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Managerial Irrationality and Dividend Policy of Non-Financial Firms in Nigeria

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Abstract. The study examined the effect of managerial irrationality (Hubris Hypothesis) on dividend policy of 27 non-financial firms listed on the Nigerian stock exchange for the period 2011 to 2022. The specific objectives were to ascertain whether managerial overconfidence, chairman-CEO duality, ownership concentration, firm growth, leverage, total assets and profit after tax significantly affect firms' dividend policy. To this end, the panel data analysis econometric technique was employed for analysis of data, and the results obtained revealed that while managerial overconfidence has significant positive effect on dividend policy, profit after tax has a significant negative impact on dividend policy. The other hypothesized variables such as chairman-CEO duality, ownership concentration, firm growth, leverage and total assets do not have any significant relationship with dividend policy of firms in Nigeria. The study recommends among others that, board of directors intending to grow their firms should endeavour to recruit managers who do not have such behavioural trait/biases. Also, a higher proportion of independent directors should be engaged on the board in order to mitigate the effect of managerial overconfidence and dominance and reduces the probability of the firms not to pay dividend.

Keywords: Managerial Irrationality, Dividend Policy, Non-Financial Firms and Econometric Methods.

1. Introduction

Corporate wellbeing, survival and continuity is essential not only for job creation, improved standard of living but also ensures value creation for shareholders wealth and growth and development of the economy at large. Managerial irrationality also known as hubris hypothesis is often perceived as a characteristic of an individual rather than a group, which typically describes behaviour that defies the norms and often indicates a loss of contact with reality and an overestimation of one's own competence, accomplishments or capabilities (AlGhazali, Fairchild, & Guney, 2022). Contrary to common expectations, hubris is not necessarily associated with high self-esteem but with highly exaggerated self-perception deferent from reality (Lewis, 2001), such that Moolah (2009) earlier described it as the excessive, overbearing pride or presumption usually associated with individual.

In this study, an attempt is made to empirically examine how corporate managers behave irrationally while taking dividend decisions. Although, there are few empirical studies like Chen, Zheng and Wu (2011) on managerial overconfidence and dividend payout in frontier markets, but this study to the best of our knowledge, is the first of its kind to be conducted in Nigeria. According to the positive view of irrationality, whether managerial overconfidence will lead to either overinvestment or underinvestment, is a function of excess internal cashflow available to the firm. Corporate managers assume that an undervalued firm increases its cost of external financing; and if the internal cashflow is much, they will embark on several projects irrespective of its positive or negative net present value (NPV). On the other hand, scarcity of internal cashflow will lead to underinvestment. Thus, overconfident managers tend to reduce the cash dividend if they perceive high investment need, while increasing the dividend payout if they are positive about the cashflows from the current investments (Rasheed, Sadaqat & Chughtai, 2012). On the other hand, the opposite view advocate that the managers who are overconfident may possibly distribute dividends prefer short term debt with the notion that when fewer dividend are paid their reputation will be negatively affected, thereby reduce their compensations.

Several studies have investigated behavioural irrationality from three angles such as investor sentiment, investor biases and managerial biases, we specifically focus on the relationship between one of the managerial biases (overconfidence and firm's dividend policy). Previous studies such as (Gervais,

Heaton and Odean, 2003; Jensen and Ruback, 1983; Busenitz and Barney, 1997; Li and Tang, 2010; Bodt and Roll, 2014) have either investigated the relationship between managerial overconfidence and financing decisions, or in relationship with investment decisions, firm values or corporate takeover or mergers and acquisitions. However, there are only a few exceptions like (Cordeiro, 2009; Chen, Zheng and Wu, 2011) that have examined how managerial overconfidence affects dividend policies of firms.

From the series of empirical literature reviewed, it was observed that a lot of studies like Muller and Sirower (2003); Kisgen (2006); Vagenas-Nanos (2010); Chen, Zheng and Wu (2011); Bodt, Jean-Gabriel and Roll (2014) were carried out in the advanced countries like US, UK and China. Less than 4 percent studies like those of Ali and Anis (2012), Rasheed, Sadaqat and Chughtai (2012), Rizqia and Sumiati (2013) and Soongswang (2016) were done in the emerging economies. To the best of our knowledge, no study of this nature (with respect to hubris hypothesis/managerial irrationality and firm's dividend policy) have been done in Nigeria. Thus, this current study is the first of its kind to be investigated in the Nigerian context.

