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Dividend Policy and Executive Compensation in Brazilian Banks

ABSTRACT

Objective: verify the relationship between dividend policy and share-based remuneration in the Brazilian banking context.

Method: models were estimated via System GMM in a sample of banking institutions with shares traded on B3 - Brazil, Stock Exchange, and Over-the-Counter, considering the period from 2010 to 2021.

Originality/Relevance: banks carry out activities that drive and contribute to the development of a country, and, at the same time, mistaken decisions taken by management are subject to social and economic risks with the potential to affect the entire economy. Despite this, studies on the relationship between dividends and executive remuneration in banking institutions are still incipient.

Results: the main findings suggest a bidirectional behaviour: Executive Remuneration was positively related to Payout and, in parallel, presented a negative association with Dividend Yield. The result for Dividend Yield aligns with previous research in different institutional environments but is divergent concerning Payout.

Theoretical/Methodological contributions: analyzing dividends and remuneration is relevant as it contributes to the debate on how these variables can influence governance and how this relationship occurs in the Brazilian context.

Social/Management contributions: the study of the dividend policy of banking institutions contributes to society as banks participate in both the capital market and the country's economy.

Keywords: Dividend policy, Executive compensation, Banks.

Juliana Ribeiro Souza
Federal University of Minas Gerais, Minas Gerais, Brazil
julianaribeiro.jrs@gmail.com

Joice Garcia de Oliveira
Federal University of Minas Gerais, Minas Gerais, Brazil
joicegarciacco@gmail.com

Lua Syrma Zaniah Santos
Federal University of Minas Gerais, Minas Gerais, Brazil
luasyrma@gmail.com

Juliano Lima Pinheiro
Federal University of Minas Gerais, Minas Gerais, Brazil
jlp@gold.com.br

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1 INTRODUCTION

The agents responsible for managing an organization face a trade-off when defining the level of dividends to be paid (Tirole, 2006). At the same time, executive compensation and its components (variable incentives) must be able to align shareholders' objectives with those of management such that agency costs are minimal. In this way, organizations distribute dividends to mitigate agency problems (DeAngelo et al., 2004) or even signal future profitability (Gambacorta et al., 2020) or private information to investors (John & Williams, 1985).

Executive remuneration generally consists of a fixed part and another part of variable incentives, which encourage managers to follow the shareholders' objectives. With specific regard to equity incentive compensation (based on shares, stock options, or both), Burns et al. (2015) highlight that although share-based compensation has traditionally been a phenomenon in the USA, European companies have increased their use of this type of compensation; this has been a movement also observed in Brazil, as identified by Souza (2019), who observed that on average, 7.23% of variable executive remuneration paid by publicly traded companies, including those in the financial sector, in the period from 2010 to 2017, corresponded to share-based compensation, including stock options and, additionally, that 118 Brazilian companies of the 239 analyzed used this type of compensation to compensate their executives.

Given this, Burns et al. (2015) highlight that managerial compensation incentives based on shares and stock options affect dividend policy in companies, as identified by different research in the United States (Aboody & Kasznick, 2008; Brown et al., 2007; Fenn & Liang, 2001) and Europe (Burns et al., 2015; Cesari & Ozkan, 2015). Therefore, it is essential to test, under alternative governance structures, whether dividends would have similar behaviour, as highlighted by Bhattacharyya and Elston (2009), specifically within the financial sector, which is often excluded from research due to its peculiarities regarding leverage and the high level of

regulation, when compared to other sectors of the economy, even though it is one of those that distribute the most dividends (Silva & Dantas, 2015).

The profitability of the national banking system remained stable in the first half of 2022, and after recovering in 2021, the system stabilized close to pre-COVID-19 pandemic levels (Banco Central do Brasil [BACEN], 2022). However, the distribution of this wealth generated to shareholders is subject to restrictions imposed by sector regulations, especially regarding the maintenance of leverage and additional capital levels, as directed by the Basel Committee on Banking Supervision.

In this conjecture, the payment of significant dividends to shareholders could be a way for banks to transfer risks from shareholders to creditors. With the payment of dividends, banks reduce net equity and increase leverage. However, maintaining certain levels of capital established by current regulations forces banks to retain profits to maintain the required levels (Ashraf et al., 2016).

Considering this scenario, this research aims to answer the following question: what is the relationship between share-based executive remuneration and dividend policy in Brazilian banks? The study aims to verify the relationship between dividend policy and share-based remuneration in the Brazilian banking context.

This study has the potential to contribute to investigations into dividend policies in the banking sector and their relationship with executive compensation in order to understand how these variables can influence their governance and how this relationship occurs in the Brazilian context. Furthermore, Silva and Dantas (2015) and Simon et al. (2019) highlight the importance of investigating the effect of the dividend policy of institutions in the financial sector due to the relevant participation that these institutions have in the capital market and the country's economy. When providing financial services, banks and other institutions in the sector carry out activities that drive and contribute to the development of a country, and, at the same time,

their activities are subject to social and economic risks that have the potential to have effects on the entire economy and, therefore, they arouse the concern and interest of regulatory bodies (Buch & Delong, 2008; Matias et al., 2014a).

Furthermore, it is relevant to test whether, under alternative governance structures, dividends play a role in mitigating agency problems (Bhattacharyya & Elston, 2009). Managerial equity incentives can help align the incentives of managers and shareholders. However, little research has examined how managerial equity incentives influence management activities, particularly how they mitigate agency problems (Fenn & Liang, 2001).

