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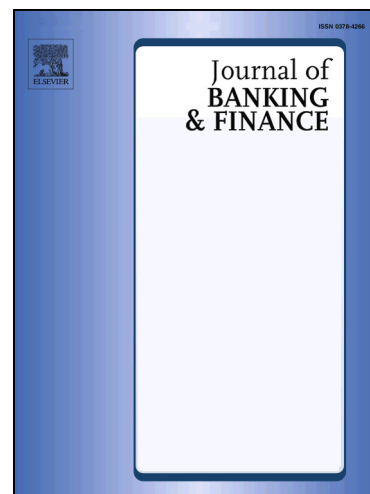
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Executive Incentives and Payout Policy: Empirical Evidence from Europe *

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Abstract

We investigate how corporate payout policy is influenced by executive incentives, i.e. stock and option holdings, stock options delta, and stock-based pay-performance sensitivity for 1,650 publicly listed firms from the UK, Germany, France, Italy, the Netherlands, and Spain, over the period from 2002 to 2009. Our results show that executive stock option holdings and stock options delta are associated with lower dividend payments in our sample of European countries, where we do not observe any presence of dividend protection for executive stock options. We find that this relationship is mainly driven by exercisable stock options and by options that are in-the-money. Additionally, we observe that executive stock option holdings and stock options delta have a negative impact on total payout suggesting that executives do not substitute share repurchases for dividends. Furthermore, the fraction of share repurchases in total payout increases as executive stock option holdings and stock options delta increase. Finally, our results show that executive share ownership and stock-based pay-performance sensitivity may mitigate agency conflicts by significantly increasing the level of total payout.

JEL Classification: G35, G32, G34

Keywords: Executive incentives; Dividends; Share repurchases; Europe

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