With respect to findings, we observed that some studies such as Berkovitch and Narayanan (1993), Malmendier and Tate (2005), Baker et al. (2007), Aktas, Bodt and Roll (2007), Chang et al. (2009), Hackbarth (2009), Waal (2013) find that hubris/managerial overconfidence is present in dividend policy decisions, while few others like Rizqia and Sumiati (2013) and Sindhu (2014) submitted that CEOs duality, cash flow assets and leverage positively affect dividend policy. Due to some country-specific-factors that may be associated with the above findings, one may be wrong to generalize these results and conclude for the Nigerian case. Hence, the need to investigate this relationship using variables such as Managerial Overconfidence, Chairman-CEO Duality, Cash Flow, Industry Growth and Ownership Concentration. We note that apart from Chen, Zheng and Wu, 2011 in China who employed these variables in their study, others used Managerial Overconfidence and other firm specific factors.

In view of the foregoing, given the very nature of many Nigerian firms being managed by managers with unquestionable characters and the subsequent collapse of many of these firms in recent times, one cannot completely rule out the presence of managerial irrationality in the process. It is argued that firm's characteristics or specific factors may not be the only factors influencing firms' dividend policy decisions rather, other psychological variables such as irrational behaviour may also be responsible. However, the extent to which this irrational behaviour affect dividend policy decisions in Nigerian firms is what we cannot tell. It is in the light of these that this study seeks to empirically test the Hubris hypothesis and model of managerial irrationality in relation to firm's dividend policy in Nigeria by relaxing the rationality assumption.

The rest of the paper is structured as follows; section two is the literature review, section three focusses on methodology, section four on data analysis and interpretation of results and while conclusion and recommendations are addressed in section five.

2. Literature Review

2.1 Managerial Irrationality/Hubris Hypothesis

According to Moolah (2009), managerial irrationality/hubris hypothesis refers to overbearing pride or presumption, excessive pride or self-confidence usually associated with individual. It has been advanced as an explanation of modern corporate takeovers, suggesting that there is a tendency for biding companies to pay too much especially when corporate managers are over optimistic about their ability to add value to a new company. It often indicates a loss of contact with reality and an overestimation of one's own competence, accomplishments or capabilities (Lewis, 2001).

Baker et al (2004) sees manager's irrational behaviour as the managerial behaviour that is less than fully rational, or managerial behaviour that doesn't meet the definition in rational decision theory. According to them, irrational behaviour is the behaviour excluding that of completely rational people. Irrational Behaviour does not only include limited rational behaviour, but also emphasizes on systematic mistakes rising from cognitive bias and psychological factors under uncertainty in intuitive decision making (Shao and Wang, 2013). Where information asymmetry exists, there is also uncertainty with respect to capital investment decisio. When people make decision under uncertainty, their behaviour is always irrational systematically, caused by psychological factors such as cognitive bias, sentiment or emotion (Camerer 2004; Kahneman and Tversky, 1979). The irrational behaviour of managers will lead to serious decision making errors and do harm to corporate value.

2.2 Concept of Dividend Policy

Dividends are cash paid to firms' owners from the total income due to the firms such that the percentage payment is regarded as the payout ratio; but dividend yield is often ascertained by the ratio of dividend per share-to-share price. These include cash dividend, stock dividend/bonus shares and stock split (Pandey, 2010). According to Maheshwari, Maheswari and Maheshwari (2011), the term dividend policy refers to the policy concerning quantum of profits to be distributed as dividend.

Dividend policy decision, as an aspect of financial management, aids the success of the organization by providing a standard by which a company determines the amount of money it pays as dividend. Surprisingly, some theories such as Miller and Modigliani (1961) argued that dividend policy do not matter (irrelevant) and while others like Lintner (1956), Walter (1963) and Gordon (1963) believed that it matters (relevant). However, several reasons have been advanced to support a company's decision to declare dividend to shareholders. According to Allen, Bernardo and Welch (2000), corporate investors like to buy shares in firms that pay dividend due to the tax benefits, and that payment of dividends increases the overall performance of the company by minimizing information asymmetry. In addition, payment of dividend constrains managers to efficiently manage the investment decision of the firm, as excessive profits sometimes influence management to careless spending, and unprofitable projects/ventures (Jensen, 1986; Al-Malkawi, 2008).

2.3 Managerial Overconfidence and Dividend Policy

Managerial overconfidence can be seen as individual's certainty about his or her own predictions exceeds the accuracy of those predictions (Li & Tang, 2010). Ideally, firms are believed to either behave rationally or irrationally; but under the rational approach, "managers use dividends as a function to reduce agency cost or as a device of signal to solve the information asymmetry problem". However, empirical evidence has not shown strong support for the assumption. Allen and Michaely (2003) and Frankfurter and Wood (2006) argue that there is no empirical evidence that aligns agency and signaling theories. However, in this study, we assume that "managers, investors, or both behave irrationally, even though studies have investigated behavioural irrationality from three angles, investor sentiment, investor biases and managerial biases, we specifically focus on the relationship between one of the managerial biases, overconfidence and dividend policy".