The results of this study can contribute to managers, shareholders and regulators of financial institutions and other interested parties by providing a better understanding of how compensation can have a broader effect on corporate dividend policy and managerial behaviour, as mentioned by Burns et al. (2015). Complementarily, understanding the dividend and executive remuneration policy allows investors to evaluate the potential return on their investments and how managers run the company. Dividend decisions can directly affect investor returns, while executive compensation transparency influences company management confidence. For the literature, this discussion adds knowledge about how the relationship between managerial incentives and shareholder compensation is established in a developing economy, highlighting whether variable incentives based on shares can be used to minimize agency conflicts in financial institutions. For society, knowing how banks, the main financial intermediaries in the national context, conduct part of their corporate governance decisions can influence how these individuals view and establish their level of trust in such institutions and their results.

2 DIVIDEND POLICY AND SHARE-BASED REMUNERATION INCENTIVES

Explaining companies' payout policies has been one of the biggest challenges in finance studies (Bhattacharyya, 2007). In the seminal work by Miller and Modigliani (1961), the authors showed that future dividends would not be able to affect the firm's value, assuming a perfect market. Therefore, the payout policy would not be relevant in corporate decisions. Several factors led to this assumption being explored, considering aspects such as taxes, transaction costs, information asymmetry and agency problems.

Despite Miller and Modigliani's (1961) assumption that dividends would be irrelevant to the company's value, subsequent studies showed that the informational content of dividends would impact the company's share value (Miller & Rock, 1985). Empirical evidence concerning share prices and changes in companies' dividend policies showed a significant relationship between such variables, especially because changes in dividend policy can signal information to the market about the company's future earnings prospects (Matos, 2001).

In this way, the dividend payment decision is a key element of corporate finance strategy, such that an adequate dividend policy is crucial to corporate performance and, therefore, an essential object for corporate governance, i.e. for the system "by which companies and other organizations are directed, monitored and encouraged, involving relationships between partners, board of directors, management, supervisory and control bodies and other interested parties" (Brazilian Institute of Corporate Governance [IBGC], 2023, p.1). Directly in the context of banking institutions, according to Marcassa (2000), these organizations play a crucial role in all economies and hold particular relevance for nations due to the globally regulated nature of financial activities. For this reason, they must have a solid corporate governance system. Additionally, regulatory intervention is one of the most essential

governance mechanisms, which, through the supervision of activities, can restrict, for example, the distribution of profits.

Objectively regarding the effect of dividends on banking institutions' performance and management/governance, Gambacorta et al. (2020) investigated a sample of banks based in 30 developed economies. In their findings, the authors highlight that higher price-to-book values are associated with growing companies with a lower propensity to distribute dividends. Furthermore, the lower a company's market value is compared to its net worth, the more attractive the distribution of dividends becomes and, therefore, dividends would signal that the company is undervalued (Gambacorta et al., 2020; Stein, 2003). In this regard, if there is a lower ratio in this indicator, the pressure on management increases to compensate shareholders. Regarding the sector, the authors found that banking institutions also tend to have higher dividend payment rates than the non-financial companies studied in the period.

Additionally, Simon et al. (2019) sought to identify the factors that determine the dividend policy of banking institutions in Brazil and observed that the return on equity (ROE) negatively influenced the distribution of dividends. This fact could be related to an attempt by institutions that presented low profitability (ROE) to signal to the market a prospect of good future results. The variable concentration of shareholding control positively influenced the distribution of dividends. The possible justification is that institutions with high shareholding concentration tend to distribute more dividends to mitigate agency problems.

In the international context, Fenn and Liang (2001) examined how corporate pay policy is affected by managerial action incentives, using data from more than 1,100 non-financial companies. One of the main findings suggested a negative relationship between dividends and stock options, as predicted by Lambert et al. (1989), as well as a positive relationship between repurchases and stock options, showing that the growth of stock options could help explain the increase in repurchase searches at the expense of dividend expansion.

In line with this, Bhattacharyya (2007) developed a model that explains dividends as a component of a contract established by an uninformed principal, based on what is considered by the author to be a well-documented empirical fact: that there is a relationship between declared dividends and remuneration of executives. Based on this model by Bhattacharyya (2007), Bhattacharyya et al. (2008a) found that, in equilibrium, the model demonstrates that there is a positive (negative) relationship between the profit retention index (dividend payment index) and managerial remuneration. Test results with US data show that executive compensation is positively (negatively) associated with profit retention (dividend payments). Bhattacharyya et al. (2008b) observed a negative relationship between dividend payout rates and executive compensation in Canada. Bhattacharyya and Elston (2009) confirmed that the same occurred in Germany.

Thus, the studies carried out by Bhattacharyya inspired the carrying out of the present research, directly contributing to the understanding of the identified research problem, the construction of the foundation and the definition of some proxies that were used in the analyzed models, which mainly derived from studies by the author above, sometimes used according to the original definition and sometimes adapted to the Brazilian context, as in the case of the remuneration proxy. The aim was to observe the behaviour of the main idea of Bhattacharyya's original theoretical model – the relationship between dividend policy and executive remuneration – in Brazil's banking institutions and contribute empirical evidence on the subject in a developing country. As highlighted by Bhattacharyya et al. (2008a), despite decades of study, research on the topic is still needed since it is essential to fully understand the factors that influence dividend policy and how these factors interact.

