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An Analysis of the Payout Decisions around CEO Retirements: Evidence from UK Listed Firms

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Abstract: *This study aims to analyze the dividend payouts of close to retirement CEOs. Our motivation comes from the fact that as the CEO gets closer to retirement his pension entitlements increase substantially making his equity–based incentives to turn systematically towards debt. This makes the CEO to implement financial policies that are less risky and would conserve cash in the firm. We are particularly interested in analyzing this behaviour in the firm's dividend payouts. Using panel data of UK non-financial firms from the FTSE-250 over a period of 2013-2017, we specifically test whether a close to retirement CEO has an impact over the decision and level of dividend payouts. We classify a CEO as close to retirement if he is 55 years of age or above. Panel logistic regressions and Feasible Generalized Least Squares (FGLS) techniques to address heteroskedasticity and auto correlation, are used to test the relationships. Our findings suggest that a close to retirement CEO would favor a payout decision and would also increase the level of dividend payments, particularly in the presence of growth opportunities in order to safeguard the free cash flows from being invested in risky investments that would otherwise affect the continuity of his pension entitlements after retirement.*

1. Introduction

The agency theory suggests that managers of the firm are acting as agents of the shareholders and their interests should therefore meet with the interests of the shareholders. This implies that when the firm has excess cash, managers are expected to go for risky positive NPV investments, but if the opportunities are limited then managers should go for a dividend pay-out decision. On the other hand, the creditors of the firm would prefer to conserve the excess cash in the firm so that their claims are safeguarded. However, the interests of the managers and shareholders may deviate as the CEO gets closer to retirement. The interests of a close to retirement CEO may gradually shift towards those of the creditors because his compensation portfolio shifts away from equity compensation to inside debt in the form of future pension claims (Ghosh et al., 2023; Sundaram & Yermack, 2007). This makes the CEO to implement less risky policies because when a risky investment becomes successful, they would just get their defined claims but on the other hand if the investment goes wrong or the firm goes bankrupt, they wouldn't receive even the full value of the pensions that the firm had promised (Brahma, & Economou 2024; Gao, Hua, & Yan, 2023; Eisdorfer, Giaccotto, & White, 2015). The theoretical relationships regarding various financial policies thus start reshaping as the CEO gets closer to the age of retirement. The same can be observed in the firm's dividend payments, a financial decision that often has implications for and connections to the level of cash in the firm.

Although there are a number of external factors that may influence a firm's payout policy, but internally, mechanisms like corporate governance, cash holding and the presence of growth opportunities also influence a firm's dividend payout decision as well as the level of dividend payments. Managerial characteristics such as age, gender, educational back ground, experience, tenure CEO duality, independence and compensation also determine their strategic decisions regarding pay-out. In this study, we particularly focus on the behavior of close to retirement CEOs regarding dividend payouts in a sample of UK non-financial firms from the FTSE 250 index over a period of 2013-2017. Since, mostly CEOs in the UK retire at or near the age of 65years, we therefore choose 55 years of age as the threshold beyond which a CEO could be tagged as close to retirement. We use Panel Logistic Regression analysis to tests the decision of a payout while fixed and random effects panel regression analysis to test the level of payouts of close to retirement CEOs in our sample firms. Additionally, we also address heteroskedasticity and auto correlation in the data by using the Feasible Generalized Least Squares (FGLS) technique. Our findings suggest that in the presence of growth opportunities a close to retirement CEO would favor a payout decision and would also increase the level of dividend payments. This is because such a CEO attempts to safeguard the free cash flows from being invested in risky investments that would otherwise affect the continuity of his pension entitlements after retirement.

The rest of the paper is organized as follows. The next section, Section 2 presents a review of the relevant literature and Section 3 details the methodology, data and sample selection. Analyses and Results are summarized in Section 4 while Section 5 concludes the study with future directions and policy recommendations.