Previous studies in this regard have examined investment, financing decisions and firm values. But there are only a few exceptions that have examined how managerial overconfidence affects dividend policy decisions. Many of these studies contend whether to distribute dividends or not is a function of the managers' perception of the company's future, because dividend policy is a decision about investing earnings so as to grow the firm; and when they become overconfident about their future growth, they prefer to invest earnings to boost growth rather than pay dividend (Deshmukh et al. 2009). In fact, some empirical studies such as Cordeiro (2009) have argument that overconfident managers often pay less dividend; but other studies like Denis and Osobov (2008) argue otherwise and predicts that dividend policy varies across company's life cycle.

2.4 Chairman-CEO Duality and dividend policy

This is a situation where a firm's CEO is also the chairman of the board. It has however been noted in the extant literature that this dual role could pose a potential threat to a firm's dividend policy decisions and overall performance (Chen et. Al, 2011). The issue of duality is often an indication of more power for a firm's managers. A manager who also occupies the office of a chairman of the board may be able to use his power to achieve his own selfish interest/agenda without taking cognizance of shareholders' interest. Since managers' stock options is often a function of the growth rate of the firm, they are more inclined to invest the firm's earnings for future growth. This situation may be true in the Nigerian case because of the numerous investment opportunities, unconcentrated nature of shareholders and the process of managing a Nigerian firm is more complex due to the emergence of new issues in the Nigerian emerging market.

2.5 Cash Flow, Managerial Irrationality and Dividend Policy

Jensen (1986, p.12) "sees free cash flow as cash in excess of that required for funding all positive net present value projects, which often tempt managers to expand the scope of operations and the size of the firm, thus increasing managers' control and personal remuneration, by investing free resources in projects that have zero or negative net present values". These negative NPV projects result in serious conflict among shareholders and managers, hence, Jensen (1986) opined that some firms are especially susceptible to

raising free cash flow, suggesting distribution of dividend to respective owners to limit or checkmate the abusive behaviour of managers at the detriment of the overall wellbeing of the which is often caused by irrationality.

2.6 Theoretical Review

2.6.1 Theory of Optimism and Dividend Policy

According to Roll (1986), "managerial optimism in a firm's financing decisions (dividend policy) has been a subject of an ongoing debate in the corporate finance literature; pioneering study on the role of managerial over optimism in corporate acquisitions, the merits of managers' possible departure from full rationality, and behavioral corporate finance in general, have been examined in a number of theoretical and empirical studies". Optimistic managers will use a priority on self-financing, then debt and ultimately to the issue of shares. They show the positive relationship between the means of internal financing and managerial optimism (Malmendier & Tate, 2005). Baker et al. (2007) show that optimistic CEOs over invest and tend to choose higher leverage due to their overestimation of growth potentials thereby opting for debt financing.

Thus, "an optimistic leader promotes self-first and last a debt and equity issuance. In other words, optimistic leader is particularly sensitive to the risk of difficulties, even bankruptcy of the company; and therefore, he prefers that dividends are limited, so that company has cash to meet its commitments". Hackbarth (2009) argues that optimistic managers have a higher probability to excel in tournaments and thus may get promoted to top executive positions more often, though all managers choose riskier investments (specific investment and long term) when faced by internal competition for leadership.

2.7 Empirical Literature

The study of Vagenas-Nanos (2010) on overconfidence and shareholder value in both public and private deals in the UK found that overconfidence managers are unable to make better returns on investment compared to those raised by rational bidders. Chen, Zheng and Wu (2011) investigated the relationship between managerial overconfidence and dividend policy in an emerging market in China on a sample of 745 companies. The results show that overconfidence and dividend policy are negatively related and that relationship is strengthened by duality and cash flow. Campbell et al. (2011) employed different types of optimism to test the effect on CEOs on dividend policy decisions. "The outcome demonstrated that high (low) optimistic risk-averse CEOs invest more (less) which destroys firms' value; also, they affirm that those CEOs are more likely to lose their position, particularly, if the board of directors act in the interest of shareholders".