That said, given the importance of dividend policy and its influence on an organization's management decisions, characterizing itself as a governance tool in order to overcome problems that may arise between shareholders and managers, the discussions in Bhattacharyya's studies,

such as the 2008a, and those who investigated managerial incentives to minimize agency problems, consider the premise that shareholders use remuneration contracts to induce managers' behaviours, which in the case of dividend policy are linked to profit retention and investments. For example, Lambert et al. (1989) show that adding a stock option to a manager's compensation package incentivizes the executive to reduce corporate dividends.

Managerial incentives can result in higher total dividend payments (Fenn & Liang, 2001) by aligning the interests of management and shareholders. However, to the extent that management aims to achieve a target payout level, option-induced dividend reductions can be offset by increases in buybacks so that total payouts are not affected, i.e., the authors' finding (Fenn & Liang, 2001) that companies with more executive share options have lower dividend payments, which are only partially offset by buybacks.

In this sense, Cesari and Ozkan (2015) comment that share-based executive compensation would influence the firm's repurchase of shares or the distribution of dividends. For these authors, share-based remuneration could contribute to aligning interests between managers and shareholders and, possibly, generate a higher payout. Additionally, Burns et al. (2015) point out that firms tend to distribute fewer dividends when managers are remunerated with shares and share options.

Incentives for managerial actions have the potential to help align the interests of managers and shareholders (Silva et al., 2019). Stock-based compensation has grown substantially since 1980, suggesting that companies consider such a strategy to have practical importance. However, only a few studies investigate how managerial incentives of variable remuneration influence management activities and, in particular, the dividend payment policy in companies (Fenn & Liang, 2001; Hall & Liebman, 1998), reaffirming the need to develop research that fills this gap and provides a greater understanding of how this relationship occurs,

especially when the economic and cultural contexts under which agency relationships are established change.

3 METHODOLOGY

The present study is characterized as descriptive, with a quantitative character, as it aims to analyze the relationship between executive remuneration based on shares and the dividend policy in Brazilian banks, describing the relationship between the variables, which were investigated through treatments and econometric modelling, from descriptive statistics to dynamic panel regression estimation via the System Generalized Method of Moments (System GMM) (Martins & Theóphilo, 2016). The adoption of System GMM is due to its ability to mitigate endogeneity problems.

The study population comprised banking institutions that have shares traded on B3 - Brazil, Stock Exchange, and Over-the-Counter in the period from 2010 to 2021, which covered annual data after the adoption of international accounting standards and the last period available in the Economática database, which was selected due to the need for information about executives that is only available in the Reference Form documents, published by publicly traded companies. Thus, the population considering the banks subsector classification totalled 26 banking institutions. However, due to the absence of data in several years of the analyzed period, 8 of these intuitions were excluded from the study, culminating in a final sample of 18 banking institutions, of which 10 have control characterized as private and 8 have state control.

In the credit market, financial institutions are classified into two categories: public and private; the main difference is that those responsible for operating credit lines with targeted resources are officially public institutions (Matias et al., 2014b). Public companies are still subject to the political influence problem. La Porta et al. (2002) identified the political use of public banks. In their study, these authors demonstrated that government control politicizes the resource allocation process and reduces the efficiency of public banks. Furthermore, Yeyati et

al. (2004) showed that public banks end up inhibiting financial growth by not optimally allocating credit. Finally, the Brazilian banking sector is highly concentrated, and this can influence its dividend policy decisions (Simon et al., 2019). According to information from the Banking Economy Report – 2022, released by BACEN in June 2023, the Concentration Ratio of the Four Largest Banks (Caixa Econômica Federal, Banco do Brasil, Itaú and Bradesco) showed a concentration of SFN credit operations in 2020, 59.4%, in 2021, 59.3% and in 2022, 59.0%.

The accounting information relating to total assets, net profit, dividends, interest on equity, net equity, Dividend Yield, market value, total shares of the largest shareholder, total shares and share price were collected on the Economática platform. Information on executive remuneration (characterized by members of the statutory board) and state or private control was collected in the banks' Reference Form available on the B3 website as determined by Normative Instruction No. 480 of 2009 of the Securities and Exchange Commission of Brazil (CVM).

It was also found that Brazil has a particularity regarding the definition of the dividends to be distributed. Law No. 9,249 of December 26, 1995, made it possible for "the value of interest paid or credited by the legal entity, as remuneration on equity" (JSCP) to be attributed to the value of the minimum mandatory dividends paid to shareholders. Therefore, as adopted by Simon et al. (2019), the total earnings paid by companies comprise the total of dividends distributed and JSCP, net of Withholding Income Tax (IRRF), since the CVM, via Resolution No. 683 of August 30, 2012, determined that the IRRF to be retained and collected by the company should not be considered when allocating JSCP to the mandatory dividend (Simon et al., 2019).

As it is a highly regulated sector, it is common for changes to regulations to occur that directly impact the management of financial institutions, such as what occurred in 2015, with the institution of Law No. 13,169 on October 6 of that year, which increased the Social

Contribution on Net Profit (CSLL) rate for banks of any kind, among other institutions (Complementary Law No. 105, 2001).

