EFEITO DA HABILIDADE GERENCIAL NA POLÍTICA DE DIVIDENDOS EM COMPANHIAS ABERTAS BRASILEIRAS

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EFFECT OF MANAGERIAL ABILITY ON DIVIDEND POLICY IN BRAZILIAN PUBLICLY-HELD COMPANIES

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ABSTRACT

This study investigated the effect of managerial ability, defined as a manager's capacity to efficiently utilize corporate resources to generate revenue, on dividend policy in Brazilian publicly-held companies from 2019 to 2023. The originality of the study lies in applying this analysis in the Brazilian context, an emerging market with distinct regulatory and economic characteristics. Managerial ability is measured

through Data Envelopment Analysis and isolated via Tobit regression. Logistic regression is applied to assess its impact on firm's propensity to distribute dividends. The findings indicate that managerial ability significantly increases the likelihood of dividend payments. A one-unit increase in managerial ability raises the odds of paying dividends by 5.25%. This result supports the Signaling Theory, as more able managers use dividends to signal confidence in future performance. Sectoral analysis reveals that companies in regulated industries are more likely to distribute dividends. Theoretically, the study expands the literature on managerial ability, validating their influence on specific strategic decisions in the Brazilian context. In a practical way, the results offer insights for policymakers, corporate managers and investors.

Keywords: Managerial ability, Dividend policy, Signaling theory, Corporate governance, Data envelopment analysis.

EFEITO DA HABILIDADE GERENCIAL NA POLÍTICA DE DIVIDENDOS EM COMPANHIAS ABERTAS BRASILEIRAS

RESUMO

Este estudo investigou o efeito da habilidade gerencial, definida como a habilidade de um gestor de utilizar eficientemente os recursos corporativos para gerar receita na política de dividendos em companhias abertas brasileiras, de 2019 a 2023. A originalidade do estudo reside em aplicar essa análise no contexto brasileiro, um mercado emergente com características regulatórias e econômicas distintas. A habilidade gerencial é mensurada por meio da Análise Envoltória de Dados e isolada via regressão Tobit. A regressão logística é aplicada para avaliar seu impacto na propensão das empresas a pagar dividendos. Os resultados indicam que a habilidade gerencial aumenta significativamente a probabilidade de pagamento de dividendos. Um aumento de uma unidade na capacidade gerencial aumenta as chances de pagar dividendos em 5,25%. Esse resultado apoia a Teoria da Sinalização, pois gestores mais capazes usam dividendos para sinalizar confiança no desempenho futuro. A análise setorial revela que as empresas em setores regulamentados são mais propensas a distribuir dividendos. Teoricamente, o estudo expande a literatura sobre habilidade gerencial, em que valida sua influência em decisões estratégicas específicas no contexto brasileiro. De forma

prática, os resultados oferecem *insights* para formuladores de política, gestores corporativos e investidores.

Palavras-chave: Habilidade gerencial, Política de dividendos, Teoria da sinalização, Governança corporativa, Análise envoltória de dados.

EFECTO DE LA HABILIDAD GERENCIAL EN LA POLÍTICA DE DIVIDENDOS EN LAS EMPRESAS PÚBLICAS BRASILEÑAS

RESUMEN

Este estudio investigó el efecto de la habilidad gerencial, definida como la capacidad de un gerente para utilizar eficientemente los recursos corporativos para generar ingresos, en la política de dividendos en las empresas públicas brasileñas de 2019 a 2023. La originalidad del estudio radica en la aplicación de este análisis en el contexto brasileño, un mercado emergente con características regulatorias y económicas distintas. La habilidad gerencial se mide a través del Análisis Envolvente de Datos y se aísla a través de la regresión Tobit. Se aplica la regresión logística para evaluar su impacto en la propensión de la empresa a distribuir dividendos. Los resultados indican que la habilidad gerencial aumenta significativamente la probabilidad de pago de dividendos. Un aumento de una unidad en la habilidad gerencial aumenta las probabilidades de pagar dividendos en un 5,25%. Este resultado apoya la Teoría de la Señalización, ya que los gerentes más capaces utilizan los dividendos para señalar confianza en el desempeño futuro. El análisis sectorial revela que las empresas de los sectores regulados son más propensas a distribuir dividendos. Teóricamente, el estudio amplía la literatura sobre habilidad gerencial, validando su influencia en decisiones estratégicas específicas en el contexto brasileño. De manera práctica, los resultados ofrecen información para los responsables de la formulación de políticas, los gestores corporativos y los inversores.

Palabras clave: Habilidad gerencial, Política de dividendos, Teoría de la señalización, Gobierno corporativo, Análisis envolvente de datos.

1 INTRODUCTION

In the perfect capital market, the neoclassical view of the firm suggests that managers are homogeneous and perfect substitutes for each other, pursuing identical objectives (Bertrand & Schoar, 2003; Sarwar, Kutan, Ming, & Husnain, 2020). However, this assumption ignores the reality that managers have different ability levels, which can significantly influence the financial and organizational practices of companies (Jiraporn, Leelalai, & Tong, 2016).

More able managers, as evidenced in the literature, tend to make more efficient investment decisions (Gan, 2019; Habib & Hasan, 2017), promote greater innovation (Chen, Podolski, & Veeraraghavan, 2015), and, consequently, achieve superior performance (Chang, Dasgupta, & Hilary, 2010; Chuah & Foong, 2019). Thus, managerial ability is widely recognized as one of the determining factors of organizational success (Demerjian, Lev, & McVay, 2012; Anggraini & Sholihin, 2023). One of the key aspects in which managerial ability can manifest itself is in the dividend policy, a crucial decision that directly impacts the perceived value of the company by investors and the return to shareholders (Jebran & Chen, 2022).

Regarding dividend policy, the Signaling Theory proposes that managers use the distribution of dividends as a means of transmitting information about the profitability and prospects of the company, especially in contexts of information asymmetry (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985). Empirical studies corroborate this view, indicating that companies led by more able managers tend to distribute more dividends, using them as a sign of confidence in the company's future performance (Jiraporn et al., 2016; Park & Song, 2019; Sarwar et al., 2020).

