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How Does Managerial Ability Cherish Dividend Payout Decisions during Economic Policy Uncertainty?

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ABSTRACT

Dividend decisions are the road map of investment and hence, carry huge weightage for investors. During periods of economic policy uncertainty dividend cut is devastating and brutal. As previously suggested that EPU leads to decreased or no dividends offered by the firms. Current study established the argument that relationship between EPU and dividend payout changes through moderating role of managerial ability. It was hypothesized that a capable and challenging manager fights EPU disasters through his skills, ability to forecast and efficiency and builds a sustained relationship between EPU and dividend payout. An extensive data set from 2006-2015 was taken from 1,153 non-financial listed firms of China. Results supported the hypothesis robustly.

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Introduction

How firms adjust their corporate policies for economic uncertainty is a long-debated issue in finance literature. The impact of economic policy uncertainty on corporate dividend policy has attained significant importance in last decade after the occurrence of the global financial crisis of 2008 (Attig et al., 2018; Buchanan et al., 2017; Brogaard, & Detzel, 2015; Chay, & Suh, 2009). A firm faces substantial uncertainty about its future paybacks and has concerns about how much these get affected by economic policy uncertainties and how that impact can be marginalized. These uncertainties arise due to policy shocks, for instance, political or institutional decisions, regulatory reforms, firms' environment changes, etc. Economic conditions are pivotal for the survival of firms due to high cost of reversal of corporate policies, for instance, the decision of initiating the dividends or termination of dividends, hiring the talented managers (Buchanan et al., 2017; Brav et al., 2005; Boyle & Guthrie, 2003). Therefore, firms when design any corporate policy consider the macroeconomic conditions and make sure that their future uncertainty should be minimum.

Classical view in finance literature states that paying dividend regularly remains consistent over time and it's quite rare that stock markets push firms to cut the regular dividend payment

(Buchanan et al., 2017; Brav et al., 2005; DeAngelo, 1991; Healy & Palepu, 1988). Contrast to this empirical stance, based on signaling theory, firms when initiating the regular dividend payment, send a strong signal to their investors specifically and market generally that they intend to maintain a specific level of dividend payment in future as well (Buchanan et al., 2017). Firms keep paying dividends regularly before the introduction of economic reforms, such as dividend tax, tariff, regulations, etc. in the country (Hanlon & Hoopes, 2014; Korkeamaki et al., 2010). These studies of Hanlon & Hoopes, (2014) and Korkeamaki et al., (2010) indicate that those firms that initiate regular dividend payment are affected more from economic reforms and face more risk potentially to reverse their long-term future dividend policy. Hence, firms look for alternatives to cope with such uncertainty and ensure their smooth and strong investor relations.

Brav et al., (2005) identify that economic and regulatory settings, cash holdings, and profits are considered to be the key factors which determine firms' dividend policy. Huang et al., (2015) demonstrate that political risk affects the dividend payout policy negatively. Attig et al., (2016) and Bliss et al., (2015) indicate that the global financial crisis of 2008 negatively impacts the firms' dividend payout. Buchanan et al., (2017) find the negative effect of tax policy uncertainty in the US on corporate dividend policy payout. Therefore, economic policy uncertainty remains an important aspect for firms to consider while deciding on their corporate dividend policy. Firms try to overcome this shortcoming and mainly depend on their management that how effectively it copes such uncertainties. Managers can help firms to reduce the speculative risk and communicate effectively with key stakeholders about the volatility arise in dividend policy (Herzig & Jimmieson, 2006). Floyd & Lane, (2000) argue that managers have various secondary roles that mainly depend on their abilities, skills, and expertise. Their abilities and expertise influence their cognitive biases and decision-making which ultimately impact the firms' dividend policy (Brown et al., 2000; Baker et al., 1985). Therefore, the managerial ability can play a significant role in reducing the effect of economic policy uncertainty on the firm's dividend payout and can help firms effectively in deciding whether to initiate or terminate the dividend payments.

Our study is inspired by many empirical stances. First, economic policy uncertainty influences the overall economic and financial participant in an economy and significantly affects their earnings and future growth prospects. It can weaken an economy's growth and in return affect the ability of an economy to recover from a policy and regulatory shock (Baker et al., 2016). Because economic policy uncertainty negatively affects the economic agents so in return, they reduce their investment, spending, and lending. It also halts firms' capital inflows and outflows, slowing down their business-cycles, and reducing their investment opportunities (Bonaime et al., 2018). Therefore, the economic policy uncertainty affects firms' current as well as future earnings and ultimately their dividend policies. Second, the paucity of research related to the impact of managerial ability on the dividend under economic policy uncertainty motivates us to conduct this research. Existing literature mainly focuses on explaining the impact of managerial ability on dividend payout, but role of managers during economic policy uncertainty is overlooked. Economic policy uncertainty can arise due to political, financial, and regulatory shocks which are beyond the control of managers, hence, it is difficult to hedge against EPU. So, firms depend on their managers' ability to adjust their dividend payout policy and lower the effect of EPU. Therefore, it is interesting to investigate the impact of managerial ability on dividend when there exists economic policy uncertainty.