This tax change came into force in the year of creation and increased the CSLL rate for financial institutions to 20%. As a consequence, "the tax benefit obtained from the distribution of Interest on Equity (JSCP) became greater for companies in the financial sector compared to other sectors, which remained at a rate of 9%" (Simon et al., 2019, p. 110). Therefore, this change may impact banks' dividend policy, as verified in the study by Simon et al. (2019), in which they observed that the increase in the CSLL rate may have motivated banks to increase the distribution of dividends via JSCP, which influenced the decision-making on the dividend policy of these organizations. Therefore, to control this tax change, the TRIB dummy was adopted equal to 1 if the dividends and JSCP distributed refer to the period from 2015 to 2021.

Additionally, the severity of the impact of the COVID-19 pandemic, which began in the last month of 2019 and the first month of 2020 in the financial sector, is still uncertain. According to Rachid et al. (2020), initial estimates suggest that the impact on the macroeconomic environment is likely to be even more adverse than the stress test scenarios used by most supervisory authorities to assess the capital adequacy of financial institutions. Aiming to ensure that the banking sector could continue to finance the real economy, having sufficient capital to absorb possible shocks, the National Monetary Council (CMN) issued Resolution No. 4,820 on May 29, 2020 (beginning of the pandemic), which restricted the limit payment of dividends by Financial Institutions, which could only pass on to partners and shareholders the minimum amount established in their respective statutes.

Subsequently, CMN Resolution No. 4,885 of December 23, 2020, changed the previously exposed measure, making it more flexible so that the distribution of results could be carried out with a limit of up to 30% of the net profit of financial institutions. According to

BACEN (2022), the effects of these changes apply to the 2020 financial year. Therefore, a dummy (RESTR) was used to control this effect under the dividend policy in the year 2020.

Dividend Yield and Payout variables were adopted to analyze the banks' dividend policy studied. According to Bradford et al. (2013), an advantage of using Dividend Yield is that a market measure – share price – appears in the denominator, and this measure avoids distortions caused by very large or negative payout indices observed for companies whose net profit is close to zero or negative, respectively (Gul, 1999; Schooley & Barney, 1994).

Figure 1 summarizes the study variables, from the dividend policy proxies to the control variables used to estimate the System GMM. The variables were selected based on discussions or findings from previous international and national studies highlighted in the last column of Figure 1, which investigated determinants of the dividend policy of financial and non-financial companies, as well as analyzing dividend policy as a mechanism of minimization of agency conflicts considering the effects of executive compensation.

Spreads from the Microsoft Excel package were used to process the data, and the Stata® 13 software was used to execute the econometric models. The particularities of the study variables were analyzed using descriptive statistics techniques (mean, standard deviation, coefficient of variation, minimum and maximum). The System GMM is adopted due to its ability to mitigate endogeneity problems; this occurs when the regressors are not strictly exogenous and there is a correlation between the independent variables and the random error term (Khandker et al., 2010). Endogeny can make estimators biased or inconsistent and derive from simultaneity, measurement errors or omitted variables (Barros et al., 2010).

Figure 1

Study variables

Acronym	Variable	Formula	Author(s)
Dividend Policy Proxies – Dependent Variables			
Payout	Dividend Distribution Indicator	$\frac{Dividends_{i,t} + JSCP_{i,t}\ IRRF\ net}{Net\ profit_{i,t}}$	Bhattacharyya and Elston (2009); Bhattacharyya et al.(2008a); Bradford et al. (2013); Burns et al. (2015); Simon et al. (2019).
Dividend Yield	Dividend profitability indicator concerning share price	$\frac{(Dividends + JSCP)per\ share_{i,t}\ IRRF}{Stock\ price_{i,t}}$	Bhattacharyya et al. (2008a); Bradford et al. (2013); Fenn e Liang (2001)
Compensation Proxy – Main independent variable			
COMP	Share-based compensation, including stock options.	$\frac{Compensation\ based\ on\ shares\ and\ options_{i,t}}{Total\ Remuneration_{i,t}}$	Burns et al. (2015); Fenn e Liang (2001)
Independent control variables and instruments of the System GMM model			
ROE	Return on Equity	$\frac{Net\ Profit_{i,t}}{Net\ equity_{i,t}}$	Simon et al. (2019).
Payout em t-1	Dividend policy stability or persistence.	$Payout_{i,t-1}$	Simon et al. (2019).
DividendYield em t-1	Dividend policy stability or persistence.	$Dividend\ Yield_{i,t-1}$	Proposta pelo estudo.
ALEV	Alternative Leverage	$\frac{\left[\left(\frac{TA_{i,t}}{NE_{i,t}}\right) - \left(\frac{TA_t}{NE_t}\right)\right]}{\left(\frac{TA_t}{NE_t}\right)}$	Bradford et al (2013); Simon et al. (2019).
MB	Market-to-book. Growth Opportunity.	$\frac{Market\ value_{i,t}}{Book\ value\ of\ NE_{i,t}}$	Bhattacharyya et al. (2008a); Simon et al. (2019).
CONC	Concentration of shareholding control	$\frac{TS\ of\ the\ largest\ shareholder_{i,t}}{Ordinary\ TS_{i,t}}$	Bhattacharyya e Elston (2009); Simon et al. (2019).
OCF	Operating Cash Flow	$\frac{Operating\ Profit_{i,t}}{Total\ Assets_{i,t}}$	Bhattacharyya et al. (2008a); Simon et al. (2019).
CONTR	Private or State Control	Dummy with value = 1 when control is private, and 0 when control is state-owned.	Bradford et al (2013); Simon et al. (2019).
TRIB	20% increase in the CSLL rate from 2015 for financial institutions.	Dummy with value = 1 if the dividends and JSCP distributed refer to the period from 2015 to 2021.	Lei nº 13.169 (2015); Simon et al. (2019).
RESTR	Restriction period for dividend payments established by BACEN due to the Covid-19 Pandemic	Dummy with value = 1 if the period corresponds to the year 2020.	BACEN (2022); Resolução CMN nº 4.820 (2020); Resolução CMN nº 4.885 (2020).