2. Literature Review

2.1 Corporate governance and role of CEO

The recent global financial crises provide evidence of weak governance. A proper framework is required for corporate governance. This is important to understand the definition of corporate governance. Corporate governance comprises a set of mechanism to reduce conflict among stake holders. This concept summarize the means through which organizations conduct themselves (Maune, 2015). The attributes of corporate governance are: board composition, board size, CEO duality, director ownership, block-holder ownership and the existence of audit committee (Samaha, Dahawy, Hussainey, & Stapleton, 2012). According to (Samaha et al., 2012) companies with higher proportions of independent non-executive directors on the board, large board size, low percentages of director ownership, lower percentages of block-holder ownership, greater numbers of shareholders and audit committees have higher level of corporate governance and duality in position causes low level of corporate governance. Manager owned firm results in low dividend payout (Chu, Ali, & Yeo, 2019).

Shareholders are primary stakeholders and more closely aligned with interest of manager. The reason is that top managers are acting as agents of shareholders and their interest should meet with the interest of shareholder, conflict results in agency problem and hostile takeovers. Board members elected by shareholders are the source for monitoring managers. High agency cost because of weak corporate governance results in drop in market value of the firm. When shareholder will not satisfy with firm performance, they will lose trust on executives. Governance is required to detect the behavior of managers and motives behind decision specially in the case of discretionary cash distribution (John & Knyazeva, 2006) and this become important when managers are close to retirement. The chances of entrenchment and evidence of self-interest can be found here. Where board control is week, the managerial entrenchment can be possible (Zakaria, 2014). Owners usually do not fire managers because for them it can be costly, so they sacrifice their interest. This case could be more severe if CEO is also the chairman of board (Zakaria, 2014). The reasons are: first is due to information asymmetry and this provide CEOs greater discretion in the process of corporate policies like payout policy, second is company finds it difficult to appoint and train new manager, because of disequilibrium between pay and performance and third is CEO near to retirement is usually more entrenched and behaves risk averse. Another important variable is block holder ownership which mitigates the information asymmetry between the firm and investors (Bui, 2017) and reduces the need of discretionary payout (John &

Knyazeva, 2006) whereas information asymmetry grows with reduction in concentration of ownership (Kuhlmann & Rojahn, 2017). (Jebaraj Benjamin, Mat Zain, & Abdul Wahab, 2016) Recommends that there should be more institutional ownership to promote transparency and proper functioning of board.

2.2 Strategic decisions of top managers in relationship with characteristics of CEOs

Top managers are involved in strategic decisions related to investment. Research and development expenditure, mergers, acquisitions and restructuring are the examples of these strategic investment decisions that influence the interest of many stakeholders specifically shareholders of the company. His strategic decisions are link with his characteristics. These are age, tenure, gender, expertise, CEO duality, independence, compensation, his investment and payout decisions in early stage and when he will be close to retirement etc. for example see Shen (2021) and Zahra & Khan (2020). According to echelons theory (Hambrick & Mason, 1984) managerial characteristics i.e. age, gender, educational back ground, experience, tenure also determine their strategic decisions and firms performance (Kabir, Li, & Veld-Merkoulova, 2018). CEO duality is positively related to age and tenure. As time passes the hold of CEO become strong and effect decision. Independent CEO in board also results in good corporate governance. According to (Custódio & Metzger, 2014) CEO expertise also plays an important role as CEO of mature firm having expertise in finance would more financially sophisticated while he would not be sophisticated for young firm so his strategic decision would be more financially reasonable. Young CEO usually involve in R&D, due to low stakes, as time passes these activities slow down. Likewise as CEO gets older the quality of investment decreases and quantity increases (Pan, Wang, & Weisbach, 2016). Decision of Acquisition and mergers is the result of market inefficiency and when firm is valued incorrectly. This assumption is made under the theory of acquisition related to new classical theory (Shleifer & Vishny, 2003). (Li, Low, & Makhija, 2017) argues that in United States older CEOs are less involve in acquisition and (Zhang, Sabherwal, Jayaraman, & Ferris, 2016) argues that younger CEO is usually more involved in acquisitions. This is due to when CEO reaches near to retirement more equity-based compensation or incentives are provided to him. This can affect his risk-taking behavior (Gibbons & Murphy, 1992). All these characteristics can affect firm performance as well as shareholders interest.