The lack of research may be due to challenges related to measuring the economic policy uncertainty and managerial ability (Gulen & Ion, 2015; Demerjian et al., 2012; Hayes & Schaefer, 1999). This study bridges this literature gap by using extensive indices to measure economic policy uncertainty (Baker et al., 2016) and managerial ability (Demerjian et al., 2012) in case of an emerging country China. Based on the signaling theory, agency theory, and the upper echelons

theory, this study argues that economic policy uncertainty significantly affects the dividend policy. The study finds the significant moderating role of managers in initiating and terminating the dividends during the economic policy uncertainty period by considering the previous status of firms in terms of previously paying or non-paying the dividends. Study further analyze the moderating role of managerial ability on dividend policy by segregating sample firms based on owner and professional CEOs, and the finding confirms that professional CEOs are more pronounced in moderating managerial role on dividend policy during EPU.

This paper extends the existing literature by making contribution in following ways: First, this study examines the moderating effect of managerial ability on corporate dividend policy when there exists economic policy uncertainty by using indices exclusively to measure EPU and managerial ability. Second, this study makes methodological contribution by examining this relationship by segregating the data based on firms having professional CEOs and owner CEOs and examines the relationship. Third, the focus of this study on emerging economy and it also conducts instrumental variable analysis to control the endogeneity issue.

Literature Review

Into the soft spots of dividend puzzle arrows have been thrown since long. Progressive research in the area had wide opened cracks in the built theories of dividends. One untold truth is about dividend behavior of the firms at the time of uncertainties, specifically economic policy uncertainty (Attig et al., 2018). Firms decide to pay dividend to make shareholders happy and on the basis of funds and income that could ahead be generated (Chintrakarn, 2018). Now discussing dividend decision at the time of economic policy uncertainty literature is evident that an increased risk exposes firms to increased cost of capital (Bradley et al., 2016). Policy uncertainty can affect cash flows financing and investment decision (Park & Song, 2019). Policy uncertainty has also been reported to effect investor perceptions about expected payoffs from this firm that is highly risky and hence, investor ask for higher compensation for additional risk (Julio et al., 2012).

Reason behind payment of dividend includes existing shareholder's satisfaction and attraction of more equity capital from the market publicizing image of an earning firm (Easterbrook, 1984; Jensen, 1986; Rozeff, 1982). If firm pays dividends and sustain it even in the time of uncertainty posits signal of positive future prospects as proposed by signaling theory (Bhattacharya, 1979; Miller & Rock, 1985). Now coming towards the other side of the game, we see currently an economically challenged world around us. Sustaining business with positive image seems to be very enigmatic (Aras, 2010) specifically at the time of uncertainty (Huang et al., 2015). Hence, literature suggests a negative relationship between uncertainty and dividends, but surprising results occur when current study empirically exploited moderation effect of managerial ability on the relationship between EPU and dividend decision. Managerial ability has in the past been reported as a magnifying factor towards dividend policy of a firm (Bertrand et al., 2003; Sarwar et al., 2019). Strong support to the argument is provided by the famous upper echelon theory (Mason & Hambrick, 1984). In accordance with UET, firm's important strategic decisions are made by top management based on several factors such as; environment, culture, institutions, competition. Whereas, firm's strategic choices are highly influencing by the experience, intellect, background, status, ability and personality of a manager (Bertrand & Schoar, 2003; Mason & Hambrick, 1984). Literature identifies various characteristics of mangers such as their ability, professional attitude, ownership with in the firm significantly affect the firm dividend policy (Jiraporn et al., 2016; Park & Song, 2019).

Although two paradigms of decision-making policy exist including manager-firm and environment-specific but huge literature in the past has focused on the latter two of that group and remained silent of the former one most of the time. Current study found it an important fact to

unravel and hence took managerial ability as a moderator to explore how a firm dividend decision gets designed in the presence of higher managerial ability when economic policy uncertainty exists. Since long, few researchers have identified the role of a manager in dividend policy and designing a dividend decision (Jiraporn et al, 2016). Besides clues provided by upper echelon theory researchers attention toward the concept application into dividend decision was abrasive. Authors pointed out the fact and hypothesized that a moderation played by managerial ability can turn the table and give unique results.