Note. TA = Total Assets; NE = Net Equity; TS = Total Shares; IRRF = Withholding Income Tax.

We sought to mitigate the problem of simultaneity or reverse causality, which arises between the dividend policy proxies, their lags (the variables that measure the persistence of the policy and its stability over time and that make the analyzed panel dynamic) and the executive compensation. Burns et al. (2015) point out, as is the case with much corporate finance research that the question of causality may exist: compensation may affect dividend policy, or dividend policy may direct the use of incentive compensation. Higher remunerations could lead managers to improve the dividend policy for the organizations' shareholders, or conversely, the fact that an organization has a good shareholder compensation policy would lead to better compensation for its managers, if reverse causality.

Simon et al. (2019) point out that there may be potential problems of simultaneity of cause and effect between Payout and ROE, which is a proxy identified in previous research as a determinant of dividend policy, and in this study, it was used as a control variable in the models. The models presented in Equations 1 and 2 were developed in this context.

$$Payout_{i,t} = \beta_0 + \beta_1 Payout_{t-1} + \beta_2 COMP_{i,t} + \beta_3 ROE_{i,t} + \beta_4 ALEV_{i,t} + \beta_5 MB_{i,t} + \beta_6 CONC_{i,t} + \beta_7 OCF_{i,t} + \beta_8 Dum\_CONTR_{i,t} + \beta_9 Dum\_TRIB_{i,t} + \beta_{10} Dum\_RESTR_{i,t} + \beta_{11} Div\_Yield_{i,t} + u_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$Div\_Yield_{i,t} = \beta_0 + \beta_1 Divi\_Yield_{t-1} + \beta_2 COMP_{i,t} + \beta_3 ROE_{i,t} + \beta_4 ALEV_{i,t} + \beta_5 MB_{i,t} + \beta_6 CONC_{i,t} + \beta_7 OCF_{i,t} + \beta_8 Dum\_CONTR_{i,t} + \beta_9 Dum\_TRIB_{i,t} + \beta_{10} Dum\_RESTR_{i,t} + \beta_{11} Payout + u_{i,t} + \varepsilon_{i,t} \quad (2)$$

Barros et al. (2010) show that the GMM mitigates endogeneity with assumptions of the exogeneity of the regressors in a sequential manner, and even if there is the presence of heteroscedasticity and autocorrelation of the residuals, this method is capable of generating estimates with consistency and efficiency. For its validation, some assumptions must be met: (i) stationarity of the series, verified by the Fisher-type unit root test; (ii) absence of second-order autocorrelation, observed by the Arellano and Bond autocorrelation test; (iii) exogeneity

of the instruments, assessed by the Sargan and Hansen tests; and (iv) validity of the System GMM, that is, of the instruments used, via the Hansen Difference test (Dif-Hansen). Furthermore, the basic assumptions of the regression model must be observed, and these were evaluated via estimation of the model using the Ordinary Least Squares Method (OLS) in the pooled form of panel data.

4 RESULTS

4.1 Descriptive statistics

Table 1 presents the descriptive statistics of the variables used in this study. The winsorization technique was applied to all quantitative variables to treat outliers present in the sample. The cutoff value was 5% in the lower tail and 5% in the upper tail.

Table 1

Descriptive statistics of variables

	Payout	Payout at t-1	Dividend yield	Dividend yield in t-1	COMP	ROE	ALEV	MB	CONC	OCF
N	215	214	212	210	228	228	228	221	225	228
Aver.	0,372	0,379	0,055	0,054	0,154	0,124	-1,071	1,139	66,972	0,021
DP	0,181	0,190	0,030	0,029	0,303	0,067	2,490	0,657	27,977	0,020
CV	0,486	0,501	0,541	0,541	1,970	0,539	-2,326	0,577	0,418	0,937
Min.	0,102	0,106	0,0003	0,003	0,000	0,002	-7,874	0,352	15,070	-0,014
Max.	0,828	0,896	0,119	0,119	0,990	0,232	0,441	2,548	99,590	0,072

Note: N = number of observations; Aver = Average; SD = Standard deviation; CV = Coefficient of Variation; Min = Minimum; Max = Maximum; COMP = Share-based compensation; ROE = Return on Equity; ALEV = Alternative Leverage; MB = Market-to-book; CONC = Concentration of Shareholding Control; OCF = Operating Cash Flow.

The Payout variable indicated that, on average, the banks in the sample distributed 37.2% of net profit. However, it is necessary to analyze cautiously, as this sample comprises banks of different sizes and policies, as evidenced by the variation coefficients. The variables alternative leverage and share-based remuneration had the greatest data dispersion concerning the average, with a coefficient of variation greater than 100% in the module, while Payout presented 49% variation in data dispersion around the average.

Additionally, the maximum Payout value of 82.8% stands out, highlighting a high dividend distribution rate by one of the banks in the sample. The Payout variable at t-1 shows behaviour close to the current time, revealing signs of stability and persistence in the banks' dividend policy throughout the period analyzed.