2.3 Activities and the payout decisions of close-to-retirement CEOs

Some points should be considered while studying managerial perspective related to pay out: firstly, CEOs have different perception and attitude towards stakeholders, secondly these attitudes have impact on firm policies and third these perception and attitudes can be against societal norms and regulations (Bayat & Goergen, 2017). Shareholders are more concerned about manager decision when he reaches near to retirement. The pay-out decisions of close to retirement CEO affect not only firm performance but also shareholders wealth. When firm has low opportunities and go for pay-out in the presence of excess cash then whether manager go for dividend or buyback. Here the agency theory also plays a role. Close to retirement CEO also work for their compensation to save them so they usually invest in short term and reluctant to spend more cash for pay-out but it also depends on the structure of their compensation i.e. CEO's D/E ratio (Sundaram & Yermack, 2007) . CEO compensation is also link with share price. This can affect firm performance as well as shareholders interest specially shareholders are more concerned when manager is entrenched and close to retirement.

Managers engage in strategic satisficing is related to their tenure (Aboody & Lev, 2000). When CEO reaches near to retirement they must cede their powers to other board member. In this duration managers try to make decision favorable for them because now their perks and benefits are on stake The reason is same that discussed earlier i.e. compensation and equity-based incentive that shift their risk-taking behavior (e.g as hinted by Brahma & Economou 2024). Managers will undertake decisions to act opportunistically for their self-interest. Here evidence of agency theory can also find. This is also common that Managers close to retirement will be less involved in R&D because the outcomes are uncertain, payback back period is long and ambiguous, and the cash shifted toward R&D may be used for manager`s own personal interest. CEO should analyze that when firm needs cash for investment, he should lower the cash out flow in the form of dividend. When rational CEO thinks that external financing is costlier, so he prefers internal capital for investment. In this case he would lower the current payout. CEO will slack cash for future investment. Here the evidence of pecking order theory can be found. Firm

having more opportunities of investment has lower free cash and so the payout (Cuny, Martin, & Puthenpurackal, 2009). Undiversified human resource and wealth invested in firms can lead risk averse managers to take sub optimal decisions for reduction of firm risks (Jensen & Meckling, 1976).
According to (De Cesari & Ozkan, 2013) top managers having higher stock options usually involve in less dividend payment. This is to protect the value of option the reason is that after the announcement of dividend payment the value of option decreases as investor thinks that there is low opportunity for firm. This is also evident from the fact that powerful CEOs have been found to reduce dividend payouts (Xiang et al., 2022). Similarly, Dessingthon & Bergem (2018) found negative relationship of CEO stock option with dividend. Managers stock incentive is the way to align the interest of managers with shareholders (Fenn & Liang, 2001). Tenure, age and investment decisions are related. When CEO gets older, his tenure in firm going to decrease which automatically affects the pension. This is also important to disclose pension in notes, this will increase the level of disclosure and can put penalties on false disclosure. Huge pension plans can make agency behaviour incentives and show how managers may manipulate cash flow distribution to secure their pension payout (Eisdorfer et al., 2015).