EPU and Dividend Decision: Current study attempts to explore the impact of EPU on dividend decision with paths of the decision as dividend initiation and dividend termination. Attig et al, (2018) found a positive relation between EPU and dividends calculated through dividend payout ratios, log of real cash dividends, dividend yield, and the total payout ratio. Those findings were strongly counter to previous findings of Bliss et al. (2015) and Attig et al. (2016) stating that the 2008–2009 financial crisis were related with increased level of uncertainty, decreased dividend payouts by the firms, on the contrary during the post-crisis period and high EPU, firms initiated higher dividend payouts and reduced cash holdings (Floyd et al., 2015). Stressing through agency-theoretic aperture, however, a positive relationship between EPU and dividends is suggested. Paying dividends to the investor can bring managers towards a long-term binding to disgorge the free cash flows of future and exposing them into monitoring by market, reducing agency costs related to free cash flow, and managers are encouraged to make dividend payments to use financial resources more effectively (e.g., Easterbrook, 1984; Jensen, 1986; Rozeff, 1982). Study of some Asian and European companies, Faccio et al. (2001) found that firms susceptible to expropriation (highly bonded to some business group and low ownership-to-control ratio) might pay significantly high dividend. Keeping in mind that agency costs are much pronounced in times of crisis (e.g., Bae et al., 2012; Lins et al., 2013; Mitton, 2002), monitoring advantages of dividends are hopefully going to be more distinct under higher uncertainty.

Economic policy is a key channel that causes uncertainty and affects financial markets. Capital market risk perception increases during period of uncertainties associated with the possible changes in economic or government policies in macro environment (see, e.g., Pastor& Veronesi, 2013). During period of high uncertainty, an increase in the mangers perceived risk affect the dividend sustainability that cause an increase in external investors risk perception. This leads to an increase in firms' cost of equity capital. Pecking order theory predicts a positive relationship between information asymmetry and cost of external financing (Myers & Majluf, 1984). If information asymmetry is time–varying, and became severe during high uncertainty period then it leads to an increase in cost of external equity. Huang et al., (2015) anticipated an increase in cost of external equity during period of high uncertainties and it makes firm reluctant to pay dividend or to distribute cash. Therefore, increase in uncertainty is attributed to changes in economic policies which cause an increase in mangers perceived risk. It leads to an increase in investors' required rate of return (cost of external equity capital) during period of high policy uncertainty which yield our first hypothesis on the impact of policy uncertainty on payout policy payout. Building argument to support this hypothesis, this study implies that usually firms will tend to hinder or refuse to pay any dividends in crisis period specifically at the time of EPU.

H1: EPU has a direct and negative relationship with dividend decision.

Moderating Role of Managerial Ability between EPU and Dividends: Tracing back to excellent work by Miller and Modigliani (1961) about dividend irrelevance, scholars have applied empirically into that model many elements of market imperfections, including information asymmetry in stock markets (Miller and Rock 1985; Allen et al., 2000; DeAngelo et al., 2006), agency conflicts (Easterwood 1984; Kalay 1982; Jiraporn and Ning 2006; Jiraporn, Kim, and Kim

2011; Michaely and Roberts 2011), taxes (Michaely and Vila 1996; Hietala 1990; Rantapuska 2008) and behavioral biases (Shefrin and Statman 1984; Baker and Wurgler 2004). Current study brings its contribution into literature by exploring a novel market imperfection that has not been considered in this framework before, that is, managerial ability to get tested as a moderator with EPU and dividend decision.

In the time of economic policy uncertainty (EPU) severity of concern becomes crueler due to a retard performance by all important economic agents (Baker et al., 2016). At that time a manager has to decide in presence of both scarcity and risk about dividend (Guan et al., 2018). Demerjian et al., (2013) explained managerial ability as having strengthening knowledge along more sensitivity towards the environment. Managerial ability in the past has been linked with higher ability to judge and make precise forecasting for the firm (Baik et al., 2011) and proportional will be their earning quality (Demerjian et al., 2012). Keeping this in view, the study proposes that managerial ability can be a positive moderator towards dividend decision.

Improvising framework for the current study one implication comes from signaling theory (Spence, 2002). This theory suggested that firm manager will signal quality by underpricing the new issues in the start and subsequently trading it off with earnings and dividend announcements in the presence of market imperfections later (Allen & Faulhaber, 1989) resulting into new and raised prices (Grinblat & Hwang, 1989). From here, it is construed that managerial ability plays a sensitive role in moderating the decision of dividend initiation/termination.

Managerial ability refers to a manager's genotype together with his pertinent environment portraying the phenotype (Nuthall, 2001). So, it's the intellect and experience both comprising managerial ability construct (Park & Song, 2019). Another evidence regarding significance of managerial ability comes from upper echelons theory (Mason & Hambrick, 1984) postulating that outcomes of an organization are highly controlled by the managerial attributes of the top management team (Reyna, 2017). Hence, understanding of manager along with his preferences about dividends initiation and termination will play a significant role. A manager with high level of ability will better able to conduct a dividend decision specifically when policy uncertainty is prevailing. In the period of uncertainty investor prefers to grab a dividend rather to wait for a capital gain falling for famous proverb that "a bird in hand is better than two in bush" (Gordon, 1959; Linter, 1962).

Literature has ample evidence that flags how style of management and type of ownership juggles with relationship between what a firm earns and what it pays as dividend. Speculator type of managers are prone towards lesser payments of dividends as proposed by agency theory and more they retain to reinvest or for future use (Guan et al., 2018). It has been studied by many researchers that increase in managerial ability will lead to decrease in dividend and they also found that an increased managerial ability aligned dividend payments with tax efficient dividend policies (Chetty & Saez, 2005; Moser ,2007; Jacob and Jacob, 2013).