On average, the profitability of dividends paid by Brazilian banks is 5.5% of their share price, with values ranging between 0% and 11.9%. An average of 5.5% can be considered a satisfactory profitability compared to other sectors of the economy. The lag in the dividend yield proxy demonstrated similar behaviour to the Dividend Yield.

Regarding the compensation of bank directors in Brazil, on average, 15.4% of their total remuneration corresponds to share-based remuneration, including stock options, with a variation of 197%, with banks that do not use remuneration based on shares and options of shares, but with others that use this remuneration policy very strongly, with one bank paying practically 100% of directors' remuneration through shares and share options. Such values demonstrate different management remuneration strategies between these organizations, which can cause different impacts on the dividend policy in Brazilian banks.

Analyzing the other control variables, banks presented a Return on Equity (ROE) of 12.4%, with a coefficient of variation of 54%. Alternative leverage (ALEV) presented a coefficient of variation of 2.3 and an average value of 1.1, both negative. On average, the institutions analyzed have lower leverage than the sector as a whole, which can affect dividend policy, as discussed by Simon et al. (2019) and Weber (2008).

The Market-to-book (MB) shows that the market value of banks, on average, is 1.14 times greater than the book value, with a dispersion of 58%, given the different sizes of banks analyzed. These institutions' average Operating Cash Flow corresponds to 2.1% of their total assets. In turn, the shareholder control concentration variable (CONC) demonstrated that the

bank's majority shareholder holds, on average, 67% of the total common shares, revealing the high concentration of control in the sector.

4.2. Analysis of the Relationship Between Remuneration and Dividend Policy

The results of the models estimated to analyze the relationship between remuneration and dividend policy are found in Table 2, which also presents the results of the validation and robustness tests carried out in the pooled form and the System GMM. In the two models evaluated, it was observed that there is no problem of multicollinearity. The data do not follow a normal distribution and present heteroscedasticity. Such characteristics are supported by the System GMM, which, in turn, presented all its assumptions met and validated: the variables are stationary (except the remuneration proxy), they do not present second-order autocorrelation, the instruments are exogenous, and the System GMM is valid in both proposed models. The non-stationarity of the remuneration proxy does not make the model application unfeasible, as in weaker conjectures, it is a sufficient condition but not indispensable for estimating the model (Barros et al., 2010).

In model 1, whose dividend policy proxy is the Payout variable, the variables Alternative Leverage (ALEV), Operating Cash Flow (OCF) and Profit Distribution Restriction (RESTR) were shown to be statistically negatively significant. In addition, the variables Share-based compensation (COMP) and Dividend Yield were also statistically significant and the intercept.

In model 2, which has Dividend Yield as the explained variable, the COMP and MB are negatively related to the dividend policy, while the variables ALEV, OCF, TRIB and Payout were positively statistically significant, in addition to the intercept.

Table 2

Estimation of models using System GMM

Variables	Model 1 – Payout		Model 2 – Dividend Yield	
	Coefficient	Robust standard error	Coefficient	Robust standard error
Intercept	0,176	0,094*	0,099	0,024***
Payout at t-1	0,343	0,280		
Div_Yield at t-1			-0,414	0,370
COMP	0,098	0,042**	-0,024	0,010***
ROE	-0,403	0,303	-0,001	0,100
ALEV	-0,018	0,009**	0,007	0,002***
MB	0,066	0,045	-0,018	0,007**
CONC	-0,0004	0,001	-0,0001	0,0001
OCF	-2,119	0,973**	0,270	0,131**
CONTR	-0,012	0,039	-0,004	0,007
TRIB	-0,006	0,022	0,010	0,005**
RESTR	-0,076	0,033**	-0,008	0,007
Payout			0,042	0,015***
Div_Yield	1,814	0,960*		
Tests - Pooled Estimation				
Average VIF	1,84		1,86	
RESET	0,670	0,571	0,900	0,444
Breusch-Pagan	18,610	0,000***	3,770	0,052*
Doornik-Hansen	14,945	0,001***	15,897	0,001***
Tests - Estimation via System GMM				
Arellano-Bond AR(1)	-1,390	0,164	-0,320	0,748
Arellano-Bond AR(2)	-1,640	0,102	-1,080	0,280
Sargan test	26,420	0,003***	20,320	0,563
Hansen's test	6,970	0,728	3,720	1,000
Dif-Hansen test	6,970	0,640	-1,710	1,000
Number of Observations	199		199	
Number of Groups	19		19	
Number of Instruments	22		34	

Note. * significant at 10%; ** significant at 5%; *** significant at 1%. Div_Yield = Dividend Yield; COMP = Share-based compensation; ROE = Return on Equity; ALEV = Alternative Leverage; MB = Market-to-book; CONC = Concentration of Shareholding Control; OCF = Operating Cash Flow; CONTR = Private or state control; TRIB = tax change from 2015; RESTR = result distribution restriction in 2020.

The main variable of this study, executive remuneration, had a different relationship for each dividend policy proxy. Possible explanations for this result and the control variables are presented in the following topic.

5 DISCUSSION

In model 1, the main research variable of the present study, Executive Remuneration, was statistically significant at the 5% level and was shown to be positively related to the banks' dividend distribution index, differently from what research studies show Burns et. al. (2015)

and Fenn and Liang (2001). Therefore, as the share-based remuneration offered to managers increases, the dividend distribution ratio also tends to increase, and fewer profits are retained by management, which may signal that the banks studied adopt a strategy of showing the market that an increase in managers' variable remuneration does not imply a decrease in the distribution of dividends.