2.4 Reasons behind decision

Firm with huge pension holdings will be hesitant to adopt a high dividend polices due to necessarily commits the organizations to constant the growing level of dividends for the near future. Manager and literature confirm that once an organization start paying dividends and then omitting the dividends cause negative effect in terms of both stock price and the reputation of organization (Michaely, Thaler, & Womack, 1995). Executives hesitate to commit firms to huge cash distributions that leave low funds for future pension payout (Eisdorfer et al., 2015). The basic theory is that non-owner managers can easily adopt firm decisions which serve their interests at the owner's expense. Based on this concept theoretical literature has identified different incentives which lead manages to divert from policies that increase shareholder value (Eisdorfer et al., 2015). (Sundaram & Yermack, 2007) show that managers having larger pensions try to carry out strategies that reduce overall company's risk in order to minimize the likelihood of default which risk pension payout. When CEO reaches near to retirement optimal compensation structure will be required. According to (Jolls, 1998) stock options are better as compared to dividend for payout, the reason is that stock option does not dilute the firm`s value.
Further manager go for repurchases to dilute EPS and for revaluation of stock. Managers who hold stock options prefer dividend payout because they will also get divided, they usually don't go for repurchases as another mean of payout. (Jolls, 1998). According to (Fenn & Liang, 2001) dividend and share repurchases are close substitute. According to (Fenn & Liang, 2001) repurchases and dividends are positively related to net operating cash flow. Good management should maintain the minimum level of payout whether in the form of dividend or share repurchases (Fenn & Liang, 2001). Repurchases also has positive relationship with market to book value of firm. The management share ownership encourages higher payout so reduces agency problem (Fenn & Liang, 2001). Gain can be realized if share price exceeds (Haugen & Senbet, 1981). This will make the managers less risk averse during project and strategy selection. This will also improve investment and financing decision. Sometime stock options seem more attracting to managers so managers will start to exert more efforts (Oyer & Schaefer, 2005). These managers usually prefer to stay in firm rather than lose the shares by leaving firm (Tzioumis, 2008). This also provide solution to firm facing financial constraints. This is also found that stock options in CEO compensation decreases with CEO ownership and age and increases with incidence of CEO turnover (Tzioumis, 2008). But sometimes (Lewellen, Loderer, & Martin, 1987) provided that the fraction of salary is always related to dividend payout ratio and bonus in the manager's total compensation and it is negatively related to the fraction of equity-based compensation.
Properly managed payout policy effects the share value. Issue arise when income after tax has to divide in the form of either cash or this can be used for buyback (Gill, Biger, & Tibrewala, 2010). Market to book value is used for comparison of market value of equity in contrast of what shareholders have invested first time (Gill et al., 2010). (Mohammed & Joshua, 2006) Found a positive relation of market to book value with payout. High debt is also used to reduce agency cost. Board can insist the manager to take debt. It constraints managers from perusing personal goals which can distort value of firm by

diverting free cash to debt (Philip, Ofek, & Yermack, 1996). So, managers will try to save the firm from default and try to pursue firm goal in good interest. Sometimes financed payout is used to mitigate agency problem and for tax reduction reasons (Farre-Mensa, Michaely, & Schmalz, 2018). Another control variable can be firm size. Large firms pay more dividend (Yarram & Dollery, 2015) to reduce agency cost as compared to small firms .

Commonly, the research suggests that managers with largely compensated with debt based instruments like pensions, can manage the firm with more eternity because of their exposure to default risk (Sundaram & Yermack, 2007); (Cassell, Huang, Sanchez, & Stuart, 2012). Firm's managers prefer high investments, if value of their compensation package, specifically stock option holdings is related to firm risk (Eisdorfer et al., 2015).Payout is one of the puzzles in corporate finance (Deshmukh, Goel, & Howe, 2013) and investment and financing decisions are not enough to solve this puzzle. The optimal payout policy is that which increases the shareholders wealth by increasing the value of share price (Khatib & Al-Harethi, 2018). The study consists of findings related to near to retirement CEO and pay-out policy.

With reference to literature, following hypothesis has been developed:

H1: A close to retirement CEO has a relationship with payout policy.

H2: A close to retirement CEO would affect the decision of a dividend payout.

H3: A close to retirement CEO will affect the level of dividend.

3. Methodology

There are two stages. In first stage we would concentrate on payout decision of CEO, who is close to retirement. When CEOs approach the age of retirement they must cede their powers to other board member. He will be more risk averse. In this duration managers try to make decision favorable for them because now their perks and benefits are on stake. Mangers start to focus on short term gain. They design pay-out policy for their personal gain. The study consists of findings related to near to retirement CEO and pay-out policy and which style he will use.

The second stage is to determine the payout level. Panel data regression analysis will be used to estimate the hypothesized relationships, with the pay-out being regressed over various determinants of pay-out.

3.1 Data and Sample

The sample for this study will consist of the non-financial firms of UK registered on the FTSE-250 index. A five years study period from 2013-2017 is chosen.

3.2 Model

There are two stages. In first stage we would concentrate on payout decision of CEO, who is close to retirement. When CEOs approach the age of retirement they must cede their powers to other board member. He will be more risk averse. In this duration managers try to make decision favorable for them because now their perks and benefits are on stake. Mangers start to focus on short term gain. They design pay-out policy for their personal gain. The study consists of findings related to near to retirement CEO and pay-out policy and which style he will use.

For payout decision we would use payout dummy which will take the value of 1 if company paid a dividend in a particular year otherwise zero.