But confronting assumptions of perfect capital market that managers are perfect substitutes it is argued that managers are not identical, and the assumption is practically unrealistic (Jiraporn, 2016). Hence, it is hypothesized that managerial ability plays moderating role between EPU and dividend policy. Built on the pillars of agency theory (Ross, 1973) literature argues that dividend payments are lucrative offer for the existing and future shareholders but the managers feel bad about this provisional cash flow going out of their hand that they could have used to generate more profits and put into the business cycle for long term growth (Attig et al., 2018). This flow of information has contributed to the development of following second hypothesis:

H2: Managerial ability moderates the relationship between EPU and dividend decision.

Professional vs. Owner CEO: Corporate world makes three types of major decision named as dividends, investment and financing decision (Brealey, 2012). These decisions are key determinants of future prosperity of a firm (Park & Song, 2019). A firm's strategic choices are highly influencing by the experience, intellect, background, status, ability and personality of a manager (Bertrand & Schoar, 2003; Mason & Hambrick, 1984). Here, we cannot ignore the difference that can be made by the thing that if he is employed as a professional CEO/manager or an owner CEO/manager. A professional CEO is one who is working against a salary and owner CEO is one who own the firm or has major shareholding in the business (Park & Song, 2019). Another recent advancement in the literature is the type of manager (Park et al., 2019) as a manager in a firm can be hired professional (agent) serving his/her expertise on compensation been awarded every month or he/she can be an owner/shareholder of the firm that he is managing as well (principle) which is some time also called as owner CEO. Fenn and Liang (2001) found that dealing with insider ownership in a firm mitigates agency cost and, hence, amplifies dividend payout. Study by Guan et al., (2018) defined insider ownership (INSIDE) as the shareholding percentage of insiders. They hypothesized coefficient on INSIDE to be positive. Current study infers that a professional CEO is more profound with market needs and profit making and sustaining it. Even in the time of uncertainty/shocks professional CEO with strong managerial ability might initiate/sustain dividends not terminate dividend. This hypothesis is again highly supported by upper echelon theory as the strategic choices are highly influenced by the experience, intellect, background, status, ability and personality of a manager. Current study draws data from firms where management is closely hold either by a professional CEO or an owner CEO. Segregating data on the basis of this shoot gives a clearer picture of how managerial ability can make a difference in the relationship between EPU and dividend decision. It means if we have a more professional manager, he is one with high managerial ability than there is an increased probability that he will initiate/sustain dividends even in the time of EPU. Previous literature argues that a more risk averse behavior has been observed towards professional CEO's in comparison with owner CEO's (Amihud & Lev, 1981). Rationale behind the argument lies in the fact that professional CEO's have the choice that they can ignore too risky investments requiring more of the effort because of moral hazard (Mintzberg; Waters, 1982). This evidence from the literature builds a new argument that a professional CEO avoiding other investment opportunities will be available with more funds to distribute as dividend as he also wants to avoid risk. Therefore, a professional CEO will pay dividends to avoid risk specifically in the time of uncertainty. On the other-hand an owner CEO will seek more explosive ideas and opportunities and willing to go an extra mile bearing all the risk and make new investments even in the time of EPU and will refrain from dividend payments. This leads to the third hypothesis of study.

H3: Professional CEO positively moderates relationship between EPU and dividend decision.

Methodology

The study focuses on non-financial listed firms from an emerging economy of China. Sample consists of 1,153 Chinese firms listed on Shenzhen and Shanghai Stock Exchanges. The study period is from year 2006-2015. We merge firm-level data with EPU index advanced by Baker et al., (2016). Non-availability of data to construct our managerial ability measure limit our sample data to 1,153 non-financial listed firms. Source of Chinese firm level data is China Stock Market & Accounting Research (CSMAR) database. To overcome the outliers influence, we winsorize firm-level variables at 1st and 99th percentiles.

Findings & Discussion

To econometrically analyze our study first hypothesis, how economic policy uncertainty affects dividend policy, we use two models that are based on D_i and D_t dummy. We employ the following logit models (equation 1 & equation 2) to assess the effect of explanatory variables on the probability of terminating the dividend by dividend payers, and probability of initiating the dividend by non-dividend payers during period of uncertainty.

$$D_t = \beta_1 EPU + \beta_2 dta + \beta_3 rete + \beta_4 roa + \beta_5 mv + \beta_6 cash + \beta_7 std + \varepsilon_t \ldots\ldots (1)$$

$$D_i = \beta_1 EPU + \beta_2 dta + \beta_3 rete + \beta_4 roa + \beta_5 mv + \beta_6 cash + \beta_7 std + \varepsilon_t \ldots\ldots (2)$$

Suppose, *Y* is a dividend decision binary response variable as (Y∈ {dt, di}), *Q* represents the EPU, and *M* is a vector variable which contains characteristics of firms, year fixed effect, and a constant. The Logit regression model for D_t decision takes the following form that assumes the likelihood of terminating dividend:

$$P\ (D_t = 1) = \frac{Exp(\alpha Q + M\beta)}{1 + Exp(\alpha Q + M\beta)} \ldots\ldots (3)$$