In Brazil, dividend policy has some particularities compared to other countries. Brazilian legislation imposes obligations on companies related to the payment of dividends, such as the requirement to distribute at least 25% of adjusted net income, in the case of omitted status (Martins & Novaes, 2012; Forti, Peixoto, & Alves, 2015; Gomes, Eça, Fernandes, & Valle, 2023). This regulatory framework, combined with managerial ability, may shape firms' dividend distribution decisions in ways that differ from those observed in other economies.

While previous studies have found a positive association between managerial ability and dividend policy in South Korea (Park & Song, 2019) and China (Sarwar et al., 2020; Jebran & Chen, 2022), there is a literature gap concerning how this relationship operates in Brazil, a civil law country with distinct legal and

economic characteristics that result in low legal protection for minority shareholders. Although China is also an emerging market, Brazil's mandatory dividend rule could influence how managerial ability impacts dividend decision. This distinction is particularly relevant, as prior research suggests that mandatory dividend rules may constrain firm's investment capacity (Martins & Novaes, 2012). Thus, addressing this gap is crucial for understanding the extent to which managerial ability influences corporate financial decisions under different institutional constraints.

Based on this panorama, this study aims to investigate the effect of managerial ability on dividend policy in Brazilian publicly-held companies. For this, a measure of managerial ability created by Demerjian et al. (2012) and Demerjian, Lev, Lewis and McVay (2013) was used, which has been widely used in studies on the subject (Jiraporn et al., 2016; Park & Song, 2019; Jebran & Chen, 2022; Anggraini & Sholihin, 2023). By applying this measure within the Brazilian market, this study seeks to expand the empirical literature and assess whether similar patterns hold in this distinct regulatory and economic setting.

This study has theoretical and practical contributions. As a theoretical contribution, this study expands the literature on managerial ability by investigating its influence on a specific strategic decision, the dividend policy, within the context of Brazilian publicly-held companies. Although there are studies that have addressed the relationship between managerial ability and dividend policies in other countries, the application of this investigation in Brazil contributes to the generalization and validation of existing theories in different economic and regulatory scenarios.

From a practical contribution perspective, the findings are relevant mainly to policymakers, corporate managers and investors. Policymakers can use these insights to develop corporate governance regulations that encourage responsible distribution strategies, ensuring that managerial incentives align with shareholder interests. Corporate managers can leverage these findings to benchmark their decision-making processes and understand how managerial ability influences dividend policies in similar firms.

Moreover, investors can use the study's findings to assess the quality of a company's management. By understanding that more able managers tend to distribute dividends more strategically, shareholders may interpret dividend increases as a sign of management's confidence in the company's future

performance. This helps investors make more informed decisions about where to allocate their resources, favoring companies with highly trained managers. Companies that consistently pay dividends, under the management of able executives, can be seen as lower-risk investments with higher growth potential, which can influence stock buying and selling decisions.

2 THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESIS

This section provides a comprehensive overview of the theoretical foundations that underpin this study. It begins with a discussion on managerial ability, detailing its conceptual framework, significance in corporate decision-making, and measurement approaches. Following this, the section explores dividend policy, emphasizing its role as a strategic financial decision and highlighting key theoretical perspectives, such as the Signaling Theory. Lastly, previous studies on the relationship between managerial ability and dividend policy are reviewed, setting the stage for the research hypothesis that guides this investigation.

Managerial ability

Managers possess specific attributes that may differ in preferences, ability levels, and risk-averse behavior (Sarwar et al., 2020). Company's investments, financial and organizational practices are strongly affected by its managers (Bertrand & Schoar, 2003). In this sense, managerial ability is considered one of the most important managers' attributes that define an organization's success (Jebran & Chen, 2022). More able managers can make better judgments, can manage their employees efficiently, and have a wealth of information about future trends and technologies (Demerjian et al., 2012; Demerjian et al., 2013).

The concept of managerial ability has evolved over time, shifting to a more structured and quantifiable measure (Anggraini & Sholihin, 2023). In this sense, it was adopted in this study the definition of managerial ability from Demerjian et al. (2012) and Demerjian et al. (2013), who define managerial ability as the manager's capacity to effectively allocate and utilize corporate resources to achieve superior firm performance.

The theoretical underpinnings of managerial ability are rooted in several perspectives (Anggraini & Sholihin, 2023). Upper Echelons Theory (Hambrick & Mason, 1984) suggests that managerial characteristics, including cognitive abilities and decision-making styles, directly influence corporate outcomes. Moreover, Resource-Based View (Barney, 1991) highlights managerial ability as a key intangible asset that contributes to sustainable competitive advantage. Agency Theory (Jensen & Meckling, 1976) also plays a role in this discussion, as high-ability managers may mitigate agency problems by making more efficient investment decisions and improving firm performance. Besides, Signaling Theory (Bhattacharya, 1979; Miller & Rock, 1985) argues that more able managers use observable financial decisions, such as dividend payments, to signal private information about their financial health to investors.

Empirical studies have consistently linked managerial ability to a range of firm outcomes. Baik, Farber and Lee (2011) found that highly able managers are better at anticipating industry trends and forecasting financial performance. Fee and Hadlock (2003) and Francis, Huang, Rajgopal and Zang (2008) demonstrated that managerial ability is a valuable and prominent human capital for the firm. Yuan, Tian, Lu and Yu (2019) provided evidence that high-ability managers are more likely to engage in long-term strategic commitments, including corporate social responsibility (CSR) initiatives.

Moreover, Chen et al. (2015) found that high-ability managers drive corporate innovation, enhancing firm adaptability in dynamic markets. Other studies show that more able managers allocate resources more efficiently, reducing agency costs and avoiding overinvestment (Gan, 2019; Habib & Hasan, 2017). Also, empirical evidence indicates that managerial ability is positively related to superior profitability and long-term growth (Chang et al., 2010; Chuah & Foong, 2019). In addition, companies run by more able managers tend to outperform compared to those with less able managers (Chuah & Foong, 2019; Gong, Yan, & Ho, 2020). Given its far-reaching implications, managerial ability remains a critical determinant of corporate success.

