_7 R\&D_{i,t} + \beta_8 \Delta R\&D_{i,t} + \beta_9 \Delta R\&D_{i,t+1} + \beta_{10} INTEREST_{i,t} + \beta_{11} \Delta INTEREST_{i,t} + \beta_{12} \Delta INTEREST_{i,t+1} \\ & \beta_{13} \Delta ASSETS_{i,t} + \beta_{14} \Delta ASSETS_{i,t+1} + \Delta MV_{t+1} + year + firm + \varepsilon_{i,t} \end{aligned} \quad (5)$$

Where, X_t, ΔX_t, ΔX_{t+1} signify the level, change, and lead change in the level of variable X, respectively, scaled by total assets in year t. *MV* is a firm's market value at the end of the fiscal year, calculated as the market value of equity plus the book values of short and long-term debt. *EARNINGS* denotes earnings before extraordinary items plus interest, deferred tax credits, and investment tax credits. *R&D* signifies the firm's research and development expenses, while *INTEREST* represents the interest expense. *DIV* is common dividends paid, and *ASSETS* represents a firm's total assets.

The model's framework draws on Fama and French (1998), where the market value of a firm is postulated to be the sum of the market value of a solely equity-financed firm (paying zero dividends with equal pre-tax expected net cash flows) and the value effects of taxation on expected dividend and interest payments. In the context of Equation (5), if the other variables comprehensively capture information

related to expected net cash flows from financing decisions, then the coefficients on dividend and debt-related interest variables are deemed to represent the tax effects in the model. To proxy for expected net cash flows, Fama and French (1998) use past, current, and future earnings, investment, and R&D. The change and lead change in total assets are included to represent the net investment component of expected net cash flows. The R&D variable is included due to the mandatory expensing of R&D, and the lead change in market value is included to account for unexpected components in future changes.

[Insert Table 10 About Here]

In Table 10, Columns (1) and (2) present our findings for the subsamples of firms with high and low organization capital, respectively. Columns (3) and (4) present the findings when using the same stratification for the non-US sample. The results in Columns (1) and (2) show the market valuation difference of dividend distributions between high and low organization capital firms. In economic terms, a total payout rate of 1% of a firm's total assets enhances firm value by 8.307% in high organization capital firms, a more than twofold effect compared to the 3.268% increase observed in the low organization capital group.[10] Overall, our findings are in line with the notion that the market perceives organization capital as a potential cause for agency concerns, and consequently, dividend distributions originating from high organization capital are accorded a relatively higher value.

[10] Similar results are provided for the non-US sample in columns (3) and (4), where the value differential placed on a 1% increase in dividend payout rate of the firm's assets, in high versus low organization capital samples, is roughly 5% (i.e., 15.514% - 10.649%).

6.1 Dividends, Firm Valuation, and Organization Capital: The Role of Agency Problems

In this section, we explore whether the differential impact of dividends on firm valuation on the subsamples of firms with high and low organization capital is in line with the agency view of organization capital. We test the above conjecture by investigating the varying impacts of dividend distributions for firms with high organization capital on firm value, considering subgroups categorized by high/low levels of both firm and country-level agency issues.[11] Our findings in Table 11 suggest that the premium assigned to dividend payouts for high organization capital firms increases when these firms also exhibit characteristics such as high ownership dispersion, significant overinvestment in organization capital, and are located in countries possessing a low anti-self-dealing index. For instance, results in column (5) indicate that a 1% dividend payout rate relative to a firm's total assets enhances firm value by 12.58% in high organization capital firms situated in low anti-self-dealing countries; representing an almost fourfold effect compared to the 5.02% increase observed for high organization capital firms situated in high anti-self-dealing countries.

[Insert Table 11 About Here]

7.Robustness Analysis

7.1 Alternative Measures

We also examine the effect of organization capital on dividend payouts by using some alternative measures for both. Specifically, in Columns (1) and (2) of Table 12, we utilize the organization capital measure ($OrgCap_{EP}$) introduced by Eisfeldt and Papanikolaou (2013), which is akin to the measure used by Peters and Taylor (2017), with the distinction that Eisfeldt and Papanikolaou (2013) incorporate

[11] We have fewer observations than Table 11 because we focus only on firms with high organization capital.

deflated values of SG&A expenses rather than a fraction of past SG&A expenses. In Columns (3) and (4) we also scale dividends by the market value of equity (*DIV_MV*). Results across all columns demonstrate that the coefficients of organization capital are consistently positive and statistically significant at conventional levels, aligning with the findings of our primary analysis.[12]

[Insert Table 12 About Here]

7.2 Alternative Specification – Country Fixed Effects Regression

One may argue that our initial regression might not adequately address potential impacts stemming from firm-specific attributes. Thus, we incorporate country fixed effects to control for any country-specific, time-invariant omitted variable that could impact the relationship between organization capital and dividend payout. In Panel B of Table 12, we confirm our main findings even after incorporating country fixed effects.