Similarly, likelihood of initiating dividend decision takes the following form:

$$P\ (D_i = 1) = \frac{Exp(\alpha Q + M\beta)}{1 + Exp(\alpha Q + M\beta)} \ldots\ldots (4)$$

In equation 3, Exp (.) is exponential absolute wherein coefficient estimates are α and β. Chances of firms to terminate dividend is the ratio of probability of firms to terminate dividend (P (D_t =1)) to the probability of dividend paying firms (1-P (D_t =1). Analogously in equation 4, chances of firms to initiate dividend is the ratio of probability of firms to initiate dividend (P (D_i = 1)) to the probability of non-dividend paying firms (1-P (D_i =1). In equation 1 & 2, we also control for the firm characteristics that effect dividend decisions include asset growth (dta), return on assets (ROA), retained earnings (RE), cash holdings (Cash), market value (MV) and firm risk (standard deviation of monthly stock return). To test our study second hypothesis, we re-estimate baseline model (1&2) to analyze the moderating role of managerial ability on dividend policy during EPU as below:

$$D_t = \beta_1 EPU * MA + \beta_2 dta + \beta_3 rete + \beta_4 roa + \beta_5 mv + \beta_6 cash + \beta_7 std + \varepsilon_t \ldots\ldots (5)$$

$$D_i = \beta_1 EPU * MA + \beta_2 dta + \beta_3 rete + \beta_4 roa + \beta_5 mv + \beta_6 cash + \beta_7 std + \varepsilon_t \ldots\ldots (6)$$

To test our study third hypothesis, Professional CEO positively moderates relationship between EPU and dividend decision. We segregate our sample firms on the basis of professional and owner CEOs, and re-estimate baseline regression model (1&2) for the sub-sample of professional and owner CEOs. In current study, we define CEOs as either owner or professional CEOs, and CEOs are define as managers holding position of representative directors. Owner CEOs are the one holding majority shares and professional CEOs doesn't hold majority share (Oh et al., 2010). As in consistency with Park & Song (2019), if a firm has more than two representative directors we first classify director on the basis of top ranking and if they are on same rank, classify director on the basis of their shareholding to categorize the management hierarchy.

Dependent variable of this study as in equation (1&2) are D_i(dividend initiation) and D_t(dividend termination) decision variables. Existing studies on dividend has documented a general time trend wherein dividend has declined over a time in recent decades (Fama & French, 2001). Omitted time trend may lead to measurement error, if the time trend is not properly addressed in level of dividend policy.

Our data sample covers 1,153 firm-year observations from year 2006-2015. These facts may lead to issues while estimating dynamic changes in dividend payout policy in response to EPU. While

considering these concerns, current study emphasizes on the changes in dividend policy rather than changes in EPU itself. Therefore, instead of dividend payout our main variable of interest is dynamic changes in dividend policy: D_i and D_t dummy variables. More precisely, D_i is define as follow. We first categorize study sample as dividend payers and non-dividend payers. We define D_i for firms that have not paid dividend in any of the past three years and categorized as past non-payers. If the dividend past non-payers start paying dividend in current year, assign a value of 1 to D_i, else 0. Similarly, define D_t for firms that have paid dividend in all of the past three years, and categorized as past payers. If the past dividend payers stop paying dividend in current year, assign a value of 1 to D_t else 0.

Study main explanatory variables are EPU (Equation 1&2) and EPU*MA (Economic Policy Uncertainty*Managerial Ability, Equation 5&6). To measure managerial ability, study employs Demerjian et al., (2012) method that outperform other managerial ability measures and maintains an ordinal ranking of manager's ability for a large number of sample firms by separating managerial ability from the firm efficiency. We also control for number of control variables by following extant literature (Fama & French, 2001; Chay & Suh, 2009) such as; asset growth (dta), return on assets (ROA), retained earnings (RE), cash holdings (Cash), market value (MV) and firm risk (SD, standard deviation of monthly stock return).

Table 1 reports key statistics of study variables. Panel A summarizes the number of firm-year observations, mean, standard deviation, minimum and maximum value for each variable. First two rows confirm the rarity of dramatic changes in dividend policy, reports firm follow sticky pattern of dividend payments. Such as, D_t mean is 0.123, which shows out of past-payers sample, 8,723 firm-year observations, only 12.3% firm has terminated dividend. For the past non-payer's sample, 2,792 firm-year observation, D_i mean is 0.746 means 74.6% has initiated dividend.

Panel B reports correlation matrix for study main variables. D_t is negatively related to EPU*MA and D_i is positively related to EPU*MA. As the Pearson correlation between EPU*MA and D_t is -0.142, and between EPU*MA and D_i is 0.316. Panel B reports preliminary view of relationship that suggests talented mangers are more like to initiate and less likely to terminate dividend with high EPU. In next section a relationship is addressed in the context of multivariate regression context.