Demerjian et al. (2012) developed a method to capture managerial ability based on secondary data, which reflects the manager's ability to efficiently transform corporate resources into revenues, relative to their peers in the sector. Since the publication of Demerjian et al. (2012), there has been an increase in the amount of research related to managerial ability (Anggraini & Sholihin, 2023). In

Brazil, the managerial ability model proposed by Demerjian et al. (2012) was used in studies such as those by Moura, Fank, Mazzioni, Angonese and Silva (2019); Lunardi, Ferrari and Klann (2022); Silva, Santos, Mazzioni and Dal Magro (2023); and Fagundes, Brugni and Nossa (2024). These studies validate the relevance of this managerial ability construct in emerging markets, where economic volatility and regulatory constraints add complexity to managerial decision-making.

Dividend policy

Financial decisions by managers include investment, financing, and dividend issues (Anggraini & Sholihin, 2023). Thus, dividend policy is one of the main corporate policies that managers must deal with (Baker & Powell, 1999). Dividends are used as a means of returning a portion of a company's net income to shareholders, moreover, they serve as an importante indicator for determining a company's value (Park & Song, 2019). In this sense, the role of dividends as a signaling mechanism has been a long-standing topic in financial research.

Early theories, such as those proposed by Miller and Modigliani (1961), suggest that in a world with perfect capital markets, dividend policy should be irrelevant. Their seminal work established that the value of a firm is determined solely by its investment and financing decisions rather than dividend distribution. However, this irrelevance theorem holds only under restrictive assumptions, including the absence of information asymmetry.

Recognizing that real-word markets exhibit asymmetric information, Ross (1977) introduced the incentive-signaling approach, which argues that dividends can serve as credible signals from managers to investors. Under this framework, firms with higher expected earnings are more likely to distribute dividends as a way of distinguishing themselves from lower-quality firms. This perspective laid the foundation for modern dividend signaling theories, challenging the proposition of Miller and Modigliani (1961).

The Signaling Theory assumes that there is an asymmetry of information between managers and external investors, so that managers use dividends as a signal to convey private information about the profitability and prospects of their company (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985). As the decision on the distribution of dividends is a decision made by the managers, the market perceives

it as a way for managers to transmit signals about the future performance of the company (Loss & Sarlo, 2003).

Thus, according to the Signaling Theory, changes in dividend policies tend to influence the value of shares (Loss & Sarlo, 2003). This means that companies can increase dividends only when their future profitability is expected to be good, on the other hand, companies with poor prospects may choose not to increase dividends in the present because a cut in future dividends could negatively affect the value of the company (Park & Song, 2019).

Empirical studies on the information content of dividends have yielded mixed results. While some research supports the view that dividends changes predict future earnings (Aharony & Dotan, 1994; Nissim & Ziv, 2001), others contend that dividends provide little new information beyond what is already incorporated into stock prices (Benartzi, Michaely, & Thaler, 1997; Grullon, Michaely, Benartzi, & Thaler, 2005). In addition, Fama and French (2001) show that firms are increasingly less likely to pay dividends due to changing firm characteristics, such as size, profitability and investment opportunities, rather than a fundamental shift in dividend policy relevance.

Ham, Kaplan and Leary (2020) revisits this debate using an event window approach to cleanly delineate earnings before and after dividend changes. Their findings confirm that dividend changes predict persistent changes in future earnings over an extended period. Thus, Ham et al. (2020) demonstrate that dividend increases (decreases) are associated with a corresponding increase (decrease in long-term earnings).

Additionally, for firms operating in jurisdictions with mandatory dividend rules, such as Brazil, dividends play an even more critical role in corporate financial. Brazilian corporate legal framework establishes a mandatory dividend payout of at least 25% of the adjusted net income, unless a different percentage is specified in the company's bylaws (Martins & Novaes, 2012; Forti et al., 2015; Gomes et al., 2023). This requirement, outlined in Law No. 6.404/1.976, aims to guarantee a minimum return to shareholders and aligns with corporate governance mechanisms designed to protect minority investors (Silva & Dantas, 2015). It is important to note that companies can retain all their earnings if the shareholders' meeting approves, in this sense, the company must report to the Brazilian Stock Exchange that a dividend payment could lead them into financial difficulties. (Martins & Novaes, 2012).

Interest on equity is another form of shareholder remuneration present in the Brazilian context (Gomes et al., 2023). The amount paid by the company in the form of interest on equity can be imputed to the amount of mandatory dividends, subject to income tax, and can be deducted from the calculation basis of taxes on profit (Silva & Dantas, 2015). Thus, when it comes to the distribution of dividends in Brazil, the interest on equity must be considered, since the amount paid of interest on equity to shareholders can be deducted from the amount distributed as dividends.

Martins and Novaes (2012) analyze the impact of Brazil's mandatory dividend rules and show that, despite the presence of loopholes, these regulations effectively increase payout ratios without significantly distorting investment decisions. This finding is particularly relevant for emerging markets, where strong minority shareholder protections may be absent, making dividends a key mechanism for ensuring investor confidence.

In conclusion, while the traditional dividend irrelevance theorem (Miller & Modigliani, 1961) remains a cornerstone of financial theory, empirical evidence strongly suggests that dividends do, in fact, convey valuable information about firms' future earnings. The integration of signaling models and empirical trends in dividends payments provide a more nuanced understanding of the dividend policy debate.

Previous studies on managerial ability and dividend policy

Empirical studies have identified that managerial ability is positively related to higher dividend payment. Using a large sample of U.S. firms, Jiraporn et al. (2016) found that companies with more able managers are significantly more likely to pay dividends. Similar findings were observed in South Korea (Park & Song, 2019) and China (Sarwar et al., 2020; Jebran & Chen, 2022), reinforcing the idea that dividends serve as a signaling mechanism (Bhattacharya, 1979; Miller & Rock, 1985).

Beyond the decision to pay dividends, research also suggests that managerial ability influences the magnitude of dividend distributions. Jiraporn et al. (2016) found that, among firms that pay dividends, those with high-ability managers tend to distribute larger amounts. This supports the view that more able managers use dividends to signal long-term financial stability. Park and Song (2019)

further support this argument, showing that firms with more able managers do not simply comply with legal minimum dividend requirements but rather adjust their payouts strategically to reinforce positive market perceptions.