"i" represents the individual company and "t" year in panel. The results are estimated through logit regression model

$$PY/X = \frac{e^{ßo+ß_1X}}{1+e^{e^{ßo+ß_1X}}}$$

Logistic regression is used to conduct analysis when data will be in binary form. This is also predictive analysis. This is used to explain the relationship between one dependent variable in binary form and one or more ordinal, nominal, interval or ratio-level independent variable. This also describes the condition of probability of the occurrence of event i.e. payout decision as a function of exponent of explanatory variables "X"

By taking natural log on both sides, the functional form is as follow:

$$\ln \frac{PY/X}{1-PY/X} = \beta_o + \beta_1 X$$

Where left hand side shows the probability of event in our case the payout decision. The model would be:

$logit\ Payout\ dummy_{it} = \alpha_{it} + \beta_1 CEOR_{it} + \beta_2\ BIND_{it} + \beta_3 DROWN_{it} + \beta_4 BLOCK_{it} + \beta_5 FSIZE_{it} + \beta_6 OCF_{it} + \beta_7 MTB_{it} + \beta_8 DE_{it} + \varepsilon_{it}$ ----------(1

We would estimate this equation using statistical analysis software STATA 10.

The second stage is to determine the payout level. Panel data regression analysis will be used to estimate the hypothesized relationships, with the pay-out being regressed over various determinants of pay-out.

The functional form of the basic model is as follows:

Pay-out = ƒ (CEO retirement+ control variable+ Corporate governance variable)

Where:

Pay-out ratio= ƒ (firm size, leverage, CEO age, board composition, director ownership, market to book value, operating cash flow and block-holder ownership) ---------- (2

$$Payout\ ratio_{it} = \alpha_{it} + \beta_1 CEOR_{it} + \beta_2\ BIND_{it} + \beta_3 DROWN_{it} + \beta_4 BLOCK_{it} + \beta_5 FSIZE_{it} + \beta_6 OCF_{it} + \beta_7 MTB_{it} + \beta_8 DE_{it} + \varepsilon_{it}$$

Where, CEO retirement is proxied by CEO age: CEOR (age) and ε_t *is error term.* Detailed definitions of all the variables are given in table 1 below.

Table 1
Definitions of Variables

Variables	Symbols	Formula
Firm Size	FSIZE	(Natural log of total assets)
Block holder ownership	INSTOWN	(Ratio of shares held by block holders to total shares)
Debt to equity	DE	(Debt/equity)
Operating cash flow	OCF	(Operating cash flow to total assets)
Market to book value of shares	MTB	(Market price of shares/book price of shares)
Board composition	BIND	(Board information in annual report)
Director ownership	DROWN	(Board information in annual report)
Block-holder ownership	BLOCK	(Substantial shareholding out of total Shares)
Payout ratio	PAYOUT	(Total payout/ net income)

4 Analysis

4.1 Univariate Analysis (Descriptive Statistics)

Table2 shows the descriptive statistics. Dividend payout has a maximum value of 97% and minimum value is zero. This reflects mostly firms are paying dividend. Maximum value of operating cash is 2914. Mean of CEO age is 53.36 this reflects; average age of CEOs is this. Minimum is 36 and maximum is 9. Number of observations is different according to availability of data. Number of observations for dividend payout is 438, for operating cash flow its 528, for market to book value its 529, for debt to equity its 524, for CEO age its 479, for firm size and board independence its 540.

Table 2
Sample Descriptive Statistics

	Total Assets	Dividend Payout	Operating Cash Flow	Market to Book Value	Debt to Equity	CEO Age	Board Size	Board Independence (% of total)
Min	1.387	0.00	-337	-137.50	-3410.08	36	4.0	0.00
Max	23341	97.25	2914	156.25	1357.46	91	15	7.00
Mean	1773.94	37.27	132.71	3.13	68.89	53.36	8.49	0.67
Std Dev	2488.48	26.43	232.52	10.45	212.33	7.72	1.92	0.70
Observations	529	438	528	529	524	479	540	540

4.2 Multivariate Analysis

Hypothesis can be tested in two steps. First to check the decision of payout we would use log it regression. This is used to explain the relationship between one dependent variable in binary form and one or more ordinal, nominal, interval or ratio-level independent variable. This also describes the condition of probability of the occurrence of event i.e. payout decision as a function of exponent of explanatory variables i.e. CEO retirement age, corporate governance variable and control variables. Next would be panel data regression analysis to measure payout level of cash dividend. First, we would check heteroskedasticity and auto correlation. We would also apply Hausman test.