Table 1: Summary Statistics

A: Summary Statistics					
Variables	**Obs**	**Means**	**Std.Dev**	**Min**	**Max**
Dt	8,723	0.015	0.123	0	1
Di	2,792	0.746	0.435	0	1
Ma	11,515	0.024	0.181	-0.809	0.579
Epu	11,515	148.484	78.736	60.387	304.221
Epuma	11,515	5.640	29.803	-196.281	175.768
Dta	11,515	0.026	0.370	-1.000	18.079
Rete	11,515	0.244	0.630	-4.345	6.941
Roa	11,515	0.750	0.594	-1.990	2.000

Mv	11,515	22.641	1.289	11.858	29.562
Cash	11,515	1.160	1.199	-0.756	7.902
SD	11,515	0.164	0.104	0.013	2.770

B : Correlation Matrix

	dt	**di**	**epu**	**Epuma**	**dta**	**Re**	**roa**	**mv**	**cash**	**SD**
Dt	1									
Di		1								
Epu	0.165	-0.090	1							
Epuma	-0.142	0.316	0.083	1						
Dta	-0.033	0.036	0.003	0.001	1					
Rete	-0.021	0.005	0.013	0.029	0.079	1				
Roa	-0.030	0.084	-0.031	0.080	0.01	-0.005	1			
Mv	-0.038	-0.016	0.036	0.148	-0.034	0.050	0.101	1		
Cash	-0.021	0.043	0.028	0.102	-0.008	0.030	0.084	0.237	1	
SD	0.008	-0.008	0.109	0.086	0.008	0.003	0.019	0.115	-0.113	1

Table 1 reports summary statistics and correlation estimates of study main variables. Here, dt is the dividend termination dummy, di is the dividend initiation dummy, EPU is economic policy uncertainty index, EPU*MA is the multiple of managerial ability and EPU, dta is the growth rate of assets, Rete is retained earnings-to-total equity ratio, Roa is return on assets, Mv is firm size, Cash is cash holdings, and SD is stock return volatility. Detailed variable definitions are given in Appendix A. S.deviation is given in parentheses. ***, **, and * next to coefficients indicate that coefficients are significantly different from zero at the 1%, 5%, and 10% confidence levels, respectively.

Regression Estimates

Table 2 reports logit regression estimates to test study hypothesis. Model 1 is to analyze how uncertainty caused by policy uncertainty effects dividend decision. Model 2 is to evaluate the moderating role of managerial ability on dividend decision during EPU.

Model 1 first examines the impact of EPU on dividend decisions, and result shows that EPU is positively related with D_t decision while it has negative relation with D_i decision. The value of coefficient of EPU is 0.056 (Significant at 1% level), and it indicates that past dividend payers are terminating dividend payouts by approximately 30.24% (= [exp (0.008*78.74)-1]*100%) in response of one standard deviation increase in EPU. Our results indicate that past dividend payers are more likely to terminate dividend during period of EPU. The result shows that EPU has statistically significant negative impact on dividend initiation with a coefficient of -0.017 (highly significant at 1% level). Our results indicate that a past non-payer initiate dividends by approximately 0.09% (= [exp ((-0.017)*78.74)-1]*100%) in response of one standard deviation increase in EPU. Thus, finding indicates that past non-dividend payers are less likely to initiate dividend during period of policy uncertainty.

Model 2 results report the moderating role of MA on dividend decisions during EPU, as EPU*MA is significantly negatively related with D_t decision while it has positive relation with D_i decision. That confirms past dividend payers with talented managers terminate dividend payouts by

approximately 21% (= [exp (-0.018*29.80)-1]*100%) in response to one standard deviation increase in EPU. Thus, our results indicate that past dividend payers with talented managers are less likely to terminate dividend during period of uncertainty. Moreover, Model 2 confirms past non-dividend payers with talented managers initiate dividend payouts by approximately 10.35% (= [exp (0.112*29.80)-1]*100%) in response to one standard deviation increase in EPU. Therefore, table 2 suggests past dividend payers are more likely to terminate and less likely to initiate dividend, but when managerial ability is introduced as a moderator, past non-payer firms are more likely to initiate dividend and past payer firms are less likely to terminate dividend payments at the time of EPU that supports our first hypothesis. Our results support signaling and upper echelon theory as more talented managers will signal quality by underpricing the new issues and subsequently trading it off with earnings and dividend announcements in the presence of market imperfections such as EPU (Allen & Faulhaber., 1989), and firm dividend decisions are very much predicted by the talented managers (Reyna, 2017). These results are also in consistency with Xiao et al., (2019), firms with more talented managers are more likely to initiate dividend and less likely to terminate dividend during uncertainty period.