7.3 Exploring Non-Linearity

Our analysis so far indicates a positive effect of organization capital on dividend payouts. However, there is a perspective that this positive impact may only persist until a certain threshold of organization capital is reached, beyond which it might turn negative. For instance, this shift could occur because an increase in organization capital might diminish firms' capacity to borrow, leading them to hold more cash, thus limiting their ability to distribute funds to shareholders (Falato et al., 2022). Thus, the positive influence of organization capital on dividends might weaken as organization capital levels rise, resulting in a non-linear relationship. To explore this potential non-linearity, we adopt the approach of

[12] In untabulated analysis, we also scale organization capital by property, plant, and equipment and our findings remain the same. The results are available upon request.

previous studies (e.g., Wang et al., 2010; Hasan and Uddin, 2022) by employing a quadratic specification. We incorporate both organization capital and its squared term into our regression analysis. Our results in Panel C of Table 12 show that the coefficient of organization capital is positive and significant, however the coefficient of the squared term is insignificant. This outcome suggests that the relationship between organization capital and cash dividends is linear.

8. Conclusion

Several studies have emphasized the favorable effects of organization capital on productivity, investment, innovation capabilities, efficiency, and future operational performance. Despite these positive aspects, certain research contends that organization capital introduces agency issues and poses a risk to shareholders. In this study, building on agency theory and the role of dividends as a mechanism against agency problems, we investigate the link between organization capital, dividends, and firm value in a global setting. The first part of our study explores the relationship between organization capital and dividends using a sample of international listed firms. The second part of our study answers a previously overlooked but significant inquiry: Are dividend distributions from firms with relatively high organization capital more highly valued by the market? We propose that if investors perceive organization capital as a potential cause for agency concerns, then the market should appreciate dividends distributed by firms with substantial organization capital comparatively more.

Our analysis offers several novel findings. First, our study adds to the literature by examining the relationship between organization capital and dividends in an international context. Through this exploration, we introduce unique evidence that the positive association between organization capital and dividends is not limited to the United States but extends globally, particularly in countries and firms more

susceptible to agency issues. Consequently, our research ratifies organization capital as a factor influencing dividend payouts.

The final part of our study offers novel evidence that organization capital affects firm value through its impact on payouts. Specifically, we document that dividend payouts from firms with substantial organization capital are valued at a premium. This premium becomes more pronounced in countries and firms that are more vulnerable to agency concerns. Consequently, our collective findings support the perspective that views organization capital from an agency standpoint. In this aspect, our study adds to the body of literature highlighting the 'negative' facets of organization capital. Our findings link organization capital, dividends and firm value and thus are expected to be of value to market participants and especially investors and corporate managers.