Ali and Anis (2012) investigated managerial biases, overconfidence and dividend policy. Using Bayesian network method to examine this relationship coupled with emotional bias on 100 Tunisian executives. The findings indicate that dividend policy is significantly influenced by behavioural biases such as optimism, loss aversion, and overconfidence. Rasheed, Sadaqat and Chughtai (2012) investigate the link between managerial overconfidence and dividend payout in an emerging market of underdeveloped country Pakistan for 62 listed firms for the period 2009 to 2011. Using the ordinary least squared (OLS) technique, the results reveal that managerial overconfidence has a weak relationship with dividend payout.

Waal (2013) examined the effects of hubris and size on merger performance using the univariate and the OLS techniques. The findings revealed that Hubris significantly impact merger performance. The finding also showed that overconfident CEOs of smaller firms perform better than overconfident CEOs of larger firms. Shao and Wang (2013) examined the effect of manager's irrational behaviour on corporate investment and dividend decisions. The empirical results indicate that irrational behaviour of managers, cognitive bias and psychological factors take place in heuristics significantly affect dividend and investment decision making process.

The study of Bodt, Jean-Gabriel and Roll (2014) on overbidding and M&A decision found that overbidding which was heavily driven by irrationality. Soongswang (2016) examines the motives behind takeovers activities in Thailand under synergy, agency costs and hubris hypothesis. He employed a long window returns for a period of 12 months before and after the announcement by means of a number of metrics. It was observed that two set of firms are positive that the synergy as well as hubris hypothesis were the motives behind the takeover's bids in Thailand.

Anour and Aubert (2017) examine the effect of investors' sentiments on dividend policy in France using panel data analysis technique. It was observed that dividend premiums and investors' sentiments have significant impact on firms' dividend decisions. The study by Charbti (2020) on the effect of divided policy on firm's size and age in relation to investor sentiment in France was empirically investigated. The

regression method was employed for analysis of data and the results revealed among others that industry is the single sector that captures the significance of investor sentiment in predicting dividend policy likelihood in France.

Sheng et al. (2022) examined the relationship between managerial myopia and firm's productive capacity in China. Using the regression analysis, it was found that managerial myopia has a weak relationship with firm's productive capacity. The study of AlGhazali, Fairchild and Guney (2023) on corporate dividend policy as a puzzle and its effects of economic and behavioural factors was investigated in relation to managerial irrationality, moral hazard, overconfidence, and myopia on managerial incentives to increase or decrease dividends. The outcome of the study revealed a significant effect of these factors on dividend policy decisions.

3. Methodology

The main method used for this study is the Panel Data Analysis (PDA); although correlation coefficient and descriptive statistics were employed for the preliminary tests in order to ascertain the background characterization and the relationship among the hypothesized variables. The panel data analysis accommodates 'time as well as the heterogeneity' effects of the quoted companies. The Hausman test is employed to select between fixed and random effect estimation. The justification for the use of panel data analysis in this study is based on the fact that the data used is subject to time and cross-sectional attributes, it provides better results since it increases sample size and reduces the problem of degree of freedom and, the ability to avoid the problem of multi-colinearity, aggregation bias and endogeneity problems (Greene, 2002).

3.1 Population, Sample Size and Source of Data

The population consists of all non-financial firms quoted on the floor of the Nigerian Stock Exchange from 2011 to 2022. As at 31st December 2022, there were 177 quoted active non-financial firms (NSE, Fact book 2022), out of which twenty (27) active non-financial firms were randomly selected. The data for the study were sourced from the respective companies audited annual reports and the Nigerian Stock Exchange Fact Books.

3.2 Model Specification

The model follows a recursive format by employing the Chen, Zheng and Wu (2011) and Lintner partial adjustment model with modifications that allow for use of hubris hypothesis/managerial irrationality variables that is Synonymous with developing countries. The use of a partial adjustment format helps to provide adaptation for the dynamic behaviour of dividend policy within companies (Allen & Michaely, 1995; Fama & French, 2001). The model therefore modifies that of Chen, Zheng and Wu (2011) in China and is presented in its basic form as follows:

$$DIVPOL_i = \alpha_0 + \alpha_1 PAT_{it} + \alpha_2 CF_{it} + \alpha_4 EPS_{it} + u_1 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots. (1)$$

Equation (1) is the foundational model of the managerial behavioural determination of dividend policy. Being a partial adjustment structures model, we include earnings per share and cash flow (the ratio of cash flow and total shares) which are essential factors in dividend policy determination. Given the theoretical framework presented above, we therefore include growth and leverage in the model in equation (1) to recursively obtain an expanded form of the modified Lintner model in equation 2 below as follows:

$$DIVPOL_i = \alpha_0 + \alpha_1 PAT_{it} + \alpha_2 CF_{it} + \alpha_3 EPS_{it} + \alpha_4 GROWTH_{it} + \alpha_5 LEV_{it} + u_2 \ldots\ldots\ldots. (2)$$