The economic environment also affects this relationship. Jebran and Chen (2022) examined firms during the COVID-19 crisis and found that while high-ability managers reduced investments and cash holdings, they increased dividend payments, suggesting that dividends were used to reassure investors in times of uncertainty. This highlights the importance of managerial decision-making under different economic conditions.

These findings provide strong empirical support for the Signaling Theory (Bhattacharya, 1979; Miller & Rock, 1985), which suggests that dividends act as a mechanism to reduce information asymmetry. By considering these insights, this study extends the literature by examining whether similar patterns hold in the Brazilian market, an emerging economy with distinct regulatory constraints.

Research hypothesis

Managers are responsible for companies' strategic decisions, including dividend policy, and the quality of these decisions depends on their managerial ability (Park & Song, 2019), defined as the ability to efficiently transform the company's resources into results (Demerjian et al., 2012). According to the Signaling Theory, managers use dividends as a way to transmit information to the capital market about the profitability and future prospects of the company, especially in contexts of information asymmetry (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985).

Therefore, it is expected that more able managers, confident in their ability to generate consistent results, will be more likely to pay dividends, using them as a positive signal to the capital market (Jiraporn et al., 2016; Park & Song, 2019). In this way, companies led by able managers are more likely to maintain or increase dividends, even in periods of uncertainty, avoiding cuts that may signal weakness (Sarwar et al., 2020). Empirical studies across different markets provide evidence supporting the link between managerial ability and dividend policy (Jiraporn et al., 2016; Park & Song, 2019; Sarwar et al., 2020; Jebran & Chen, 2022).

In Brazil, the legal requirement that firms distribute at least 25% of adjusted net income as dividends to their shareholders (Martins & Novaes, 2012; Forti et al.,

2015; Gomes et al., 2023) provides and additional regulatory dimension. Given these constraints, able managers can go beyond legal compliance, adjusting their distribution strategies to maximize shareholder perceived value. In this way, managerial ability becomes a competitive differential, since more able managers tend to use dividends as a strategic tool in order to signal the company's future success in the capital market. Therefore, the following research hypothesis is proposed:

H_1: Managerial ability has a significant and positive effect on the propensity of Brazilian publicly-held companies to distribute dividends.

3 METHODOLOGICAL PROCEDURES

This section outlines the methodological procedures adopted to examine the relationship between managerial ability and dividend policy in Brazilian publicly-held companies. First, it describes the sample and the criteria for selecting the analyzed firms, highlighting the justifications for exclusions and the study period. Next, it details the variables used, with a particular focus on the measurement of managerial ability through Data Envelopment Analysis (DEA) and the Tobit regression model. Finally, the statistical analysis method employed (logistic regression) is presented to ensure the rigorous assessment of the effects of managerial ability on firms' propensity to distribute dividends.

Sample

The population of this study refers to Brazilian publicly-held companies listed on B3, from all sectors of activity, except for companies in the financial sector. The exclusion of companies from the financial sector occurred because they have a different operating structure from non-financial companies, which makes it difficult to compare the results. Unlike non-financial companies, which generate revenue primarily through manufacturing, retail and services, financial companies earn revenue primarily from interest, fees and investment activities. In this sense, including financial companies could introduce bias into the analysis.

The analysis period of this study comprises the most recent years available (2019-2023), ensuring that the study reflects the current dynamics of managerial

decision-making and dividend distribution in publicly-held Brazilian companies. Table 1 shows the composition of the sampled companies in Panel A, while Panel B shows the composition of the sampled companies by sector, as classified in the Refinitiv Eikon database.

Table 1: Companies in the study sample

Panel A: Composition of the companies in the sample	AF	RF
(+) Companies listed on B3	350	100.0%
(-) Companies in the financial sector	40	11.4%
(=) Subtotal	310	88.6%
(-) Companies with at least one year with no reported financial data	85	24.3%
(-) Companies with at least one year without data for:	10	2.9%
(-) Net sales revenue	2	0.6%
(-) Cost of goods sold	5	1.4%
(-) Property, plant and equipment	3	0.9%
(-) Companies with at least one year with negative values for:	8	2.3%
(-) Net sales revenue	4	1.1%
(-) Selling, general and administrative expenses	4	1.1%
(=) Total	207	59.1%
Panel B: Composition of companies by sector	**FA**	**FR**
1 – Health care	10	4.8%
2 – Consumer goods	19	9.2%
3 – Real estate	13	6.3%
4 – Consumer discretionary	59	28.5%
5 – Energy	6	2.9%
6 – Industry	39	18.8%
7 – Materials	23	11.1%
8 – Communication services	5	2.4%
9 – Utilities	31	15.0%
10 – Information technology	2	1.0%
(=) Total	207	100.0%

Legend: AF: Absolute Frequency; FR: Relative Frequency; B3: Brasil, Bolsa, Balcão.
Source: Elaborated by the authors (2024).

It can be seen in Panel A of Table 1 that, in all, 350 companies listed on B3 were available in the Refinitiv Eikon database. It is noteworthy that in this study we worked with a sample in a balanced way, thus, companies that did not meet the selection criteria in at least one year of the analysis period were excluded, as shown in Table 1. The exclusion criteria are as follows: (i) companies that belonged to the financial sector, (ii) companies with no reported financial data, (iii) companies without data for the accounts of Net Sales Revenue, Cost of Goods Sold, Selling, General and Administrative Expenses and Property, Plant and Equipment, and (iv) companies that presented negative values for at least one of these accounts. The exclusion of these accounts is justified because they are necessary for the

calculation of managerial ability according to the model proposed by Demerjian et al. (2012).

It can be seen in Panel B of Table 1 that companies are classified in 10 different sectors, according to the Refinitiv Eikon classification. The sector with the largest number of companies in the sample of this study is the consumer discretionary sector, with 59 companies, representing 28.5% of the total sample. Then, there is the industry sector, with 39 companies, accounting for 18.8% of the total. In third and fourth place are the sectors of utilities and materials, with 31 (15.0%) and 23 (11.1%) companies, respectively.

Managerial Ability

Due to the research objective, the independent variable of this study is managerial ability (MA). To measure this variable, the model of Demerjian et al. (2012) was used, which is based on the efficiency of managers in the use of company resources to generate revenues, and the calculation is carried out in two stages.

