The impact of climate vulnerability on payout policy. Empirical evidence for European firms

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Abstract
The importance of climate risk for business and finance is increasingly recognized in the extant literature. Ginglinger, 2020; Kotz et al., 2024; World Economic Forum, 2024). Task Force on Climate Change-related Financial Disclosures (TCFD) argues that climate change is "one of the most significant, and perhaps most misunderstood, risks that organizations face today" (TCFD, 2017, p.3).
A growing body of literature is focusing on the impact of climate vulnerability/climate risk on firm performance and financial decisions. They analyzed the impact of climate vulnerability/climate risk on firm performance (Addoum et al., 2020; Anton, 2021; Cevik and Miryugin, 2023; Huang et al., 2018; Pankratz et al., 2019), cost of equity (Balvers et al., 2017; Huynh et al., 2020), cost of debt (Javadi and Masum, 2021), capital structure (Elnahas et al., 2018; Ginglinger and Moreau, 2019; Zhou and Wu, 2023), cash holdings (Brahmana and Kontesa, 2023; Javardi et al., 2023; Lee et al., 2023; Li et. al, 2024; Yu et al., 2022; Zhang et al., 2023), working capital management (Ahmad et al., 2023), and investment decision (Kanagaretnam et al., 2022). However, empirical evidence on the impact of climate change on firms' financial decisions is scarce.
The paper aims to assess the impact of climate vulnerability (CV) on the dividend policy adopted by European listed firms over the time frame 2010-2021. Employing a panel logit model, it has been found that firms are less likely to pay dividends if they are located in countries more exposed to climate vulnerabilities. I extend the empirical analysis by analyzing the impact of climate vulnerability on the level of dividend payments (measured by dividend payout ratio and dividend yield). The results of the Prais-Winsten regression model with Panel Corrected Standard Errors (PCSE) show that climate vulnerability statistically increases dividend payments. Overall, the empirical results highlight the importance of climate change for the decision-making framework at the firm level.

Keywords: *climate change; climate vulnerability; financial decisions; dividend policy; financial decisions.*
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