In equation (2) cash flows is argued to be a potent factor in dividend payout for the respective firms and is expected to be positively signed. Apparently, growth rate is also expected to exert a distributed effect on dividend payout since the desire of managers to grow the firm is a reflection of the tradeoff between future growth and payment of current period dividend. Leverage is also added because is an indication of shareholders willingness to ensure prompt payment off dividend by reducing the amount of excess cash at the managers' control. Thus, equation (3) is specified recursively (from) equation (2) to include owner concentration and total assets in the dividend function as:

$$DIVPOL_i = \alpha_0 + \alpha_1 PAT_{it} + \alpha_2 CF_{it} + \alpha_3 EPS_{it} + \alpha_4 GROWTH_{it} + \alpha_5 LEV_{it} + \alpha_6 OC_{it} + \alpha_7 TASS_{it} + u_3 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots..(3)$$

Moreover, following Chen, Zheng and Wu (2011) and Rasheed, Sadaqat and Chughtai *(2012)*, managerial overconfidence and CEOs duality can be explicitly introduced into the dividend function as well as lag of dividend policy in model 4 below separately. This will enable us observe separately the particular effect of managerial overconfidence on dividend payout. The reformulated model is thus specified as follows:

$$DIVPOL_i = \alpha_0 + \alpha_1 MOC_{it} + \alpha_2 DUALITY_{it} + \alpha_4 LagDIVPOL_{it}\ u_4 \ldots\ldots\ldots\ldots.\ldots\ldots\ldots\ldots\ldots...(4)$$

In order to close the recursive models developed above, we take a combination of the dynamic model of hubris hypothesis factors within a single function in model 5 below. Dividend policy decision of the firm

is often a reflection of managerial overconfidence and CEOs duality. The Duality often means more power for a company's executives. A CEO who also serves as the chairman of the board may be able to employ his/her power to advance his/her own agenda without considering the needs of shareholders (Chen et. al., 2011). A dummy variable of 1 and 0 is thus introduced such that where the CEOs is also the chairman of the board is represented by 1 and where he is not, is represented by 0. The model is therefore specified as follows:

$DIVPOL_i = \alpha_0 + \alpha_1 PAT_{it} + \alpha_2 CF_{it} + \alpha_3 EPS_{it} + \alpha_4 GROWTH_{it} + \alpha_5 LEV_{it} + \alpha_6 OC_{it} + \alpha_7 TASS_{it} + \alpha_8 MOC_{it} + \alpha_9 DUALITY_{it} + \alpha_{10} LagDIVPOL_{it} + u_5$ ……..*(5)*

Where:

DIVPOL = Dividend Policy
PAT = Profit After Tax
CF Cashflow
EPS = Earnings Per Share
GROWTH = Firm Growth
LEV = Leverage
OC =Ownership Concentration
TASS = Total Assets
MOC = Managerial Overconfidence
DUALITY = Chairman-CEO Duality

The *a-priori expectations* for Hubris Hypothesis/Managerial Irrationality-Dividend Policy relationship; $\alpha_{1,} \alpha_{2,} \alpha_{3,} \alpha_{4,} \alpha_{7,} \alpha_{8,} \alpha_{9,} \alpha_{10} > o$; $\alpha_{5,} \alpha_{6} < o$

3.3 Measurement of Variables

(a) Dependent variable

Dividend Payout (DIVPAY): "this is taken in two variations; in levels, the variable is the amount of dividend payout; while in ratio, it is taken as the ratio of total dividend paid to total profit after tax for the firms:

(b) Independent variables

(i) Managerial Overconfidence (MOC): measured by the difference between the forecast profit and the actual company performance; Lin et al (2005) used similar measurements in their study;

(ii) Chairman-CEO Duality (Duality): when the CEO of a company also serves as the chairman, we assigned a value of 1; otherwise, the value is 0, it is expected to be positively signed

(iii) Cash Reserve/Flow (CF): it is the ratio of cash flow and total shares

(iv) Industry Growth (Growth): g*rowth* is the annual growth rate of total assets of the company, and also by averaging the sales over a five years period in the industry; Keats and Hitt (1988) also used this method

(v) Ownership Concentration (OC): this represents the total amount of shares held by the firm's directors and their relatives as a ratio of total equity shares; the higher the percentage held by directors and their families, the more their interests conform to those of outside shareholders

(vi) Firm Leverage (LEV): Measured as the level of debt employed by the firms, it is also a measure of the financial risk to which the firm is exposed (Agrawal & Jayaraman, 1994)

(vii) Total Assets (TASS): also measured as log of total assets

(viii) Profit after Tax: this is the profit after taxation as announced in the records of the companies in the sample".