In the first step, the total efficiency of companies is estimated with the use of the Data Envelopment Analysis (DEA) technique. The total efficiency of the company can be attributed to both the specific characteristics of the manager and the specific characteristics of the company itself (Demerjian et al., 2012). In this way, the total efficiency of the company is first calculated through the DEA, and then the efficiency of the managers is identified.

The calculation of the company's total efficiency includes relating the inputs to an output. The inputs considered are: Cost of Goods Sold (COGS), Selling, General and Administrative Expenses (SG&A), Property, Plant and Equipment (PPE), Operating Lease (LEA), Research and Development (R&D) expenses, Acquired Goodwill (AGO) and Other Intangible Assets (OIA). The objective is to verify which companies can best combine inputs with output. This data was collected through the Refinitiv Eikon database.

The MaxDEA software was used to calculate the DEA. The DEA model adopted in this study is the BCC (Banker, Charnes, & Cooper, 1984), also known as Variable Returns to Scale (VRS). This model uses a formulation that allows the projection of each inefficient firm on the boundary surface (envelope) determined by the efficient firms of compatible size. According to the model of Demerjian et al. (2012), the following optimization problem is applied (Equation 1):

Equation 1

$$max_v \theta = \frac{Revenue}{v_1 COGS + v_2 SG\&A + v_3 PPE + v_4 LEA + v_5 R\&D + v_6 AGO + v_7 OIA}$$

The optimization finds the company-specific vector of optimal weights in the seven inputs υ by comparing each individual company's input option with those of other companies in its estimation group. The DEA efficiency measure comprises a value between 0 and 1, indicating the company's degree of efficiency. Observations with a value of 1 are considered the most efficient, and the set of firms with such efficiency draws a boundary through the efficient set of possible combinations of inputs. Thus, observations with efficiency measures below 1 are below the boundary. A company with a score below 1 would need to reduce costs or increase revenues to achieve efficiency.

The measure of efficiency generated by the estimation of the DEA technique is attributable to both the company and the manager. Thus, in order to isolate managerial ability, it is necessary to regress the total efficiency indicator (dependent variable) against company-specific variables (independent variables) that can help or hinder managers' ability, in order to obtain a regression error term, which will be the managerial ability indicator (Demerjian et al., 2013). For this, the Tobit regression model was used, as presented in Equation 2, operated by the Stata software.

Equation 2

$$EC_{i,t} = \beta_0 + \beta_1 NL(TA)_{i,t} + \beta_2 MS_{i,t} + \beta_3 FCF_{i,t} + \beta_4 NL(AGE)_{i,t} + \beta_5 BSC_{i,t} + \beta_6 EVA_{i,t} + \sum Sector\ FE_{i,t} + \sum Year\ FE_{i,t} + \varepsilon_{i,t}$$

Where:

ECit = efficiency of company *i* in year *t*;

NL(*TA*)*it* = natural logarithm of the total assets of company *i* in year *t*;

MSit = market share of company *i* in year *t*;

FCFit = free cash flow of company *i* in year *t*;

NL(*AGE*)*it* = natural logarithm of the company's age on the stock exchange;

BSCit = indicator of business segment concentration of company *i* in year *t*;

$EVAit$ = indicator of exchange variation adjustment of company i in year t;
FE = fixed effect;
εit = residual of the equation (*proxy* for managerial ability).

The dependent variable EC refers to the *score* optimized by the DEA. Regarding the independent variables of Equation 2, it is noteworthy that MS was measured based on the ratio between the company's sales and the total sales of the company's sector. FCF comprises a dummy variable, where 1 was assigned to companies that reported positive values, and 0 (zero), otherwise. BSC represents the ratio of sales in the main segment to the company's total sales. EVA comprises a dummy variable, in which 1 is considered if the company has made exchange variation adjustments, and 0 (zero), otherwise.

The data necessary for the measurement of the independent variables of Equation 2 were collected through the Refinitiv Eikon database, except for the BSC variable, which was collected based on the Segment Information note of the financial statements of Brazilian publicly-held companies. After performing the regression according to Equation 2, the regression residuals were used as a proxy for managerial ability.

Dependent variable

The dependent variable of the study is the dividends paid by company *i* in year *t*. As adopted in previous studies (Jiraporn et al., 2016; Park & Song, 2019; Sarwar et al., 2020), dividends were measured as *dummy* to investigate the effect of managerial ability on the propensity to pay dividends (DD), i.e., 1 is considered if the company paid dividends, and 0 (zero) if not.

Due to the Brazilian context, where there is the figure of interest on equity as an alternative form of profit distribution to shareholders (Gomes et al., 2023), the dependent variable was analyzed comprising the sum of dividends and interest on equity, as adopted in previous studies (Forti et al., 2015; Gomes et al., 2023). Data on dividends and interest on equity paid by companies was collected from the Refinitiv Eikon database.

Data analysis procedures

Initially, descriptive statistics were performed for the variables EC, MA and DD. Subsequently, logistic regression was used to analyze the effect of managerial ability on dividend policy, in compliance with the objective of this study, as shown in Equation 3. All procedures described in this subsection were performed using the Stata® software.

In this study, logistic regression was used as an analysis technique due to the binary nature of the dependent variable, which indicates whether or not the company paid dividends in the year. Logistic regression is widely adopted to model the relationship between independent variables and a categorical dependent variable. Thus, it is adequate to analyze the probability of occurrence of an event, in this case, the propensity to pay dividends, due to specific characteristics, such as managerial ability.

Equation 3

$$\log\left(\frac{P(DD_{i,t}=1)}{P(DD_{i,t}=0)}\right) = \beta_0 + \beta_1 MA_{i,t} + \sum Sector\ FE_{i,t} + \sum Year\ FE_{i,t} + \varepsilon_{i,t}$$

Where:
DDit = dummy variable of dividens paid by company *i* in year *t*;
P(*DDit*=1) = probability that company *i* will pay dividends in year *t*;
P(*DDit*=0) = probability that company *i* will not pay dividends in year *t*;
MAit = managerial ability of company *i* in year *t*;
FE = fixed effect;
εit = residual of the equation.