4.2.1 Logistic Regression Approach

In this analysis, dummy variable has been used representing payout decision on the bases of the values of the cash dividend dummy. we code the dummy as 1 if company paid cash dividend in a particular year otherwise 0. We run a logistic regression of this dummy over corporate governance variable and other control variables. The coefficients have been transformed into odds ratios and probabilities, which explain better about marginal effect of each interpreted variable. Odd ratios reflect probability. Results are presented in Table 3.

Table 3
Panel Logistic Regression of payout over CEO retirement age, corporate governance variable and control variable

VARIABLES	PAYOUT	ODD RATIO
CEOR	1.515*	4.547905*
	-0.834	-3.79251
BIND	0.000294	1.00029
	-0.00886	-0.00886
DROWN	7.19E-07	1.000001***
	-5.79E-06	-0.00001
BLOCK	-0.00308	0.99693
	-0.0149	-0.01485
FSIZE	2.092***	8.10287
	-0.442	-3.58411
OCF	-0.00192	0.99808
	-0.00327	-0.00326
MTB	0.0224	1.02269
	-0.0331	-0.0338
DE	-0.00336	0.99665
	-0.00294	-0.00293
Constant	-8.341***	0.0002385***
	-2.638	-0.00063
Observations	364	364
Number of Co's	88	88
Standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

The Results in Table 3 below show positive relation relationship of CEO age. This shows that a one year rise in CEO age above the age of retirement would increase the odds of payout decision. Payout is significant at 10% that CEO near to retirement will be more involve in more payout. The reason can be, managers do not want to invest in risky investments, so they prefer payout as MTB is positively related to payout so rise in MTB reflects more growth opportunities, but managers become risk averse. The other reason is that they want to secure their job to mitigate agency problem and to make shareholders happy. There is positive relationship of payout decision with director ownership. When insider ownership increases agency cost can be reduced since managers have to bear share of cost (Farinha, 2003). According to (James, Benson, & Wu, 2017) CEO would involve in payout to avoid agency cost. There is positive relationship of pay-out with firm size and negative relationship with leverage. Large firms pays more dividend to reduce agency cost as compared to small firms (Yarram & Dollery, 2015). If debt is alternative way of paying extra cash out, then debt is negatively related to payout (Cuny et al., 2009). According to (Khan & Ahmad, 2017) Higher the leverage lower would be payout.(Byrne & O'Connor, 2017) also found same relationship. Intercept is significant at 1%.

4.2.2 Panel Regression Approach

Both fixed and random effects panel regression of payout over variable of interest has been run. And then Hausman test for the model specification has been applied. This test has been used to test to suggest whether a fixed or random effect model be appropriate for the situation and data at hand. From the test it was suggested that fixed is better to go with the reason is that with this, the results are

significant.

Table 4 below presents the result of Hausman specification test for fixed versus random effects. The result suggests that the probability of Chi Squared should be significant at 5%. we, therefore, accept the fixed effects model.

Table 4

Hausman Specification test for Fixed vs Random Effects Panel Regression

	(b)	(B)	(b-B)	
	Fixed	**Random**	**Difference**	**S.E.**
CEOR	2.94902	1.51467	1.43436	1.73136
Bind	0.08288	0.00029	0.08259	0.06952
Drown	2.43218	7.19E-07	2.43218	2.35717
block	0.06677	-0.0031	0.06985	0.07988
FSize	13.1676	2.09222	11.0754	5.82284
OCF	-0.0006	-0.0019	0.00134	0.00126
MTB	0.47114	0.02244	0.4487	0.35887
DE	-0.0126	-0.0034	-0.0092	0.0096
b =	consistent under Ho and Ha; obtained from xtlogit			
B =	inconsistent under Ha, efficient under Ho; obtained from xtlogit			
Test: Ho:	difference in coefficients not systematic			
chi2(7) =	(b-B)'[(V_b-V_B)^(-1)](b-B)			
	5.71			
Prob>chi2=	0.5734			

We run FGLS when there is heteroskedasticity and auto correlation. Heteroscedasticity is defined as systematic change in the residual spread over the range of measured data and auto correlation shows the degree of similarity between time series, cross sectional and panel data. The resulting output for computing auto correlation range from positive one to negative one. Both can be over come by applying diagnostic test. Woldrige and Wald tests of Autocorrelation and Heteroskedasticity suggest the presence of Heteroskedasticity.