4. Data Analysis and Interpretation of Results

This section focuses on data analysis, presentation of results and discussion of findings. The analysis involves preliminary test like correlation analysis, as well as the Panel Data Analysis employed for the main estimation of the data set.

4.1 Correlation Analysis

To further examine the background behavioural patterns in the data series in the study, the ordinary correlations matrix coefficients are determined between the variables in the study. The ordinary correlation matrix analysis is conducted on the data for the main variables used in the empirical analysis. The correlation matrix results for the variables in Table 4.1 indicates that dividend payout has a rather weak correlation with all the other variables in the study. The correlation values are really low and indicate that one-on-one relationship of the variables with dividends is generally weak for the entire sample. Unexpectedly, MOC had -0.0027 values, a negative relationship with dividend policy and profit after tax; while ownership concentration also has a weak negative correlation with DIVPOL and the other variables. It seems that the highest correlation in the result is between TASSET and EPS (0.4013), and DEBT and CF (0.3866). This means that the companies' cash flow constitutes more of debt that equity, and that the companies' earnings per share is strongly dependent on their total assets.

Table 4.1: Pairwise Correlation Matrix

	DIVPOL	PAT	CF	EPS	GROWTH	DEBT	TASSET	MOC	DUALITY	OC
DIVPOL	1									
PAT	-0.0169	1								
CF	0.0099	0.0102	1							
EPS	-0.0329	-0.0388	0.0478	1						
GROWTH	-0.0156	-0.0035	0.0137	-0.0554	1					
DEBT	0.0080	-0.0139	0.3866	0.1011	-0.0114	1				
TASSET	0.0043	0.0012	0.0037	0.4013	0.0719	-0.0041	1			
MOC	-0.0027	-0.2855	0.0229	-0.0047	-0.0148	-0.0052	-0.0074	1		
DUALITY	-0.0538	0.0990	0.0613	0.1038	-0.0483	0.0268	0.0644	0.0052	1	
OC	-0.0490	-0.0520	0.0515	-0.0954	-0.0179	0.0069	-0.1339	-0.0026	0.0087	1

Source: Author's Computations (2023)

4.2 The Pane Data Analysis Results

As noted in section three, the standard test for the method of panel data analysis adopted is the estimation of Hausman test for random effects (see table 4.2 below). Since the biases in the pooled data could either come from cross sectional heterogeneity or time series (periodic) changes, the Hausman test is conducted to determine the best effects model to be adopted. The Chi-square statistic values for the model was significant. From the results, the statistic provides little evidence against the null hypothesis that there is no misspecification when the fixed-effect model is employed, hence, the best method to apply for the model estimation is the fixed-effect strategy. However, for the purpose of robustness check, we present the results for both effects (fixed and random effects) together in Table 4.2 below.

Table 4.2: Hausman Test for Panel Effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	864.668	9	0.000

Source: Author's computations (2023)

4.3 Managerial Overconfidence and Dividend Policy Model

$$DIVPOL_i = \alpha_0 + \alpha_1 MOC_i + \alpha_2 DUALITY_i + \alpha_4 LagDIVPOL_i\ u_4 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.4)$$

The effects of managerial overconfidence (MOC) on dividend payout of the firms are estimated in Table 4.3, and the diagnostic tests of the model shows a very strong predictive ability as it is shown in the high R squared value of 0.59. This shows that over 59 percent of the systematic variations in dividend policy is captured by changes in the explanatory variables. The adjusted R-squared value of 0.51 percent is also okay and it implies that the model has a good predictive ability. The F value of 6.687 in the model however passes the significance test at the 1 percent level, given the probability of zero. This shows that a significant positive relationship exists between the dependent variable and all the independent variables combined.

The individual coefficients of the variables in the model report quite interesting outcomes. The coefficient of Managerial Overconfidence (MOC) is positive and significant at the 5 percent level. This implies that a significant positive relationship between managerial overconfidence and dividend policy of firms in Nigeria. This positive relationship is an indication that hubris hypothesis or managerial irrationality highly influences dividend policy decisions of firms in Nigeria in the period under investigation. This result is quite suggestive and conformed with those of Bouwman (2009) who reveal that there is a greater abnormal return following the announcement of dividend increases for optimistic managers compared to rational managers. This was attributed to the inability of the markets to distinguish between overconfident and rational managers. The study argues further that if managers use dividend announcements to convey information about future earnings, investors should react positively to dividend increases. However, if investors can distinguish between overconfident and rational managers then it would be expected that the market will react positively to rational managers' announcements.