Table 2: Moderating role of Managerial Ability on Di/Dt decision during EPU

Variables	**Dividend Decisions**			
	Model1		**Model2**	
	Dt	**Di**	**Dt**	**Di**
EPU	0.056**	-0.017***		
	(0.028)	(0.003)		
EPU*MA			-0.018***	0.112***
			(0.002)	(0.008)
Dta	-1.890***	0.945**	-2.305***	1.069**
	(0.468)	(0.362)	(0.514)	(0.444)
Rete	-0.160	0.287**	-0.126	0.298**
	(0.133)	(0.127)	(0.147)	(0.151)
Roa	-0.231	0.387**	-0.164	0.251*
	(0.140)	(0.119)	(0.155)	(0.144)
MV	-0.279***	0.112*	-0.255**	0.100
	(0.074)	(0.064)	(0.084)	(0.081)
Cash	-0.100	-0.002	-0.060*	-0.020
	(0.096)	(0.061)	(0.102)	(0.072)
SD	0.890**	-0.593	0.737	-0.806
	0.487	(1.243)	(0.578)	(1.602)
Year Dummies	YES	YES	YES	YES
No of Obs	7,893	2,792	7,893	2,792
Pseudo R2	0.08	0.16	0.03	0.21

Notes: This table presents logit regression estimates for the moderating role of Managers Ability on dividend decisions based on 2 models over the period 2006 to 2015. Here, dt is the dividend termination dummy, di is the dividend initiation dummy, EPU is economic policy uncertainty index, EPU*MA is the multiple of managerial ability and EPU, dta is the growth rate of assets, Rete is retained earnings-to-total equity ratio, Roa is return on assets, Mv is firm size, Cash is cash holdings, and SD is stock return volatility. Detailed variable definitions are given in Appendix A. S.deviation is given in parentheses. ***, **, and * next to coefficients indicate that coefficients are significantly different from zero at the 1%, 5%, and 10% confidence levels, respectively.

Managerial Ability, dividend decisions and EPU (Professional Vs Owner CEOs)

As we have already discussed in the earlier section of hypothesis development, there is distinct difference between Professional and Owner CEOs performance during uncertainty. Thus, we further analyze the moderating role of managerial ability on dividend policy during EPU by segregating our sample firms into Owner and Professional CEOs. Table 3 reports two Models, Model 1 is to analyze the moderating role of managerial ability on dividend policy during EPU by professional CEOs, and Model 2 is for the Owner CEOs. As the professional CEOs are more risk averse as in comparison to owner CEOs (Caliskan & Doukas, 2015; Amihud & Lev, 1981), therefore, they are more likely to moderate the relationship between MA and dividend payout decision, by enforcing firms to initiate more dividends and terminate less dividends during EPU. However, owner CEOs are not moderating the managerial ability role on dividend policy during EPU because they are risk-seekers and inclined to more investment rather than paying dividends. They seek more explosive ideas and opportunities and willing to go an extra mile bearing all the risk and make new investments even in the time of EPU and will refrain from dividend payments (Park & Song, 2019)

Table 3: Moderating role of Managerial Ability on Di/Dt decision during EPU (Owner & Professional CEOs)

Variables	**Dividend Decisions**			
	Model1		**Model2**	
	Professional CEOs		**Owner CEOs**	
	Dt	**Di**	**Dt**	**Di**
*EPU*MA*	-0.026**	0.162***	-0.002	0.007
	(0.005)	(0.013)	(0.004)	(0.016)
Dta	-1.650*	0.734	-3.251**	2.220**
	(0.853)	(0.587)	(0.986)	(0.964)
Rete	-0.186	0.543**	-0.078	-0.060
	(0.209)	(0.257)	(0.253)	(0.346)
Roa	-0.109*	0.175	-0.283*	0.422*
	(0.224)	(0.220)	(0.273)	(0.254)
MV	-0.096*	0.098*	-0.370**	0.110*
	(0.138)	(0.114)	(0.110)	(0.133)
Cash	-0.057	-0.087	0.066	-0.012
	(0.158)	(0.101)	(0.191)	(0.125)
SD	-0.169	-0.536	1.803	-0.398
	(0.795)	(2.647)	(1.351)	(2.26)
Year Dummies	YES	YES	YES	YES
No of Obs	2,493	1560	4,492	1232
Pseudo R2	0.02	0.16	0.01	0.22

Notes: This table present logit regression results for the moderating role of MA on dividend termination decision and dividend initiation decision for Chinese firms over the period from year 2007 to 2015 by segregating data based on Professional and Owner CEOs. Here, dt is the dividend termination dummy, di is the dividend initiation dummy, EPU is economic policy uncertainty index, EPU*MA is the multiple of managerial ability and EPU, dta is the growth rate of assets, Rete is retained earnings-to-total equity ratio, Roa is return on assets, Mv is firm size, Cash is cash holdings, and SD is stock return volatility. S.deviation is given in parentheses. ***, **, and * next to coefficients indicate that coefficients are significantly different from zero at the 1%, 5%, and 10% confidence levels, respectively. *S.deviation is given in parentheses. ***, **, and * next to coefficients indicate that coefficients are significantly different from zero at the 1%, 5%, and 10% confidence levels, respectively.*

