

CEO turnover and dividend policy have been studied by academics throughout the years. However, to the best of our knowledge, the relationship between these two topics have never been studied. Therefore, in this empirical research it will be studied what the influence of CEO turnover in firms' dividend policy is.

In past studies, the relationship between CEO turnover and corporate performance has been a predominant topic. Empirical evidence found that support for a negative relation between firms' performance and CEO turnover (Puffer & Weintrop, 1991; Kang & Shivdasani, 1995; Huson et al., 2004). Such effect is even more negative if performance is measured relative to firms' peers (Kang & Shivdasani, 1995; Jenter & Kanaan, 2015).

Despite the large focus on performance, other factors can also influence the frequency of a CEO being dismissed from its role. According to Brickley (2003), the CEO's age can also be an important factor in explaining CEO turnover. Murphy and Zimmerman (1993) stated that the probability of a CEO turnover happening is higher when the CEO's age is 64 or 65. Such results are expected as such is considered to be a "normal retirement age". Murphy (1999) results also suggested that CEOs were most likely to be dismissed at such ages. Consequently, this variable allows researchers to distinguish whether a CEO turnover is forced or occurs due to retirement reasons. Likewise, the composition of the Board of Directors can also influence CEO turnover. As independent or outside directors are added to firms' boards, the independence towards the CEOs increases. Consequently, the probability of a CEO being replaced increases (Hermalin & Weisbach, 1998; Brickley, 2003).

Dividends are a portion of the firm's earnings that is distributed to its shareholders. Nonetheless, firms' management can decide to retain such earnings. Miller and Modigliani (1961) argued that in perfect capital markets conditions, dividend policy does not affect firms' valuation. However, current markets are not perfect, containing market imperfections that can affect a firm's dividend policy. Consequently, the existence of asymmetric information, a market imperfection, suggests that firms may pay dividends to mislead, and attract new investors. Additional studies indicate that paying dividends may reduce conflicts of interest between stakeholders, and thus, reduce agency costs within a firm structure.

Finally, a predominant market imperfection in today's world is the existence of taxation. Dividends are seen as a return for shareholders and usually face higher tax rates than capital gains. However, shareholders still prefer to receive dividends as a form of compensation.

Thus, in this dissertation, we intend to clarify whether CEO turnover influences dividend policy. This work will contribute in understanding an unexplored topic and provide a clearer insight into how CEO turnover and dividend policy are related.

In this research, we considered companies that were listed on the *S&P 500 Index* over the period 2004-2017. The data related with CEO turnover was subject to manual adjustments using CEOs' biographies and news which will be explained in detail in further sections. Several variables were selected to represent different factors that can influence both CEO turnover and dividend policy. A detailed description of these variables will be shown in further sections.

The empirical evidence suggests that CEO turnover increases firms' dividend yield by about 0.2%. Moreover, CEO turnover that occurs during 2008 and 2012 has a positive effect on the dividend yield of 0.5%. Also, during the same period (2008-2012) firms have more incentives to retain their earnings. Therefore, CEOs decide to pay fewer dividends. Evidence also indicates that CEO turnover has a positive effect on dividend per share and dividend yield after the financial crisis.

Thus, this work contributes to practice since evidences, for the first time, that CEO turnover has a significant impact on firms' dividend policy, contributing to the existing literature of both CEO turnover and dividend policy. This dissertation is organized as follows: in section 2 the most relevant literature regarding dividend policy and CEO turnover is reviewed. Section 3 contains the research hypotheses. The data, methodology, and regression models considered in our empirical analysis are shown in section 4. The results obtained from the econometric models are displayed and discussed in section 5. Finally, section 6 contains the main conclusions and limitations of our work, as well as proposed future researches.