Table 5

Testing for Heteroskedasticity

Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model
H0: sigma(i)^2 = sigma^2 for all i
chi2 (88) = 3.9e+34
Prob>chi2 = 0.0000

Table 6

Testing for Autocorrelation

Wooldridge test for autocorrelation in Panel data
H0: no first-order autocorrelation
F(1, 70) = 3.705
Prob > F = 0.0583

Based on the findings of the above results Fixed Effects as well as Heteroskedasticity adjusted FGLS Regression was applied.

Table 5 presents the results of our fixed effects and FGLS regressions. The results according to FGLS regression in Table 5 show that CEO near to retirement will be more involve in payout as there is positive relationship and results are significant. There is positive relationship between payout and investment opportunities (Mui & Mustapha, 2016) also found same results. MTB is positively related to payout so rise in MTB reflects more growth opportunities, but managers become risk averse, so they prefer payout.

Table 7

Panel Regression Models

Heteroskedasticity and multi collinearity-Adjusted FGLS Panel Regression of payout over CEO retirement age, corporate governance variable and control variable

VARIABLES	Fixed Effects	FGLS
CEOR	7.235**	8.716**
	-3.579	-3.574
Bind	0.0506	-0.0089
	-0.126	-0.0237
DROWN	1.39E-08	1.08E-07
	-3.20E-07	-2.47E-07
BLOCK	0.0453	-0.150***
	-0.0491	-0.0566
FSIZE	18.82***	5.950***
	-2.985	-1.044
OCF	0.0440***	0.117***
	-0.0162	-0.0141
MTB	-0.053	0.152
	-0.0933	-0.149
DE	0.00336	-0.00281
	-0.00524	-0.00772
CONSTANT	-99.90***	-14.86**
	-20.98	-7.171
Observations	364	364
Number of Companies	88	88
R-squared	0.213	
	Standard errors in parentheses	
	*** p<0.01, ** p<0.05, * p<0.1	

Block holder ownership is important determinant of a firm's payout. Block holder owner ship is

negatively related to payout which shows the probability of cash dividend may decreases as block holder ownership increases. These findings also support previous study that block holders mitigate information asymmetry of managerial actions and reduces discretionary payout (John & Knyazeva, 2006). According to (Alkurdi, Tahat, & Al-mawali, 2017) block holder monitoring is strong in the presence of institutional ownership. Board independence and director ownership is positively related to cash payout. According (Yarram & Dollery, 2015) independence in board encourage the rights of shareholders, so the dividend. The management share ownership encourages higher payout so reduces agency problem (Fenn & Liang, 2001). The other support was When insider ownership increases agency cost can be reduced since managers have to bear share of cost (Farinha, 2003). There is positive relationship of pay-out with firm size. Large firms pay more dividend to reduce agency cost as compared to small firms. There is positive relationship of pay-out with market to book value. The reason is that CEO who is near to retirement is not investing in growth opportunities, although market to book value is high which reflects growth opportunities. He is paying dividend to save from risky investment. There is positive relationship of pay-out with OCF so higher level of payout, which shareholders demand and helps to mitigate the free cash flow problem (Fenn & Liang, 2001). (Echchabi & Azouzi, 2016) also found positive relationship between cash flow and payout.

