

Managerial Overconfidence, Payout Policy, and Corporate Governance: Evidence from UK Companies

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Abstract : We examine the effect of managerial overconfidence on UK firms' payout policy for the period 2000 to 2012. The analysis incorporates, in addition to common firm-specific factors, a wide range of corporate governance factors and managerial characteristics that have been documented to affect the relationship between overconfidence and payout policy. Our results are robust to several estimation considerations. The findings show that the influence of overconfident CEOs on the amount of, and the propensity to pay, dividends is significant within the UK context. Specifically, we detect that there is a reduction in dividend payments in firms managed by overconfident managers compared to their non-overconfident counterparts. Moreover, we affirm that cash flows, firm size and profitability are positively correlated, while leverage, firm growth and investment are negatively correlated with the amount of and propensity to pay dividends. Interestingly, we demonstrate that firms with the potential for undervaluation reduce dividend payments. Some of the corporate governance factors are shown to motivate firms to pay more dividends while these factors seem to have no influence on the propensity to pay dividends. The results also show that in general higher overconfidence leads to more share repurchases but the lower total payout. Overall, managerial overconfidence should be considered as an important factor influencing payout policy in addition to other known factors.

Keywords : dividends, repurchases, UK firms, overconfidence, corporate governance, undervaluation

Conference Title : ICBCF 2015 : International Conference on Behavioural Corporate Finance

Conference Location : Madrid, Spain

Conference Dates : November 12-13, 2015