This finding disagrees with those of Chen, Zheng and Wu (2011) who find negative relationship between managerial overconfidence and dividend policy; and Rasheed, Sadaqat and Chughtai (2012) who submitted a weak positive relationship between managerial overconfidence and dividend payout. The study however, agrees with those of Muller and Sirower (2003), Bertrand and Mullainathan (2003), Fairchild (2005), Malmendier and Tate (2005), Ben-David et al. (2007),

Shao and Wang (2013), Waal (2013), Gervais and Odean (2001), Hackbarth (2009) who unanimously submitted a strong positive relationship between managerial overconfidence and dividend policy of firms.

On the other hand, DUALITY as measured by Chairman-CEO Duality, a situation Where the CEO of a company also serves as the chairman. Hence, this variable was captured by dummy, we assigned a value of 1 when the CEO of a company also serves as the chairman; otherwise, the value is assigned 0 when he is not. However, the empirical findings from this study indicate that there is no significant relationship between CEO Duality and dividend policy. This further justifies the codes of corporate governance in Nigeria that strictly prohibits a situation where CEO of a company also serve as board's chairman. The negative sign in the result indicates that even if there is evidence of CEO-Duality, it will continue to have negative impact on dividend policy decisions of firms in Nigeria. This finding confirmed those of Chen, Zheng and Wu (2011) in China

Table 4.3: Model with Managerial Overconfidence (MOC) (Dependent Variable = DIVPOL)

Variable	*Fixed Effects (FE)*			*Random Effects (RE)*		
	Coeff.	t-Stat.	Prob.	Coeff.	t-Stat.	Prob.
Constant	2.57E+08	2.623720	0.0097	1.65E+08	1.828373	0.0694
MOC	0.024891	2.402921	0.0177*	-0.001565	-0.185149	0.8533
DUALITY	-2.01E+08	-1.506073	0.1344	-59887202	-0.507991	0.6122
DIVPOL(-3)	0.043632	0.563368	0.5741	0.441443	6.268794	0.0000
R-squared	0.595			0.124		
Adj. R-squared	0.506	DW=2.28		0.107		DW=1.27
F-statistic	6.687			7.481		

Source: Author's computation (2023) Note: *1% level of sig; ** 5% level of sig.

4.4 Managerial Overconfidence, Firm's Specific Factors and Dividend Policy

$$DIVPOL_i = \alpha_0 + \alpha_1 PAT_i + \alpha_2 CF_i + \alpha_3 EPS_i + \alpha_4 GROWTH_i + \alpha_5 LEV_i + \alpha_6 OC_i + \alpha_7 TASS_i + \alpha_8 MOC_i + \alpha_9 DUALITY_i + \alpha_{10} LagDIVPOL_i + u_5 \quad (3.5)$$

Finally, we take a comprehensive evaluation of managerial irrationality and other hypothesized firm's related factors and their effects on dividend policy decisions in a single long linear model. The essence was to specifically ascertain the extent to which human factors and firm's specific factors influence firm's dividend policy decisions in Nigeria. The empirical results of the estimated panel data analysis (Fixed-effect) for the model presented in table 4.4 below, the diagnostic indicators are very impressive. The model is shown to have a very strong predictive ability as is shown in the high R squared value of 0.89. This shows that over 89 percent of the systematic variations in DIVPOL is captured by changes MOC and the other explanatory variables in the model. The adjusted R-squared value of 0.86 percent is also very high and it implies that the model has a high predictive ability. The overall relevance of the model is observed by considering the F-statistic in the model. The F-value of 37.855 is very high and thus, passes the overall

significance test at the 1 percent level. Thus, we cannot reject the hypothesis of a significant linear relationship between dividend policy (DIVPOL) and all the independent variables combined. It is therefore apparent that the combined effects of all the MOC and other specified independent variables have significant effects on dividend policy decisions in Nigeria.

From the individual coefficients of the variables and their specific effect on dividend policy, we can see that on the basis of fixed effect results, PAT and MOC are significant at the 1 percent and 5 percent levels. Thus, confirming the earlier results obtained. With this result, it became imperative that firm's profitability and managers' cognitive behaviour are the most significant factors affecting dividend policy decisions among firms in Nigeria. Hence, there is the urgent need for shareholders and other relevant stakeholders in Nigeria to take appropriate steps by formulating the right policies that help to properly checkmate and minimize the unwholesome influences of managerial irrationality (hubris hypothesis) on dividend policy decision in the Nigerian firms. Doing so will certainly go a long way to enhance and sustain the overall market value of firms.