The relationship between the independent variable and the binary dependent variable is modeled using the logistic function, which transforms the model's output into a value between 0 and 1. As demonstrated in Equation 3, the dependent variable is the logarithm of the odds ratio (logit), which expresses the ratio between the probability of a company paying dividends and the probability of not paying them.

Thus, the coefficient β1 indicates the impact of a unit of change in the independent variable on the logarithm of the dividend payment odds ratio. In

practical terms, this indicates that β1 represents how managerial ability influences a company's propensity to distribute dividends.

4 PRESENTATION AND DISCUSSION OF RESULTS

Table 2 shows the descriptive statistics of the company's efficiency score (EC), generated by the DEA technique, which represents values between 0 and 1. This score measures the efficiency with which companies use their resources. The results are divided into two panels: one that shows the general data of the sample (Panel A) and another that presents the scores segregated by sector (Panel B).

Table 2: Descriptive statistics of the efficiency of the company

	Obs	Mean	SD	25%	Median	75%
Panel A: Efficiency of the company score						
ECit	1,035	0.786	0.234	0.618	0.864	1.000
Panel B: Efficiency of the company score by sector						
1 – Health care	50	0.618	0.260	0.419	0.628	0.817
2 – Consumer goods	95	0.885	0.134	0.797	0.925	1.000
3 – Real estate	65	0.763	0.266	0.556	0.868	1.000
4 – Consumer discretionary	295	0.759	0.234	0.561	0.810	1.000
5 – Energy	30	0.784	0.259	0.614	0.884	1.000
6 – Industry	195	0.721	0.241	0.543	0.762	0.973
7 – Materials	115	0.878	0.162	0.799	0.959	1.000
8 – Communication services	25	0.596	0.285	0.329	0.675	0.857
9 – Utilities	155	0.883	0.199	0.824	1.000	1.000
10 – Information technology	10	0.796	0.175	0.617	0.802	0.993

Legend: Obs: observations; SD: standard deviation; EC: efficiency of the company.
Source: Elaborated by the authors (2024).

The overall results on Panel A suggest that most firms operate at a relatively high level of efficiency, with a median of 0.864, which indicates that half of the firms have efficiency close to the maximum level. The standard deviation of 0.234 indicates a notable degree of dispersion around the mean. The fact that the 75% percentile is at the top level suggests that a significant portion of companies are operating in a highly efficient manner.

In Panel B, the company's efficiency score is segmented by ten economic sectors, which shows significant variation in terms of efficiency. Utilities and consumer goods sectors stand out with high efficiency averages (0.883 and 0.885,

respectively) and have 75% percentiles in the maximum efficiency value. This may reflect greater maturity in terms of resource management in these sectors.

On the other hand, the communication services sector has the lowest average efficiency (0.596), and the health care sector also has a relatively low average (0.618). These sectors have companies that may be using their resources less efficiently, with 25% percentiles well below other sectors (0.329 and 0.419, respectively), which may be related to specific management challenges or more complex operational characteristics.

Moreover, the presence of a value of 1 in the 75th percentile for several sectors in Table 2 indicates that a significant portion of firms operate at peak efficiency, meaning they utilize resources optimally relative to their peers. This is particularly evident in utilities, consumer goods, and materials, where regulatory oversight, economies of scale, and cost management strategies drive firms toward operational excellence. In regulated industries like utilities, firms must maximize resource use while maintaining financial stability, while in consumer goods, supply chain optimization and stable demand contribute to high efficiency.

Table 3 presents the descriptive statistics of the variable managerial ability (MA), measured based on the model of Demerjian et al. (2012). As in Table 2, the results are presented in general in Panel A and by sector in Panel B.

Table 3: Descriptive statistics of managerial ability

	Obs	Mean	SD	25%	Median	75%
Panel A: Managerial ability						
MAit	1,035	0.000	3.504	-2.612	0.056	2.858
Panel B: Managerial ability by sector						
1 – Health care	50	0.000	3.290	-2.312	-0.622	1.097
2 – Consumer goods	95	0.000	2.665	-1.921	-0.601	2.393
3 – Real estate	65	0.000	4.081	-3.598	-0.247	3.714
4 – Consumer discretionary	295	0.000	3.570	-3.061	-0.126	3.418
5 – Energy	30	0.000	2.910	-1.335	0.113	1.374
6 – Industry	195	0.000	3.704	-2.650	-0.142	2.717
7 – Materials	115	0.000	2.969	-2.406	0.080	2.886
8 – Communication services	25	0.000	5.030	-3.368	-0.496	2.246
9 – Utilities	155	0.000	3.714	-2.810	1.608	2.875
10 – Information technology	10	0.000	2.136	-1.739	-0.512	1.350

Legend: Obs: observations; SD: standard deviation; MA: managerial ability.
Source: Elaborated by the authors (2024).

The results of Panel A suggest a great variability in the managerial ability of companies. The standardized average of 0.000 reflects the normalization of the *score*, and the high standard deviation of 3.504 indicates that there are companies

with both very low and very high abilities, as evidenced by the 25% and 75% percentiles. The median close to zero suggests that half of the companies have managerial ability at moderate levels, but there is a significant difference between the companies with the lowest ability (25% percentile = -2.612) and those with the highest ability (75% percentile = 2.858). Previous studies in Brazil have also identified a median close to zero, as well as a high standard deviation (Silva et al., 2023; Fagundes et al., 2024).

Panel B provides a more detailed look at how managers' abilities vary between different sectors. Despite the differences between sectors, the averages of managerial ability are centered on 0 (zero), which reflects the calculation method used, where managerial ability is estimated as the residue of a regression that seeks to isolate managerial efficiency from the specific effects of the company (Demerjian et al., 2012; Demerjian et al., 2013).

Notably, sectors that demonstrated high average efficiency levels in Table 2, such as consumer goods (0.885) and utilities (0.883), also reported high managerial ability scores in Table 3, suggesting that more able managers may be contributing to a more efficient use of resources. Conversely, sectors with lower average efficiency, such as communication services (0.596) and healthcare (0.618), tend to display a more heterogeneous distribution of managerial ability, reflecting sector-specific management challenges that may negatively impact operational efficiency.