The variables ALEV and OCF, significant at the 5% level, negatively affect banks' Payout, demonstrating that higher levels of Leverage and Operating Cash Flow imply a decrease in the indicator of payment of distributed dividends. Regarding ALEV, this finding does not corroborate the considerations of Lepetit et al. (2017), who highlight that banks tend to distribute more dividends as they have high and heterogeneous leverage and, therefore, do not need to retain large portions of profits for their future investments.

The dummy for restriction of distribution of results in 2020 proved to be significant at 5% and captured a negative effect of this change in banks' dividend policy, thus fulfilling the objective of ensuring that the banking sector could continue to finance the economy, having sufficient capital to absorb possible shocks from the Covid-19 pandemic in that year, as established by BACEN and aligned with the guidelines of the Basel Committee.

Concerning model 2, the COMP variable presented a negative relationship with dividend profitability, signalling that a decrease in managers' remuneration levels has an inverse impact on the profitability of distributed dividends, which may be an attempt to signal the market, aiming not to discourage investments in the institution. This profitability is linked to the bank's market value, which suffered a reduction in 2020 due to several factors, including the pandemic. In terms of market profitability, considering the share price and the results distributed based on this, as well as the executive remuneration analyzed here, the distribution of dividends has been beneficial to the shareholders of the banks analyzed, as even reducing the compensation of its managers compensate the shareholder through the distribution of profits

they receive concerning the price of their shares. Such results align with Fenn and Liang (2001), who also identified a negative relationship between remuneration and Dividend Yield.

Alternative Leverage (ALEV) presented an inverse relationship to what occurred in Model 1 because when considering Dividend Yield, ALEV followed the dividend policy in the same direction; that is, as institutions incur higher levels of leverage, they also tend to increase the profitability of their dividends.

In addition, when considering the banks' Dividend-Yield, it was observed that the MB, which is considered a proxy for the institution's growth opportunity, impacted the dividend policy differently from what occurred in Model 1, as in this case, in addition to impact, presented a negative sign. Therefore, increases in growth opportunities can reduce the profitability of dividends paid since the company needs resources to expand and retain more profits.

Operating Cash Flow positively affected dividend profitability, as defended by Jensen (1986), who argues that companies with higher free cash flow have greater flexibility in their dividend policies, such that organizations with high free cash flow have more money to remunerate shareholders (Jensen, 1986).

The TRIB proxy, which is related to the tax benefit obtained in the distribution of JSCP with the tax change from 2015, confirmed the positive effect captured by the dummy in which there was an increase in the profitability of dividends of the banks analyzed in this study in the period 2015 to 2021, as seen in the study by Simon et al. (2019), in which they observed that the increase in the CSLL rate may have motivated banks to increase the distribution of dividends via JSCP, which influenced the decision-making on the dividend policy of these organizations. Finally, the payout showed a positive relationship with the dividend yield and, therefore, the higher the distribution index, the greater the profitability achieved by the banks analyzed.

ROE did not affect the dividend policy of the banks analyzed in either model. Kauko (2012) highlights that the way stakeholders perceive financial institutions influences their profitability and feasibility, which is why the decisions surrounding the definition of dividend policy have important informational content, which can be transmitted implicitly to users of accounting information from these institutions. Thus, signalling results have become a useful and attractive practice for banks.

Thus, considering the different behaviours presented by executive remuneration concerning dividend policy proxies, the result obtained was bidirectional. The dividend payout ratio tends to increase as share-based executive compensation increases. However, dividend profitability relative to share price decreases, which leads to the discussion that when higher levels of share-based compensation are granted to managers, they would be concerned with the signals sent to the market, aiming to signal a good performance in terms of distribution volume, however, when analyzing the profitability of these distributed results, it appears that it decreases. At the same time, there is an increase in terms of variable executive compensation.

Decisions on dividend payments affect the availability of resources for reinvestment or distribution to shareholders. Furthermore, executive compensation directly impacts managers' motivation and the pursuit of performance goals. The present study's findings can help institutions adopt management practices that align the interests of executives with the organization's long-term objectives.

In addition to the pandemic period, the present investigation also covered a recession in Brazil, which took place in 2015. The study by Martucheli et al. (2021) addressed this topic by comparing the dividend distribution behaviour of companies listed on B3 in periods of expansion and recession in the Brazilian economy. The results showed that, regardless of the distribution of dividends measured by payout or dividend yield, which are also proxies for this work, companies increased the distribution of dividends in periods of recession when there is

greater uncertainty in the market. Despite such findings, this study decided not to include a recession dummy because, during this period, there were no concrete measures to limit the distribution of earnings, as happened in the pandemic period with CMN Resolutions No. 4,820 and No. 4,885 dated the year 2020.

Despite this, it is noteworthy that the 2015 recession may have impacted dividend policy and executive remuneration in publicly traded banks. During periods of recession, capital availability may become scarce due to reduced profitability and increased risk; this could affect dividend policy, leading banks to reduce or suspend dividend payments to preserve capital and strengthen their financial position. Another factor to be discussed is that the recession could have placed significant pressure on banks' results and financial performance. It could impact executives' incentives, as macroeconomic factors beyond their direct control could negatively affect their performance. Corroborating this pressure is that the recessive period may have affected shareholders and investors, changing their expectations regarding dividends and the bank's performance.