Appendix A: Definitions of Variables

Variable	Definition
	Panel A: Dependent Variable
DIV	The ratio of cash dividends scaled by total assets.
	Panel B: Organization Capital Measures
$OrgCap_{PT}$	Organization capital measure of Peters and Taylor (2017) divided by total assets over the fiscal year (see Section 2.2 for details).
$OrgCap_{EP}$,	Organization capital measure of Eisfeldt and Papanikolaou (2013) divided by total assets over the fiscal year.
	Panel B Firm Characteristics
Firm Size	The natural logarithm of total assets over the fiscal year.
Profitability	The ratio of earnings before interest to total assets over the fiscal year.
Stock Return	Yearly buy and hold stock return.
EarningsVol	The standard deviation of operating earnings scaled by total assets during the prior 5 years.
Firm Age	Calculated as the difference in year t and the first year the firm appeared in the CRSP database, (in regression analysis, we use the natural logarithm of firm age).
Tangibility	The ratio of net property, plant, and equipment to total assets over the fiscal year.
Leverage	It is the book value of all liabilities divided by total assets over the fiscal year.
MKTB	The ratio of market-to-book over the fiscal year.
R&D	The ratio of research and development expenditures to total assets over the fiscal year.
Capex	The ratio of capital expenditures to total assets over the fiscal year.
HHI	It is the Herfindahl-Hirschman index of market concentration based on sales in four-digit SIC industries.
Cash Holdings	The ratio of cash and cash equivalents to total assets over the fiscal year.
Repurchases	The ratio of share repurchases to total assets over the fiscal year.
Ind_Gr_Res	The residuals from the following regression: $\text{Ind\_GRU}_{j,t} = \alpha + \text{IND\_DIV}_{j,t} + \varepsilon_{j,t}$ Where Ind_GRU is the firm-level standard deviations of yearly assets growth rates over the previous four years, and IND_DIV is the industry median of those firm-level standard deviations (excluding the focal firm).
$OverOrgCap_{PT}$	To construct this measure, we estimate a firm's optimal investment level in organization capital, as the predicted values from a dynamic regression of organization capital on several firm-level characteristics. $OrgCap_{PTt} = \beta_0 + \beta_1 OrgCap_{PTt-1} + \beta_2 FirmAge + \beta_3 CashHoldings + \beta_4 Profitability + \beta_{45} MKTB + \beta_6 Leverage + \beta_{45} FirmSize + Fixed\ Effects + \varepsilon_i$ We measure overinvestment in organization capital as the positive difference between observed and predicted organization capital. Under-investment in $OrgCap_{PT}$ and Over-investment in $OrgCap_{PT}$ are based on the sample median.
DispersedOwn	It is defined as the natural log of one plus the number of common/ordinary shareholders (CSHR). High and Low DispersedOwn are based on the sample median.
Share Turnover	The natural logarithm of the number of shares traded annually divided by the number of common shares outstanding.
Bank-Based	Dummy variable equal to one if a country has above the mean values of Structure index, and zero otherwise (following Demirguc-Kunt and Levine, 2001).
	Panel C: Country Variables
EPL Index	The Employment Protection Legislation (EPL) index measures the country-level degree of labor market flexibility. It is computed by taking the average of three indexes, which measure the country-level strictness of employment protection in individual dismissals (regular contracts) (EPR), collective dismissals (additional provisions) (EPC) and temporary employment (EPT), respectively. A higher value indicates less strict protection, or higher labor market flexibility.
EPL Index Changes	It is equal to +1 for firms headquartered in countries with increases in their EPL index; equal to -1 for firms headquartered in countries with decreases in their EPL index; and equal to 0 otherwise.
FinMarketDepth	The ratio of stock market capital to GDP.
GDP Growth	Percentage growth in GDP per capita.
LnGDP	Natural log of GDP per capita (in 2005 US dollars).
Anti-Self-Dealing	The average of ex-ante and ex-post private control of self-dealing developed by Djankov et al. (2008). Higher values of Anti-Self-Dealing Index imply strong shareholders rights. Data on Anti-Self-Dealing are obtained from Andrei Shleifer's website. https://scholar.harvard.edu/shleifer/publications/law-and-economics-self-dealing.
Low-Anti-Self	Dummy variable equal to one for firms located in countries with low-anti-self dealing-index. High and low Anti-Self-Dealing are based on the sample median.

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Table 1: Country and Industry Distribution

This table presents the distribution of firm-year observations in our sample as well as the average values of dividend payouts and organization capital across countries and industries. Panel A reports the distribution by country. Panel B displays the distribution of our sample across industries (as defined by the two-digit SIC codes).

Panel A: Country Distribution

Country	Obs.	%	DIV	$OrgCap_{PT}$	Country	Obs.	%	DIV	$OrgCap_{PT}$
JPN	37,179	44.41%	0.011	0.342	ZAF	343	0.41%	0.040	0.161
USA	28,031	33.48%	0.014	0.334	ITA	301	0.36%	0.020	0.042
GBR	6,946	8.30%	0.032	0.311	GRC	286	0.34%	0.033	0.403
AUS	2,161	2.58%	0.051	0.181	AUT	239	0.29%	0.022	0.130
DEU	1,543	1.84%	0.025	0.181	ESP	230	0.27%	0.028	0.066
CAN	832	0.99%	0.009	0.155	NZL	201	0.24%	0.053	0.044
CHE	808	0.97%	0.023	0.174	FIN	151	0.18%	0.033	0.050
NLD	751	0.90%	0.027	0.152	BEL	119	0.14%	0.024	0.188
BRA	542	0.65%	0.037	0.259	POL	57	0.07%	0.038	0.319
NOR	515	0.62%	0.031	0.076	LUX	53	0.06%	0.018	0.240
ISR	512	0.61%	0.027	0.232	PRT	45	0.05%	0.019	0.040
FRA	457	0.55%	0.024	0.258	CHL	39	0.05%	0.028	0.162
SWE	456	0.54%	0.028	0.192	MEX	32	0.04%	0.031	0.406
DNK	430	0.51%	0.018	0.200	SVN	28	0.03%	0.015	0.545
IRL	402	0.48%	0.021	0.221	HUN	25	0.03%	0.084	0.227