Furthermore, the high dispersion of managerial ability observed in sectors like communication services and real estate (with standard deviations of 5.030 and 4.081, respectively) suggests that within these sectors, some firms may benefit from highly able managers, while others struggle due to no managerial limitations. Thus, the relationship between the findings in Table 2 and Table 3 suggests that managerial ability plays a crucial role in explaining efficiency variability across firms and sectors, highlighting that more efficient sectors tend to be led by more able managers.

Table 4 presents the descriptive statistics of dividends paid by companies, measured as a dummy variable (DD), where value 1 indicates that the company paid dividends in the year, and 0 indicates that the company did not pay dividends. The results are organized in a general way in Panel A and by sector in Panel B.

Panel A shows that, of the 1,035 observations analyzed, 662 (64%) paid dividends during the study period, while 373 (36%) did not pay dividends. These

data indicate that most of the companies in the sample chose to distribute part of their profits as dividends, reflecting a general trend of dividend payments among Brazilian publicly-held companies in the period analyzed.

Table 4: Descriptive statistics of dividends

	Obs	With dividends (1)		Without dividends (0)	
		AF	RF	AF	RF
Panel A: Dividends (dummy)					
DDit	1,035	662	64%	373	36%
Panel B: Dividends (dummy) by sector					
1 – Health care	50	33	66%	17	34%
2 – Consumer goods	95	74	78%	21	22%
3 – Real estate	65	40	62%	25	38%
4 – Consumer discretionary	295	147	50%	148	50%
5 – Energy	30	15	50%	15	50%
6 – Industry	195	114	58%	81	42%
7 – Materials	115	92	80%	23	20%
8 – Communication services	25	7	28%	18	72%
9 – Utilities	155	131	85%	24	15%
10 – Information technology	10	9	90%	1	10%

Legend: Obs: observations; DD: dividends measured as dummy; AF: absolute frequency; RF: relative frequency.
Source: Elaborated by the authors (2024).

This predominance of companies that pay dividends may be influenced by the Brazilian regulatory environment, which requires companies to distribute at least 25% of adjusted net income (Martins & Novaes, 2012; Gomes et al., 2023). The high percentage of companies that pay dividends may also indicate a strategy of the managers to signal confidence in the financial health of the company, corroborating the Signaling Theory (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985).

On the other hand, companies that have not paid dividends may be withholding their profits for reinvestment purposes, especially in sectors where growth or infrastructure investment is critical. Another possible explanation is that some companies face financial challenges or prefer to hold cash to protect themselves against economic uncertainties.

Panel B of Table 4 shows that the information technology sector has the highest proportion of companies that pay dividends (90%). Another sector with a high proportion of dividend payments is utilities (85%), which correspond to those with more stable managerial ability in Table 3. One possible explanation is that

many companies in this sector face regulatory pressures that may encourage them to return profits to shareholders as part of their operating obligations.

In contrast, the communication services sector has the lowest proportion of companies that have paid dividends, with only 28%. This sector has also the highest dispersion in managerial ability, as presented in Table 3. This suggests that companies in this sector may be more focused on reinvesting their profits for growth or face greater financial challenges that limit their ability to pay dividends. In addition, sectors such as consumer discretionary and energy show more balanced ratios between companies that have paid and not paid dividends, indicating that dividend payment decisions in these sectors may depend more on each company's specific circumstances. Table 5 presents the results of the logistic regression, which analyzes the effect of managerial ability (MA) on the propensity of Brazilian publicly-held companies to pay dividends, represented by the dependent variable DD (dummy indicating whether the company paid dividends or not).

Table 5: Results of the effect of managerial ability on dividend policy

Description	Dependent variable: DDit			
	Coefficient	Standard Error	z	Sig.
Independent variable				
MAit	0.051228***	0.019327	2.65	0.008
Fixed sector effect				
2 – Consumer goods	0.596932	0.388727	1.54	0.125
3 – Real estate	-0.193327	0.394289	-0.49	0.624
4 – Consumer discretionary	-0.675613**	0.321628	-2.10	0.036
5 – Energy	-0.668797	0.472305	-1.41	0.158
6 – Industry	-0.323431	0.333278	-0.97	0.332
7 – Materials	0.72731*	0.379995	1.91	0.056
8 – Communication services	-1.627872***	0.539746	-3.02	0.003
9 – Utilities	1.041558***	0.373290	2.79	0.005
10 – Information technology	1.536857	1.096744	1.40	0.161
Fixed year effect				
2020	0.070271	0.214458	0.33	0.743
2021	0.144258	0.215560	0.67	0.503
2022	0.207623	0.216102	0.96	0.337
2023	0.087971	0.214431	0.41	0.682
Constant	0.566743*	0.328354	1.73	0.084
Observations		1,035		
Model significance		0.000		
Pseudo R2		0.081		
Durbin-Watson		0.807		

Note: p-value *** p<0.01, ** p<0.05, * p<0.1.
Source: Elaborated by the authors (2024).

It was verified that the MA coefficient was significant and positive (0.051228, p<0.01). This coefficient indicates that, for each unit increase in managerial ability, the logarithm of the odds ratio of a Brazilian publicly-held company to pay dividends increases by 0.051228 units. Converting this coefficient to an odds ratio, we get a value of 1.0525, which means that for every unit increase in managerial ability, the odds ratio of Brazilian publicly-held companies to pay dividends increases by 5.25%. Thus, this result supports the hypothesis of this study that more able managers are more likely to distribute dividends.

The result obtained in this study is consistent with the Signaling Theory, which proposes that managers use the distribution of dividends to transmit information about the future profitability of the company (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985). In this sense, able managers, confident in their ability to maintain or improve the company's performance, use dividends as a means of signaling this confidence to the market (Park & Song, 2019; Sarwar et al., 2020).

The findings of this study are in line with those of Jiraporn et al. (2016), Park and Song (2019), Sarwar et al. (2020), and Jebran and Chen (2022), who explored the effect of managerial ability on dividend policy in other countries. Thus, this study contributes by expanding this analysis to the Brazilian context, an emerging market with distinct regulatory and economic characteristics. The consistency of the results suggests that managerial ability is a universally relevant determinant for dividend policy, regardless of the specific economic context.

