Implications of Managerial Overconfidence and Optimism for Corporate financing in emerging African Market: The role of ESG and dividend payment

Maculuve, D.P., Obalade*, A.A

Department of Finance
Faculty of Economics and Management Science
University of Western Cape, Cape Town, South Africa
6507092@myuwc.ac.za & aobalade@uwc.ac.za

We investigate the implications of Managerial Biases (stock- and investment-based overconfidence (OVC & OVC2) and Optimism (OPT)) for corporate financing (debt-equity ratio (DER)) and account for the moderating role of Environmental, Social and Governance (ESG) practices and dividend payment (DIP). The study compares pooled OLS and fixed effects models as well as first difference dynamic panel Generalized Method of Moments (GMM) estimation method, however, GMM is favoured due to its ability to address endogeneity, unobserved heterogeneity, and dynamic persistence in corporate financial behaviour. The estimated coefficients for the managerial overconfidence (OVC & OVC2) reveal statistically significant positive effects on DER while OPT portends a reducing DER effect. The estimated coefficients for ESG and DIP are negative and statistically significant in relation to DER, indicating that firms with stronger ESG and dividend payout policies tend to rely less on debt financing. The interactions between overconfidence and ESG (OVC & OVC2*ESG) in relation to DER is negative while the OPT*ESG is positive. Similarly, the OVC*DIP interaction vis-à-vis DER is negative while (OVC2 & OOPT*DIP) is significantly positive. We conclude that ESG effectively reduces the unfavourable implications of stock- and investment-based overconfidence on leverage but fails to moderate unwanted optimism effect. Similarly, DIP ameliorates the increasing effect of stock-based overconfidence but fails in terms of investment-based overconfidence and optimism. Overall ESG adoption proved a more effective measures for curtailing managerial excesses than dividend payments.