5 Discussion & Interpretation of Results

There are two stages: In first stage we concentrated on payout decision of CEO, who is close to retirement. For payout decision used payout dummy which will take the value of 1 if company paid a dividend in a particular year otherwise zero. Panel Logistic regression is used to conduct analysis when data will be in binary form. The second stage is to determine the effect of CEO retirement on the level of payout. Panel data regression analysis will be used to estimate the hypothesized relationships.

it has been proved that CEO who is close to retirement has relationship with payout. Both fixed and random effects panel regression of payout over variable of interest has been run. And then Hausman test for the model specification has been applied. Hausman test suggested the fixed effects model. Wooldridge and Wald tests of Autocorrelation and Heteroskedasticity suggest the presence of Heteroskedasticity. Heteroskedasticity adjusted FGLS Regression was applied. Table 5 presents the results of our fixed effects and FGLS. CEO near to retirement will be more involve in payout as there is positive relationship of CEO age with payout and significant at 5%. MTB is also positively related to payout level so rise in MTB reflects more growth opportunities, but managers become risk averse, so they prefer payout. Block holder ownership is negatively related to payout which shows the probability of cash dividend may decreases as block holder ownership increases. Board independence and director ownership is positively related to cash payout. There is positive relationship of pay-out level with firm size. Large firms pay more dividend to reduce agency cost as compared to small firms. There is positive relationship of pay-out level with OCF so higher level of payout, which shareholders demand and helps to mitigate the free cash flow problem.

6 Conclusion

The pay-out decision is also closely related to corporate governance. Top managers are acting as agents of shareholders and their interest should meet with the interest of shareholder, conflict results in agency problem and hostile takeovers. In the case of excess cash managers should go with investment but if the opportunities are limited then managers should go for pay-out to satisfy shareholders. The pay-out policy is linked with firm performance. These policies should be designed to fulfil the stakes of all the stakeholders.

When the CEO gets closer to the age of retirement his pension entitlements increase substantially making his equity–based incentives to turn systematically towards debt and this would affect payout policies. So, there is need to analyze impact of close to retirement CEO on payout policy.

Through findings wo would conclude our results. When CEO become older, they become creditor as ratio shift away from equity compensation to inside debt in the form of pension(Sundaram & Yermack, 2007). So, managers act risk averse. From results it can be concluded that CEO near to retirement age will be more involve in payout, as significance is at 5% with FGLS, the reason is that in the presence of high growth opportunities and cash, manager will be reluctant in investing in risky investment, instead

he goes for payout to keep himself safe aside. These tactics only work for short term but not helpful in long term. So, there should be proper incorporation of corporate governance, policies, monitoring and disclosure.

Block holder ownership is important determinant of a firm's payout. Block holder owner ship is negatively related to payout which shows the probability of cash dividend may decreases as block holder ownership increases. These findings also support previous study that block holders mitigate information asymmetry of managerial actions and reduces discretionary payout (John & Knyazeva, 2006). Board independence and director ownership is positively related to cash payout. According (Yarram & Dollery, 2015) independence in board encourage the rights of shareholders, so the dividend. The management share ownership encourages higher payout so reduces agency problem (Fenn & Liang, 2001). There is positive relationship of pay-out with firm size. Large firms pay more dividend to reduce agency cost as compared to small firms. There is positive relationship of pay-out with market to book value. The reason is that CEO who is near to retirement is not investing in growth opportunities, although market to book value is high which reflects growth opportunities. He is paying dividend to save from risky investment. There is positive relationship of pay-out with OCF so higher level of payout, which shareholders demand and helps to mitigate the free cash flow problem (Fenn & Liang, 2001).

6.1 Limitations and Future Directions

- Although, we tried to incorporate all the requirements of this study but still some limitations are still unavoidable, so the chances and gap of improvement is still left over. First, data was unavailable.
- All the characteristics of CEOs, variables related to corporate governance and payout are not incorporated.
- This will also open research for future study. One can work on different styles of payout and can relate with different characteristics of CEO, not only payout policy but investing and financing policies can also be related with CEO characteristics.
- FTSE 250, non-financial firms has been selected one can also work on non-financial and other indices. These all would be further addition to study.

6.2 Recommendations

Following are the recommendations through findings that would help in future while formalizing payout policy:

- The pillars of CG should be incorporated while formulating payout policy. Good corporate governance will take in account all the stakeholders and ultimately solve the agency problem
- Compensation structure should consist of more risk incentive factors e.g. stock options which encourage the managers to go for growth opportunities. This would also align the interest of mangers with those of shareholders and they would work for maximizing their wealth.
- Corporate governance compliance would result in good monitoring and thus less information asymmetry.

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