Firm-specific factors and leverage: Is there a managerial behavioral effect?

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Abstract

This study determines whether firm-specific characteristics have a force to bear on capital structure, proxied by leverage (LEV). It furthers investigates the mediating roles of managerial behavioural overconfidence (OVC) and optimism (OPT). Ensuring robustness to heteroskedasticity and contemporaneous correlation, we applied the Panel EGLS with cross-section fixed effects and PCSE-corrected standard errors, to a balanced panel data of 55 firms over the period 2014-2024. We found that growth opportunities (GROW) and asset tangibility (TANG) and Firm Size (SIZE) increase leverage while PROF reduce it. GROW and PROF lead to overconfidence while TANG reduces it, and SIZE is not significant. TANG and SIZE increase OPT while GROW and PROF are not significant. We found that Managerial OVC and OPT are not significant determinants of leverage. Finally, Sobel test shows that overconfidence (OVC) and optimism (OPT) do not significantly mediate the effect of growth opportunity, asset tangibility and firm size on financial leverage. Hence, we conclude that managerial behavioural biases do not have direct or indirect effect on leverage, but firm characteristics do.

Key words: Managerial biases, firm characteristics, dividend payout.