Robustness Tests

To control possible study employs instrumental variable regression approach. We first check endogeneity of endogenous variable and the results of endogeneity test are presented in appendix A. Endogeneity test results confirm the endogeneity of managerial ability, thus we use two instruments as zip code average and earliest year managerial ability. We replace the value of current year managerial ability by the earliest year managerial ability to reduce reverse causality. As the earliest year managerial ability could not have resulted from subsequent year dividend policy, it is unlikely that dividend policy in any of the subsequent year affect the earliest year managerial ability (Jiraporn et al., 2016). Zip codes are assigned for provinces based on address or mail deliveries, they are unlikely related to firm performance and they are likely exogenous (Jiraporn et al., 2016; Chintrakarn et al., 2018). Then, we employ the instrumental variable regression analysis using GMM (Generalized method of momentum) estimation technique to control possible endogeneity. Table 4 shows similar results to confirm baseline regression. Hansen Test (p-value) confirms that our instruments are valid, and the C (Sargan Test statistics difference) reports endogeneity. Instrumental regression shows similar results as firm with talented mangers are more likely to terminate and less likely to initiate dividend during EPU.

Table 4: Instrumental Variable Regression Analysis

Variables	**Dividend Decisions**	
	Dt	**Di**
EPU*MA	-0.002**	0.041***
	(0.0001)	(0.004)
Dta	-0.013**	0.015*
	(0.004)	(0.01)
Rete	-0.002*	0.022**
	(0.002)	(0.031)
Roa	-0.004	0.033
	(0.002)	(0.038)
Mv	-0.002*	0.033**
	(0.002)	(0.016)
Cash	-0.001	-0.019
	(0.001)	(0.016)
Sd	-0.002	-0.069
	(0.028)	(0.285)
No of Obs	2,493	2792
C Statistics	0.030	0.000
Hansen Test (P-value)	0.819	0.9743

Notes: This table presents instrumental variable regression using GMM to analyze moderating role of MA on dividend decision during EPU from year 2006 to 2015. Here, dt is the dividend termination dummy, di is the dividend initiation dummy, EPU*MA is the multiple of managerial ability and EPU, dta is the growth rate of assets, Rete is retained earnings-to-total equity ratio, Roa is return on assets, Mv is firm size, Cash is cash holdings, and SD is stock return volatility. *S.deviation is given in parentheses. ***, **, and * next to coefficients indicate that coefficients are significantly different from zero at the 1%, 5%, and 10% confidence levels, respectively.*

Conclusion

In this paper, empirical investigation of moderating role of managerial ability on dividend decision during the period of economic policy uncertainty is done. By using data of 1,153 non-financial Chinese firms from the year 2006-2015 study stands evident that more talented managers during period of EPU help firms to sustain dividend. That confirms, past dividend payers/non-payers with more talented managers are less/more likely to terminate/initiate dividend during period of EPU.

Therefore, it is consistent with the concept that firms with talented managers are less likely to cut dividends unless they are confident that they will maintain same level for long term even during period of EPU. They are not afraid of increasing or decreasing dividend payments as they are less concerned to reduce them later (Jiraporn et al., 2016). Hence, talented managers are less concerned about paying large dividend and having to cut them in future. Results demonstrate that magnitude of the effect of managers' ability on dividend decision is statically significant during EPU. Second, this study analyze the relationship by examining the moderating role of managerial ability on dividend decisions during EPU by segregating the data based on firms having professional and owner CEOs, and found that professional CEOs more profound with market needs and profit making and sustaining it even during period of EPU that strengthen the moderating role of managerial ability on dividend decisions. Even in the time of uncertainty/shocks professional CEO with strong managerial ability might initiate/sustain dividends not terminate dividend due to their risk avoidance nature (Amihud & Lev, 1981; Mintzberg & Waters, 1982). Study further carries out instrumental variable regression approach for controlling possible endogeneity.

This is the first study that investigates the moderating role of managerial ability on firms' dividend decisions during EPU. This study is of interest to board of directors while considering cost and benefits of hiring executives, as well as for stakeholders, regulators, and academicians interested in understanding how homogeneity of managers, and individual decision-makers affect firm dividend policy during EPU. Policy makers and regulatory agencies should also consider manager homogeneity as executive attributes such as demographics, human and social capital, political connections of managers help firms in accessing external funds, and their impact on firm policies. This study may be helpful for regulatory bodies and policy makers to make policies and planning regulations such as pricing employee compensation. This study documents that managers ability is an important determinant of dividend policy. Thus, investors seeking good return over their investment have to consider managers ability. Our study is subject to several limitations. First, we are unable to observe managers' daily decision-making, and we rely on financial statement information to infer managers' strategic choices. Second, our managerial ability measure is based on Demerjian et al., (2012) measure extensively used in literature, but we may not fully eliminate the likelihood of individual abnormal performances. Thus, result interpretations are ought to caution. Third, this study is limited to emerging economy of China having different financial structure and accounting standards, therefore future researchers can extend this study for other emerging economies. Third, this study analyzes the moderating role of managerial ability on dividend decisions during EPU, we can further extend this study to other uncertainty period such as; market or political uncertainties.

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