Studies that analyzed managerial ability in the Brazilian context also corroborate our results. Moura et al. (2019) indicate that managerial ability is linked to reducing financial losses, suggesting that able managers proactively manage financial decisions. Similarly, Lunardi et al. (2022) demonstrate that managerial ability is positively associated with earnings management. Furthermore, Silva et al. (2023) suggest that firms with weaker governance rely more on managerial ability to compensate for deficiencies, highlighting the crucial role of able managers in strategic decision-making. Also, Fagundes et al. (2024) show that managerial ability correlates with earnings smoothing and financial discretion, what reinforces the idea that able managers use dividends to create a perception of financial stability (Ross, 1977).

The coefficients by sector and year also offer interesting insights. It should be noted that the sector's coefficients represent the additional effect on the reference sector (health care) on the probability of paying dividends. It is observed that the

utilities sector presented a positive and highly significant coefficient (1.041558, p<0.01), showing that companies in this sector have a significantly higher probability of paying dividends compared to the health care sector. In addition, the materials sector also presented a positive and significant coefficient (0.72731, p<0.10), although less robust.

On the other hand, the communication services sector presented a negative and significant coefficient (-1.627872, p<0.01), indicating that companies in this sector are less likely to pay dividends compared to the reference sector. The same occurred with the consumer discretionary sector (-0.675613, p<0.05). Thus, the sectoral results highlight that managerial ability does not act in isolation in the decision to pay dividends, as the sectoral conditions directly influence this decision.

In the communication services sector, companies often operate in highly capital-intensive environments, requiring substantial investments in infrastructure, technology and network expansion, which aligns with the low proportion of dividend-paying firms observed in Table 4. Similarly, in the consumer discretionary sector, firms typically face higher earnings volatility due to changing consumer demand and economic conditions, which can lead firms in this sector to adopt more conservative dividend policies. The 50% dividend payment rate observed in Table 4 reflects this sector's mixed approach.

The absence of significant effects for the years 2020 to 2023, compared to the reference year (2019), suggests that the dividend policy was relatively stable over that time. Although the period includes events such as the COVID-19 pandemic, which severely impacted global financial markets, the results indicate that there was no substantial change in the propensity to pay dividends between the years analyzed. This may indicate that, regardless of economic pressures, Brazilian publicly-held companies maintained their dividend distribution policies, perhaps as a way of signaling to the capital market their resilience in times of crisis.

In conclusion, this study expands the literature by validating the influence of managerial ability on dividend policy within a regulated emerging market. It underscores the importance of integrating regulatory constraints into signaling models, demonstrating that even with legal obligations, managers actively shape dividend strategies as a market signal. Furthermore, policymakers could refine governance standards to ensure that dividends remain an effective signaling tool without excessive restrictions. Investors should consider managerial ability as a key factor when assessing firms, as able managers use dividends strategically to

reinforce financial stability. By integrating these theoretical and practical insights, this study contributes to the growing body of research on managerial ability.

5 FINAL CONSIDERATIONS

This study investigated the effect of managerial ability on dividend policy in Brazilian publicly-held companies from 2019 to 2023. The findings suggest that managerial ability significantly increases the likelihood of dividend payments, with a one-unit increase in managerial ability raising the odds of paying dividends by 5.25%. These results support the Signaling Theory, as more able managers tend to use dividends as a mechanism to signal confidence in the company's future performance. Additionally, sectoral differences were observed, with companies in regulated sectors displaying a higher propensity to distribute dividends.

By connecting these findings to the hypothesis of this study, we confirm that managerial ability plays a crucial role in shaping corporate financial decisions. This study aligns with prior international evidence (Jiraporn et al., 2016; Park & Song, 2019; Sarwar et al., 2020; Jebran & Chen, 2022) and extends this knowledge to the Brazilian context, a market with distinct regulatory and economic characteristics, where companies are required to distribute a minimum percentage of their profits as dividends. The presence of this legal requirement may intensify the effect of managerial ability on dividend policy, suggesting that able managers adjust their dividend distribution strategies to comply with legal obligations while maximizing shareholder value.

The theoretical contributions of this study include the expansion of the literature on managerial ability, providing evidence of its influence on a specific strategic decision, the dividend policy, in the context of Brazilian publicly-held companies. From a practical point of view, the results offer valuable insights for investors, corporate managers and policymakers. Investors can use managerial ability as a signal of corporate stability, managers can optimize dividend distribution strategies to enhance firm valuation, and policymakers may consider refining governance regulations to align managerial incentives with shareholders' interests.

This study also has limitations that should be acknowledged. The research was conducted based on a sample of Brazilian publicly-held companies listed on

B3, excluding companies in the financial sector due to their distinct operational characteristics. While this choice is justified, it limits the generalizability of the results. In addition, the exclusion of companies that did not present complete data during the analysis period may have reduced the diversity of the sample, impacting the representativeness of the findings.

The research adopted a quantitative approach to analyze the effect of managerial ability on dividend policy. Although this methodology allows for an objective and statistically robust analysis, it does not capture qualitative nuances, such as the perception of managers and investors about the distribution of dividends, or the specific context of each company.

Thus, future studies could complement this analysis with qualitative methods, such as interviews or case studies, for a deeper understanding of the decision-making processes involved. In addition, future research could expand the analysis to other periods and explore other variables that may mediate or moderate the relationship between managerial ability and dividend policy.

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Authors' Contribution

Stephan Klaus Bubeck: Conceptualization; Data curation; Formal analysis; Investigation; Methodology; Validation; Visualization; Writing; Writing – original draft.
Rúbia Frehner Poffo: Conceptualization; Data curation; Investigation; Methodology.
Nelson Hein: Conceptualization; Methodology; Supervision.

Conflict of interest

The authors declare that there is no conflict of interest.

Research Data Availability

The underlying content of the research text is already contained in the manuscript. Other data will be available upon request to the authors (a condition justified in the manuscript). The work does not consider specific organizations, institutions, or brands and/or conducts research solely using secondary data.

Declaration of Use of Artificial Intelligence (AI)

No Artificial Intelligence tools were used in the article.

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