Panel B: Industry Distribution

	Obs.	%	DIV	$OrgCap_{PT}$
Consumer non-durables	8.522	10.18%	0.024	0.592
Consumer durables	3.688	4.41%	0.015	0.279
Manufacturing	16.835	20.11%	0.018	0.263
Oil, Gas, & Coal Extract. & Products	2.291	2.74%	0.021	0.080
Chemicals and Allied Products	4.133	4.94%	0.017	0.314
Business Equipment	11.494	13.73%	0.030	0.287
Telephone & Television Transmission	1.128	1.35%	0.028	0.223
Wholesale, Retail, and Some Services	16.363	19.55%	0.016	0.542
Healthcare, Medic. Equip., & Drugs	4.042	4.83%	0.018	0.312
Other	15.218	18.18%	0.018	0.232

Table 2: Summary Statistics

This table presents the descriptive statistics of our variables for a global sample of public firms from 1 January 1991 to 31 December 2020. Panel A presents the descriptive statistics for all variables used in our study. Panel B reports the average values of the variables used in our study across the subsamples of firms with high and low organization capital. High and low organization capital are based on sample median. All variables are defined in Appendix A.

Panel A: Summary Statistics

	Obs.	**Mean**	**SD**	**P25**	**P50**	**P75**
DIV	83.714	0.016	0.022	0.004	0.009	0.020
$OrgCap_{PT}$	83.714	0.314	0.289	0.120	0.239	0.419
Firm Size	83.714	8.340	2.851	6.028	8.549	1.058
Profitability	83,714	0.117	0.075	0.067	0.106	0.155
StockReturn	83,714	0.138	0.519	-0.160	0.046	0.310
EarningsVol	83,714	0.030	0.028	0.012	0.021	0.037
Firm Age	83,714	12.94	7.520	7.000	12.000	18.000
Tangibility	83,714	0.294	0.207	0.134	0.256	0.406
Leverage	83,714	0.182	0.160	0.033	0.156	0.290
MKTB	83,714	1.473	0.999	0.894	1.148	1.659
R&D	83,714	0.014	0.026	0.000	0.000	0.016
Capex	83,714	0.046	0.045	0.015	0.033	0.061
HHI	83,714	0.169	0.194	0.046	0.089	0.211
Cash Holdings	83,714	0.159	0.144	0.049	0.119	0.225
Repurchases	83,714	0.008	0.026	0.000	0.000	0.000
FinancialDepth	83,714	125.7	75.28	66.91	116.7	195.4
GDP Growth	83,714	1.118	1.936	0.352	1.487	2.181
LnGDP	83,714	15.34	1.105	15.08	15.38	16.21

Panel B: Subsample Analysis

	$OrgCap_{PT}$>p50 (N=41,857)	**$OrgCap_{PT}$<p50 (N=41,857)**	**Mean equality t-test (p-value)**
DIV	0.017	0.016	0.000***
Firm Size	8.146	8.535	0.000***
Profitability	0.118	0.115	0.000***
StockReturn	0.150	0.125	0.000***
EarningsVol	0.017	0.016	0.000***
Firm Age	13.33	12.54	0.000***
Tangibility	0.250	0.337	0.000***
Leverage	0.157	0.207	0.000***
MKTB	1.506	1.440	0.000***
R&D	0.015	0.012	0.000***
Capex	0.039	0.053	0.000***
HHI	0.154	0.184	0.000***
Cash Holdings	0.172	0.145	0.000***
Repurchases	0.010	0.006	0.000***
FinancialDepth	128.800	122.600	0.000***
GDP Growth	1.035	1.201	0.011**
LnGDP	15.470	15.200	0.000***

Table 3: The Impact of Organization Capital on Dividend Payouts

This table presents the relationship between organization Capital and dividend payouts using ordinary least square (OLS) regressions. The dependent variable is dividend payouts (*DIV*), calculated as cash dividends scaled by total assets. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels, respectively. All variables are defined in Appendix A.