In this context, accounting plays a fundamental role in disclosing and analyzing the financial information of companies, including banks. The study of dividend and executive remuneration policy in banks helps to evaluate efficiency in resource allocation, capital management and risk assessment. By analyzing these aspects, accountants can provide precise and reliable information to investors and other interested parties, helping to make informed decisions.

6 FINAL CONSIDERATIONS

Studies that address dividend policy and executive remuneration in banks are relevant from several perspectives, including accounting, regulation, management, finance and financial stability. This research provides critical insights that help inform strategic decisions, promote

transparency and effective governance, and contribute to investor confidence and the financial system's stability.

This research contributed to the literature on dividend policies and their relationship with executive compensation, providing insights into how these variables are associated in the Brazilian context, considering banking institutions as the object of analysis, which have a relevant share in the capital and the economy. The objective of this research was to verify the relationship between dividend policy and share-based remuneration in the Brazilian banking context and, specifically, we sought to analyze the influence of compensation, as a variable incentive of executive management, on Payout and profitability of dividends (Dividend Yield) from banks listed on B3 in the period from 2010 to 2021.

Regarding the analysis of the control variables used, it was succinctly concluded that the variables ALEV and OCF were significant in both models but presented opposite signs for each model. Additionally, the RESTR variable was significant in explaining the dividend policy that considers the Payout proxy, and the variables COMP, MB, TRIB and Payout were additively significant when considering the Dividend Yield to evaluate the dividend policy, which points to different behaviours when considering dividend profitability or distribution volume variables, alternatively. Such findings corroborate arguments such as those of Burns et al. (2015) and Jensen (1986) and, on the other hand, confront some conclusions such as those of Bhattacharyya and Elston (2009) and Fenn and Liang (2001).

The notes from this research have the potential to contribute to various interested parties, such as managers, shareholders and regulators of financial institutions, by providing in-depth information on how remuneration can have a broader effect on corporate dividend policy and the behaviour of the company management. Furthermore, it adopted as an object of analysis the main financial intermediaries in the national context, describing how they conduct their

management decisions, which can influence the way society views and establishes its level of trust in such institutions.

A limitation of this study lies in the restricted nature of the selected sample, which consisted exclusively of banks listed on the Brazilian stock exchange. While providing valuable insights into dividend policy and executive compensation practices at publicly traded financial institutions, this approach precluded more detailed and granular analysis. The lack of a distinction between public and private banks, considering the application of the GMM model, may have limited the ability to capture specific nuances of these banking subgroups and, consequently, restricted the breadth of conclusions that could be extrapolated to the entire banking sector.

For future research, we suggest a comparative analysis between public and private banks and break down capital incentive compensation into its components based on shares and share options and other variable remuneration and even fixed. An additional point of analysis is the influence of share repurchases. Factors such as monitoring by regulatory agencies, board of directors and leverage levels can be analyzed as governance mechanisms. Furthermore, analyses comparing different institutional structures could offer discoveries about the validity of the relationship between dividend policy and managerial incentives in resolving agency problems.

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Política de Dividendos e Remuneração de Executivos em Bancos Brasileiros

RESUMO

Objetivo: *verificar a relação entre a política de dividendos e a remuneração baseada em ações no contexto bancário brasileiro.*

Método: *estimou-se modelos via GMM-Sistêmico, em uma amostra de instituições bancárias que possuem ações negociadas na Brasil, Bolsa, Balcão (B3) considerando o período de 2010 a 2021.*

Originalidade/Relevância: *bancos realizam atividades que movimentam e contribuem para o desenvolvimento de um país e, paralelamente, decisões equivocadas tomadas pela gestão estão sujeitas a riscos sociais e econômicos com potencial de provocar efeitos em toda a economia. Apesar disso, estudos sobre a relação entre dividendos e remuneração de executivos em instituições bancárias ainda é incipiente.*

Resultados: *os principais achados sugerem um comportamento bidirecional: a Remuneração Executiva demonstrou-se positivamente relacionada ao Payout e, paralelamente, apresentou uma associação negativa com o Dividend Yield. O resultado para o Dividend Yield está alinhado com pesquisas anteriores realizadas em diferentes ambientes institucionais, mas é divergente no que tange ao Payout.*

Contribuições Teóricas/Metodológicas: *analisar dividendos e remuneração se mostra relevante por contribuir com o debate de como essas variáveis podem influenciar a sua governança e como tal relação ocorre no contexto brasileiro.*

Contribuições Sociais/para a Gestão: *o estudo da política de dividendos de instituições bancárias contribui com a sociedade já que os bancos têm participação relevante tanto no mercado de capitais, como na economia do país.*

Palavras-Chave: *Política de dividendos, Remuneração executiva, Bancos.*

Juliana Ribeiro Souza
Universidade Federal de Minas Gerais, Minas Gerais, Brasil
julianaribeiro.jrs@gmail.com

Joice Garcia de Oliveira
Universidade Federal de Minas Gerais, Minas Gerais, Brasil
joicegarciacco@gmail.com

Lua Syrma Zaniah Santos
Universidade Federal de Minas Gerais, Minas Gerais, Brasil
luasyrma@gmail.com

Juliano Lima Pinheiro
Universidade Federal de Minas Gerais, Minas Gerais, Brasil
jlp@gold.com.br

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