The other hypothesized variables in the model such as CAF, EPS, GROWTH, DEBT, TASSET, DUALITY and OC all failed the 5 percent level of significance. This implies that in the determination of dividend policy in Nigeria, these variables are not relevant. The lagged value of dividend policy is significant at the 1 percent level, indicating that the previous values of dividend policy have more impact on dividend payouts than the current values. Therefore, the overall results obtained from the model estimation are effectively acceptable because the D.W. statistic value of 1.99 is appropriate and indicates the absence of multicolinearity in the model. Thus, the results are applicable for structural analysis as well as policy directions.

Table 4.4: Model with Managerial Overconfidence (MOC) and other firms' Specific Factors (Dependent Variable = DIVPOL)

Variable	*Fixed Effects (FE)*			*Random Effects (RE)*		
	Coeff.	t-Stat.	Prob.	Coeff.	t-Stat.	Prob.
Constant	2.61E+08	4.800562	0.0000	1.39E+08	3.533315	0.0005
PAT	-0.444989	-20.67935	0.0000**	-0.001840	-0.124992	0.9007
CF	0.007240	0.090318	0.9281	0.018119	0.252253	0.8011
EPS	-38487.10	-0.110705	0.9120	-254776.5	-0.866672	0.3872
GROWTH	-3063048.	-0.309408	0.7574	-2121769.	-0.223709	0.8232
DEBT	0.011923	0.373643	0.7091	0.006413	0.238283	0.8119
TASSET	0.068794	0.142988	0.8865	0.192975	0.981212	0.3277
MOC	0.012948	2.247574	0.0259*	-0.000225	-0.042420	0.9662
DUALITY	-9241137.	-0.181165	0.8565	-1.26E+08	-2.735246	0.0068
OC	-2179291.	-0.220363	0.8259	-5983466.	-1.127603	0.2609
DIVPOL(-1)	-0.412029	-9.236601	0.0000**	0.609900	22.25608	0.0000
R-squared	0.887			0.331		
Adj. R-squared	0.864	DW=1.99		0.297		DW=2.61
F-statistic	37.855			9.799		

Source: Author's computation (2023) Note: *1% level of sig; ** 5% level of sig.

5. Conclusion

In this study, we have empirically investigated the effect of Managerial Irrationality (Hubris Hypothesis) proxied by managerial overconfidence on dividend policy of 27 non-financial firms listed on the floor of the Nigerian stock exchange limited for the period 2011 to 2022. Other firm's specific variables were also analyzed in this regard. The results from the analysis show that managerial overconfidence is a major factor affecting dividend policy decisions in Nigeria. The result is a further confirmation of existing theories on dividend policy–managerial irrationality relationship. In the recent past, researchers in the field of finance have started including factors driven by individual behaviour and their cognitive biases within financial modelling. One of the most common human bias used in the extant literature in explaining a number of financial anomalies is overconfidence. Thus, overconfidence is an important aspect of any theory intended to explain the issue of dividend policy decision of firms. The findings from this study have important implications for dividend decisions and firm's market value in Nigeria.

5.1 Recommendations

First, since dividend policy is highly influenced by managerial overconfidence; and that managers are prone to behavioural bias of overconfidence and do not pay enough dividend out of the firm's cash flows, the board of directors intending to grow their firms should endeavour to recruit managers who do not have such behavioural trait/biases. For instance, some common signs of overconfidence are persons exhibiting impulsiveness or impatience, as well as lack of regard for other people's views or opinions. These factors can be used for evaluation during recruitment exercise.

Secondly, senior managers should also be very conscious of their confidence level so that there will be none/minimal biases when making dividend policy decisions. Hence, when uncertain about the likelihood of dividend policy issue, be courageous enough to ask yourself a question: what is it that I don't know? Then, you should seek out peoples' opinions and feedback, and thereafter take a more objective approach to that dividend policy decision. This will definitely go a long way to minimize/mitigate incidences of negative biases or managerial irrationality influence on dividend policy decisions in the Nigerian firms.

Lastly, since the effect of managerial overconfidence in making vital dividend-destroying decisions poses a serious concern to shareholders and regulators, then relevant policy makers should ensure that there is an independent board of directors. The reason being that a higher proportion of independent directors on the board mitigates the effect of managerial overconfidence and dominance and reduces the probability of the firms not to pay dividend.

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