	Full sample	**Non-US sample**
	(1)	**(2)**
$OrgCap_{PT}$	0.005***	0.004**
	(0.001)	(0.002)
Firm Size	-0.001**	-0.001
	(0.000)	(0.000)
Profitability	0.052***	0.062***
	(0.003)	(0.004)
StockReturn	-0.003***	-0.002***
	(0.000)	(0.000)
EarningsVol	-0.001	-0.007
	(0.006)	(0.007)
Firm Age	0.000	0.000
	(0.000)	(0.000)
Tangibility	-0.001	0.001
	(0.002)	(0.002)
Leverage	-0.008***	-0.015***
	(0.001)	(0.001)
MKTB	0.003***	0.004***
	(0.000)	(0.000)
R&D	0.024*	0.031**
	(0.013)	(0.014)
Capex	-0.003	0.005*
	(0.002)	(0.002)
HHI	-0.001	-0.001
	(0.001)	(0.001)
Cash Holdings	0.006***	0.009***
	(0.001)	(0.001)
Repurchases	-0.005	-0.004
	(0.004)	(0.011)
FinancialDepth	-0.001	-0.001
	(0.000)	(0.000)
GDP Growth	-0.001	0.001*
	(0.000)	(0.000)
LnGDP	0.011***	-0.006
	(0.003)	(0.004)
Year x Industry FE	Y	Y
Firm FE	Y	Y
Adjusted R^2	0.776	0.848
Number of Obs.	83,714	55,651

Table 4: Quasi-Natural Experiment

This table displays the relationship between organization capital and dividend payouts after employing a quasi-natural experiment. The dependent variable is dividend payouts (*DIV*), calculated as cash dividends scaled by total assets. EPL Index Changes is equal to +1 for firms headquartered in countries with increases in their EPL index; equal to -1 for firms headquartered in countries with decreases in their EPL index; and equal to 0 otherwise. Employment Index Changes$_{t-2}$, Employment Index Changes$_{t-1,}$ Employment Index Changes$_{t+1,}$ Employment Index Changes$_{t+2}$ equal to +1 for firms headquartered in countries with an increase in the EPL index, one and two years before (after) the increase in the EPL index, equal to -1 for the firms headquartered in countries with a reduction in the EPL index, one and two years before (after) the reduction in the EPL index, and 0 otherwise. Control variables are the same as in Table 3. Panel A displays the impact of organization capital and dividends using a district index (changes) of EPL Index. Panel B presents the estimates using the stacked regression approach and the Callaway and Sant'Anna (2021) estimator. We use all observations from before and after treatment. The control group in these regressions are never treated and not-yet treated firms. Standard errors are included in the parentheses and are clustered by country. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A

	(1)	**(2)**
OrgCap$_{PT}$	0.004***	0.004**
	(0.001)	(0.001)
EPL Index Changes	0.001	0.001
	(0.000)	(0.002)
OrgCap$_{PT}$ x EPL Index Changes	-0.001**	-0.001**
	(0.000)	(0.000)
OrgCap$_{PT}$ x EPL Index Changes$_{t-2}$		0.002
		(0.002)
OrgCap$_{PT\ t}$ x EPL Index Changes$_{t-1}$		0.003
		(0.002)
OrgCap$_{PT}$ x EPL Index Changes$_{t+1}$		0.001
		(0.002)
OrgCap$_{PT}$ x EPL Index Changes$_{t+2}$		0.001
		(0.001)
Control Variables	Y	Y
Year x Industry FE	Y	Y
Firm FE	Y	Y
Adjusted R^2	0.750	0.761
Number of Obs.	77,864	77,864

Panel B: Alternative Estimators

	Stacked Regression	**Callaway & Sant'Anna Estimator**
	(1)	**(2)**
OrgCap$_{PT}$	0.003**	0.003**
	(0.003)	(0.002)
EPL Index Changes	0.001	0.001
	(0.001)	(0.001)
OrgCap$_{PT}$ x EPL Index Changes	0.005**	0.004**
	(0.002)	(0.002)
Control Variables	Y	Y
Firm, Year, & Country Fixed Effects		Y
Stack Fixed Effects	Y	

Table 5: Instrumental Variable Analysis

This table presents the results from the instrumental variable analysis. In the first stage, the dependent variable is organization capital ($OrgCap_{PT}$), whereas in the second stage model. The dependent variable is dividend payouts (*DIV*), calculated as cash dividends scaled by total assets. and organization capital is replaced with its instrumented value from the first-stage model. Columns (1) and (2) reports the findings from the IV-approach and Column (3) presents the second-stage results from the instrumental variable regression estimation using heteroscedasticity-based instrument (following the Lewbel (2012) approach). Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

