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Demographics of dividends

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ABSTRACT

Using seventeen observable demographic characteristics, we investigate the impact of six CEO profiles on dividend policy. Firms headed by married, Republican, Christian CEOs with children maintain higher dividend yields and are more likely to considerably increase their dividend payout. Following substantial dividend hikes, firms led by CEOs with these more traditional personal lives exhibit deteriorating performance. Potential explanations include managerial optimism coupled with dividend signaling and the possibility that CEO profiles proxy for an unobserved firm effect such as firm maturity. However, the associations above continue to persist in both mature firm and turnover sub-samples. Overall, this suggests that these relationships are related to characteristics of the CEOs themselves.

1. Introduction

In 2012, Cisco and Exxon Mobil both made headline-worthy dividend hikes, with Cisco increasing its dividend per share by 75%[1] and Exxon's 21% increase rendering it the largest dividend payer in the world.[2] While evidence has shown that a firm's dividend policy is affected by a multitude of factors, including changing market conditions[3] and characteristics of the firm itself,[4] we assert that a company's dividend policy may additionally be influenced by its leader. Specifically, the bold increases in Cisco and Exxon Mobil's payout policies may be linked to common traits of the executives themselves (i.e., similarities include both leaders being married, Christian, Republican parents). Consequently, we contend that demographic factors may play an important role in dividend policy decisions.

A subset of recent literature has considered the effect of executive qualities and backgrounds on firm decisions. Kaplan et al. (2012) employ factor analysis to analyze the impact of personality traits (e.g., respect, teamwork, and interpersonal abilities) on the hiring success of CEO candidates. Turning to demographic attributes, Bertrand and Schoar (2003) find that older managers

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[1] Lohr (2012).
[2] Denning and Peaple (2012).
[3] Baker and Wurgler (2004a,b).
[4] Fama and French (2001), Grullon et al. (2002), Smith and Watts (1992).

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or those lacking MBA educations implement more conservative investment and financial policies. Similarly, while Malmendier et al. (2011) also find that leverage decreases with CEO age, they further discover that leverage increases with CEO tenure and prior military service, particularly among World War II veterans, suggesting lower risk aversion. Gender is another demographic characteristic associated with corporate decision-making. For example, the female CFOs in Huang and Kisgen's (2013) sample are less likely than male CFOs to make acquisitions or issue debt. Additionally, Hutton et al. (forthcoming) discover that firms with Republican managers adhere to more conservative policies such as lower levels of corporate debt, as well as capital and R&D expenditures. Further, Nicolosi and Yore (2013) reveal that a CEO's marital status is also related to corporate activities such as mergers, joint ventures, security issuances, and divestitures. Finally, the religiosity of a firm's operating area (thus suggestive of the executives' personal preferences) has also been linked to corporate actions. Specifically, firms headquartered in more religious counties tend have lower capital and R&D investments (Hilary and Hui, 2009) and are less likely to engage in undesirable behavior such as options backdating, earnings manipulation, or excess executive compensation (Grullon et al., 2009).

The relationship between CEOs' demographic attributes and firm dividend policy is, however, unclear. One possibility is that managerial optimism is more prevalent among subjects with certain traits, and their corresponding overinflated forecasts of future performance encourage erroneous increases in dividend payout. An alternative explanation is that older firms concurrently face limited investments and possess hiring preferences for specific types of CEOs. In this case, any supposed correlation would actually be a byproduct of the effect of firm maturity on investment opportunities.

To investigate this matter, we study the relationship between six CEO profiles – formed by factor analysis from seventeen demographic characteristics – and firms' dividend yield, proclivity to substantially increase dividends, and subsequent firm performance. We discover that companies led by married, Republican, Christian CEOs with children maintain higher dividend yields, are more likely to significantly hike dividends, and experience deteriorating performance following large dividend increases. These tendencies exist in both the overall sample and a subset of mature firms, suggesting that firm maturity and hiring preferences are not the only explanation. Further, an event study centered on turnover between executives fitting differing profiles also supports the previous results regarding CEOs with more traditional personal lives.

This study contributes to the literature on two fronts. First, we discover that another corporate decision – dividend policy – is related to leadership attributes. Unlike some studies in which executive qualities are time-limited or onerous for the average investor to utilize as a sorting mechanism (e.g., Kaplan et al., 2012, or Malmendier and Tate, 2008), the profiles in this paper are constructed from readily observable characteristics and thus have practical applicability. Second, if the tendency of married, Republican, Christian parent CEOs to raise (seemingly groundlessly) dividends is a result of overoptimistic firm forecasts, these results help resolve a conflict in the literature as to whether managerial overconfidence leads to an increase or decrease in dividend payout. While some authors (i.e., Ben-David et al., 2013; Cordeiro, 2009; Deshmukh et al., 2013) argue that managerial optimism may amplify Myers and Majluf's (1984) pecking order of capital structure, others (i.e., Bouwman, 2010; DeAngelo et al., 1996) counter that managerial optimism may entice biased managers to overuse dividends as a means of signaling superior future firm performance (Bhattacharya, 1979; Miller and Rock, 1985). Our finding that CEOs with more traditional personal lives display a propensity to increase dividends coupled with existing results that these same CEOs engage in other types of overconfident behavior (i.e., Nicolosi, 2012a,b) lends support to the latter argument.

2. Data

Using daily CRSP data for quarterly ordinary cash dividends of the common stock of non-financial and non-utility firms, a qualifying dividend increase is defined as a hike in adjacent dividends (i.e., those with 20 to 90 trading days between announcement dates) of at least 12.5% (after adjusting for the effects of stock splits/dividends) but no more than 500% (to exclude outliers). This methodology follows that of Grullon et al. (2002). Additionally, qualifying dividend increases must also have non-missing non-problematic CRSP returns in the 252 trading days prior to and subsequent to the event, or [−252,252].

We next pair qualifying dividend changes with the six demographic profiles constructed by Nicolosi (2012b) via principal components analysis. The characteristics used to build the profiles include the CEO's age in years when first appointed to office; the number of years the executive was employed by the firm before the appointment; the CEO's gender; the CEO's education level and prestige (i.e., whether the CEO attended Ivy League institutions); the CEO's educational field (i.e., business, technical, law, or other); the CEO's geographic background (i.e., birth place and higher education location); the CEO's political and religious affiliations; the CEO's military or entrepreneurial history; and whether the CEO is married, divorced, and/or has children. Detailed definitions for each characteristic are provided in the description of Table 1. Profile #1 describes a married, Christian, Republican CEO with children. Profile #2 describes a highly-educated CEO with business training. Profile #3 describes a highly-educated CEO with legal training. Profile #4 describes an older, long-term employee-turned-CEO. Profile #5 describes an Asian CEO with technical training. Finally, Profile #6 describes a female Democrat CEO.

Altogether, the final sample spans 1980 to 2008 and covers 2386 CEOs at 1528 firms for a total of 16,185 firm-years during which 2325 qualifying dividend increases occur. Sample descriptions are found in Table 1. Summary statistics for the firms and for the qualifying dividend changes are provided in Panels A and B, respectively. For comparison, information regarding dividend decreases as well as increases is supplied. Panel C contains the distribution of companies, executives, and dividend changes across the years. Finally, Panel D is a duplication of the profiles' factor loadings from Nicolosi (2012b).