	First-Stage Results	**Second-Stage Results**	**Lewbel (2012) Approach**
	(1)	**(2)**	**(3)**
Instruments			
Ind_Gr_Res	-0.192*** (0.054)		
Instrumented Organization Capital		0.098** (0.049)	0.008*** (0.003)
Remaining Control Variables			
Firm Size	-0.107*** (0.006)	-0.009* (0.005)	-0001 (0.000)
Profitability	0150*** (0.020)	0.065*** (0.008)	0.052*** (0.003)
StockReturn	0.000 (0.001)	-0.003** (0.000)	-0.003*** (0.000)
EarningsVol	0.150*** (0.020)	-0.022** (0.011)	-0.006 (0.006)
Firm Age	0.064*** (0.005)	0.006 (0.003)	0.001 (0.000)
Tangibility	-0.063*** (0.018)	-0.007* (0.004)	-0.001 (0.002)
Leverage	-0.132*** (0.012)	-0.005** (0.007)	-0.007*** (0.001)
MKTB	0.009*** (0.002)	0.004*** (0.001)	0.003*** (0.000)
R&D	0.880*** (0.114)	0.056* (0.027)	0.024* (0.012)
Capex	-0.161*** (0.020)	-0.011 (008)	-0.003 (003)
HHI	-0.010*** (0.004)	-0.001 (0.001)	0.001 (0.000)
Cash Holdings	0.054*** (0.012)	0.011*** (0.003)	0.006*** (0.002)
Repurchases	0.225*** (0.030)	0.024 (0.022)	0.004 (0.004)
FinancialDepth	0.001*** (0.000)	-0.001 (0.000)	-0.001 (0.000)
GDP Growth	-0.004*** (0.001)	-0.001 (0.000)	-0.000 (0.000)
LnGDP	0.443*** (0.034)	0.028 (0.004)	0.012*** (0.003)
Year x Industry FE	Y	Y	Y
Firm FE	Y	Y	Y
Number of Obs.	83,714	83,714	83,714
Test of endogeneity. relevance. and validity of instruments			
First-Stage partial F-Statistic	30.45***		28.30***
Hausman Test for exogeneity	5.60***		5.45***

Table 6: Change Regression Analysis

This table presents the relationship between *ΔOrgCap*$_{PT}$ and *ΔDIV* using ordinary least square (OLS) regressions. Control variables are the same as in Table 3. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

ΔOrgCap$_{PT}$	0.006***
	(0.001)
ΔControl Variables	Y
Year x Industry FE	Y
Firm FE	Y
Adjusted R^2	0.3632
Number of Obs.	83,714

Table 7: Entropy Balance Method

This table conducts our entropy balancing matching estimation that ensures better covariate balance between treatment (High OrgCap$_{PT}$) and control (Low OrgCap$_{PT}$) groups by weighing observation such that the post-weighing mean and variance for treated and control samples are equal along the matching estimation. Panel A shows the descriptive statistics after employing the entropy balance method and Panel B reports the results of the effect of organizational capital on dividend payouts after employing the entropy balance method (Hainmueller. 2012). ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

Panel A: Differences in Observables (covariates) after Entropy Balancing

Covariates	Mean Treated	Mean Control	Diff.	Variance Treated	Variance Control	Diff.	Skewness Treated	Skewness Control	Diff.
Firm Size	8.146	8.146	0.000	8.465	8.465	0.000	-0.147	-0.147	0.000
Profitability	0.118	0.118	0.000	0.006	0.006	0.000	0.759	0.759	0.000
StockReturn	0.125	0.125	0.000	0.125	0.125	0.000	2.045	2.045	0.000
EarningsVol	0.030	0.030	0.000	0.001	0.001	0.000	2.236	2.236	0.000
Firm Age	13.33	13.33	0.000	55.20	55.20	0.000	0.45	0.47	0.020
Tangibility	0.250	0.251	0.000	0.027	0.027	0.000	0.799	0.800	-0.001
Leverage	0.157	0.157	0.000	0.022	0.022	0.000	0.865	0.865	0.000
MKTB	1.506	1.506	0.000	1.084	1.084	0.000	2.534	2.534	0.000
R&D	0.015	0.015	0.000	0.001	0.001	0.000	2.589	2.589	0.000
Capex	0.039	0.039	0.000	0.001	0.001	0.000	2.169	2.170	-0.001
HHI	0.154	0.154	0.000	0.036	0.036	0.000	2.494	2.494	0.000
Cash Holdings	0.172	0.172	0.000	0.021	0.021	0.000	1.194	1.194	0.000
Repurchases	0.010	0.010	0.000	0.001	0.001	0.000	3.849	3.849	0.000
FinancialDepth	128.800	128.800	0.000	5.499	5.499	0.000	0.729	0.729	0.000
GDP Growth	1.035	1.035	0.000	3.911	3.911	0.000	-1.426	-1.426	0.000
LnGDP	15.470	15.470	0.000	0.864	0.864	0.000	-1.15	-1.15	0.000

Panel B: The Relationship between Organization Capital and Dividend Payouts after Entropy Balancing

OrgCap$_{PT}$	0.005***
	(0.002)
Control Variables	Y
Firm	Y
Year x Industry FE	Y
Adjusted R^2	0.776
Number of Obs.	83,714

Table 8: Agency Problems Channel

This table presents results from testing the agency channel regarding the relationship between organizational capital and dividend payouts using ordinary least square (OSL) regressions. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

	(1)	**(2)**	**(3)**
	$OverOrgCap_{PT}$	**DispersedOwn**	**Low Anti-Self-Dealing**
	0.004**	0.006***	-0.000
$OrgCap_{PT}$	(0.002)	(0.001)	(0.001)
	0.002***		
$OverOrgCap_{PT}$	(0.000)		
	0.001*		
$OrgCap_{PT}$ x OverInvest	(0.001)		
		0.001*	
DispersedOwn		(0.000)	
		0.002**	
$OrgCap_{PT}$ x DispersedOwn		(0.001)	
			0.003***
Low Anti-Self-Dealing			(0.001)
			0.008***
$OrgCap_{PT}$ x LowAntiSelf-Dealing			(0.003)
Control Variables	Y	Y	Y
Year x Industry FE	Y	Y	Y
Firm FE	Y	Y	N
Adjusted R^2	0.773	0.734	0.358
Number of Obs.	83,714	68,429	83,686

Table 9: Signalling Channel

This table presents results from testing the signalling channel regarding the relationship between organization capital and dividend payouts using ordinary least square (OLS) regressions. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

	(1)	**(2)**	**(3)**
$OrgCap_{PT}$	-0.022**	0.006***	0.004***
	(0.009)	(0.002)	(0.001)
Share Turnover	0.002***		
	(0.000)		
$OrgCap_{PT}$ x Share Turnover	0.002***		
	(0.001)		
$R\&D_t$		0.005	
		(0.065)	
$OrgCap_{PT}$ x $R\&D_t$		0.031	
		(0.041)	
Bank-Based			-0.007
			(0.006)
$OrgCap_{PT}$ x Bank-Based			0.004
			(0.006)
Control Variables	Y	Y	Y
Year x Industry FE	Y	Y	Y
Firm FE	Y	Y	N
Adjusted R^2	0.695	0.769	0.381
Number of Obs.	29,546	83,714	83,551

Table 10: Dividends Payout and Firm Valuation: The Role of Organization Capital

This table presents results from applying valuation regressions on the full sample and for subsample of firms with high and low organization capital. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A.

	(1)	(2)	(3)	
	Full Sample		**Non-US Sample**	
	High OrgCap$_{PT}$	**Low OrgCap$_{PT}$**	**High OrgCap$_{PT}$**	**Low OrgCap$_{PT}$**
DIV_t	8.307***	3.268*	15.514***	10.649***
	(1.254)	(1.729)	(2.701)	(3.218)
ΔDIV_t	-1.613*	0.729	-3.007*	1.876
	(0.975)	(1.259)	(1.739)	(1.766)
ΔDIV_{t+1}	2.863***	1.959*	6.825***	7.335***
	(1.044)	(1.129)	(1.559)	(1.725)
$EARNINGS_t$	5.458***	5.226***	4.659***	4.599***
	(0.326)	(0.341)	(0.415)	(0.476)
$\Delta EARNINGS_t$	-0.811***	-0.986***	-1.164***	-1.080***
	(0.131)	(0.147)	(0.183)	(0.169)
$\Delta EARNINGS_{t+1}$	1.982***	2.184***	1.390***	1.864***
	(0.160)	(0.187)	(0.220)	(0.247)
$R\&D_t$	3.003***	-0.792	0.686	-3.136
	(0.965)	(1.538)	(1.170)	(2.532)
$\Delta R\&D_t$	2.065**	6.555***	3.005***	6.459***
	(0.858)	(1.301)	(1.042)	(1.638)
$\Delta R\&D_{t+1}$	3.288***	7.246***	0.786	3.157**
	(0.988)	(1.307)	(1.133)	(1.600)
$INTEREST_t$	-5.862**	-14.035***	3.112	-0.798
	(2.340)	(3.000)	(4.244)	(3.926)
$\Delta INTEREST_t$	-2.365	-5.326**	-5.052	-7.480**
	(1.837)	(2.181)	(3.255)	(3.321)
$\Delta INTEREST_{t+1}$	-4.388**	-12.855***	-5.104	-4.616
	(1.960)	(2.788)	(3.263)	(3.678)
$\Delta ASSETS_t$	0.398***	0.397***	0.458***	0.312***
	(0.061)	(0.062)	(0.077)	(0.063)
$\Delta ASSETS_{t+1}$	0.118**	0.271***	0.212***	0.142**
	(0.049)	(0.049)	(0.064)	(0.057)
Year x Industry FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Adjusted R^2	0.804	0.805	0.785	0.781
Number of Obs.	25,357	25,357	16,237	14,023

Table 11: Dividends Payout, Firm Valuation, and Organization Capital: The Role of Agency Problems

This table presents results from applying valuation regressions only on firms with high organization capital. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A

	(1)	(2)	(3)	(4)	(5)	(6)
	Over-investment in $OrgCap_{PT}$	**Under-investment in $OrgCap_{PT}$**	**High Ownership Dispersion**	**Low Ownership Dispersion**	**High Anti-Self Dealing**	**Low Anti-Self Dealing**
DIV_t	11.790***	6.496***	11.297***	6.308***	5.020***	12.582**
	(2.208)	(1.473)	(2.519)	(1.553)	(1.255)	(5.226)
Control Variables	Y	Y	Y	Y	Y	Y
Year x Industry FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	N	N
Adjusted R^2	0.844	0.836	0.841	0.848	0.285	0.316
Number of Obs.	15,271	10,086	10,292	8,281	12,678	12,679

Table 12: Robustness Analysis

This table presents estimations of eq.1 regarding the relationship between organization capital and dividend payouts using an alternative scaling of dividends and measurement of organization capital. In Panel A, the dependent variable is cash dividends scaled by total assets *(DIV)* in columns (1) & (2) and cash dividends scaled by the market value of equity in columns (3) & (4). Organization capital. $OrgCap_{PT}$ and $OrgCap_{EP}$. is constructed following Peters and Taylor (2017) - columns (3) & (4) and Eisfeldt and Papanikolaou (2015) - columns (1) & (2). In Panel B, we explore the robustness of our results by including country fixed effects, whereas Panel C explores the non-linearity of our results. Standard errors are included in the parentheses and are clustered by firm. ***. **. and * denote significance at the 1%. 5%. and 10% levels. respectively. All variables are defined in Appendix A

Panel A: Alternative Measurements

	(1)	**(2)**	**(3)**	**(4)**
	Full sample	**Non-US sample**	**Full sample**	**Non-US sample**
$OrgCap_{EP}$	0.005**	0.003**		
	(0.002)	(0.001)		
$OrgCap_{PT}$			0.012***	0.009***
			(0.003)	(0.003)
Control Variables	Y	Y	Y	Y
Year x Industry FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Adjusted R^2	0.780	0.843	0.579	0.593
Number of Obs.	83,714	55,683	83,714	55,651

Panel B: Country Fixed Effects

	(1)	**(2)**
	Full sample	**Non-US sample**
$OrgCap_{PT}$	0.000***	0.002**
	(0.001)	(0.001)
Control Variables	Y	Y
Year x Industry FE	Y	Y
Country FE	Y	Y
Adjusted R^2	0.407	0.575
Number of Obs.	83,714	55,683

Panel C: Exploring Non-Linearity

	(1)	**(2)**
	Full sample	**Non-US sample**
$OrgCap_{PT}$	0.008***	0.008**
	(0.003)	(0.003)
$OrgCap_{PT}^2$	-0.002	-0.003
	(0.002)	(0.002)
Control Variables	Y	Y
Year x Industry FE	Y	Y
Firm FE	Y	Y
Adjusted R^2	0.750	0.828
Number of Obs.	83,714	55,683