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Managerial Overconfidence: Evidence of Impact on the Company's Activities

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Abstract
Overconfidence, one of the most important findings in the field of psychology of judgment and decision-making. Psychologists have found that people's ability to do their job properly, excessive estimate and the estimate is too important a person to duties of care, there is a direct relationship. The psychologists found that people in decision-making and judgment, to highlight the information, the more weight. The effects of overconfidence managers Company's procedures, including accounting policies, it is important that overconfidence can lead to incorrect decisions and inappropriate policies on investment, finance or accounting result and costs heavy impose on companies. Overconfidence is one of the most important managers' personality traits that influence risk-taking. If the auditor determines the character management and financial reporting risks because of overconfidence, over-estimated, it can claim a right to more trouble and his action to reduce the risk of detection is complete. On the other hand, because managers have more confidence in the financial reporting process to ensure companies attempt through negotiation, the scope of the audit procedures and the right to pay less hassle. In this study, the concept of overconfidence management, and then we speak of it. The effect on risk-taking experience, overconfidence and herding behavior management investment companies to examine. The relationship between management and income smoothing pay more confidence. And at the end of the impact of overconfidence management benefits as well as its relation with sensitivity equal division of investment cash flows examined.
Keywords: Overconfidence management, risk, smoothing, dividends, cash flow sensitivity of investment.

1. Introduction

Management mechanisms more reliable estimate of true ability and skills to their reality and overestimating their abilities and skills in management's assessment of future demand without comparison with others can help. Managers have more confidence, using the mechanism of determination of the facts to their abilities and skills, assessment of actual sales demand returning to their previous level. As a result, managers are more likely to overestimate their level of future sales. Also, managers have more confidence in using the mechanism of overestimating their abilities and skills without comparison with other, more focus on the accuracy of its assessment of future sales demand. Traditional financial economic model, it is assumed Rationalistic behavior and decision-makers are always looking to maximize their utility experimental researchers believe sometimes to find out the financial dilemmas, we must accept the possibility that it may be fully rational decision makers act. In other words, personality traits managers are also important factors to consider in decision-making. One of the important features of personality is more reliable. Learn more certainty or confidence, is one of the most modern financial concepts in financial theory and psychology has a special place. More confidence makes people their knowledge and skills too, and risks lower than estimates, feels the issues and events management; while it may in fact it does not. Managers more confidence, probability and impact of favorable events on company cash flows over a probability and impact of negative events to estimate and less than the estimate. There is more confidence in managers on how to identify the characteristics of profit and loss and the carrying amount of assets and liabilities is effective. More directors to ensure the future efficiency of investment projects over estimate. Have. This process can affect its decisions, including decisions concerning the smoothing affect. Surer one of the most important findings in the field of psychology of judgment and decision-making. The researchers found that people on their capabilities, including the ability to predict the perception of information and knowledge, exaggerating. In other words, your abilities and knowledge are too trusting, but may not express this inner sense or even be unaware of it. Over confidence or trust too much in general terms can be used as an unfounded belief about cognitive abilities, judgment and reasoning, intuition is a summary. The concept of overconfidence in the collection range from cognitive psychological studies and experiments that show people about their ability to predict and provide them with the accuracy of information that is estimate of more than their size. Also estimate the probability of poor performance and certain events that they often have a much lower probability of one hundred percent. In summary it can be said that his subjects than they actually are, smarter than you think and believe that they have better information. For example, the decision to invest in a particular company, often ignoring expected losses and then if the company is underperforming, or dissatisfaction with their sense of wonder.

2. Literature Review

(Deshmukh et al., 2013) that managers are more reliable than other managers are less inclined to pay dividends. Reduction in the payment of dividends due to over confidence of managers in companies with lower growth opportunities, future cash flow is less and higher information asymmetry is greater. (Sandroni & Squintani, 2012) in a study to examine the relationship between overconfidence and manage their information asymmetry. The results of their research hypothesis testing showed, more reliable management information asymmetry is increased. (Scherand& Zechman, 2011) found that the more uncertain with the possibility of fraud in financial management and monitoring to establish a positive relationship between higher domestic and foreign through the mechanism of this effect does not reduce governance. Studies such as (Malmendier et al., 2011) more important factor in explaining trust management, financing decisions is taken. Given that more managers ensure that their company is less than the valuation, financing and are wildly expensive external to domestic financing rely. These attitudes managers in their investment decisions interferes with, because when you have a lot of funds, many investors are doing, but when external financing will be required to cautiously invest, to expressive, more confidence leads to a reduction in investment assets (Malmendier & Tate, 2005) and (Ben-David et al., 2010). Studies (Glasser et al., 2004) on the overconfidence of professionals and non-professionals indicated that professional money managers and experienced and inexperienced compared to non-professional managers to perform many functions, especially the identification process, Fluctuation predict the share price, the greater overconfidence.

3. Overconfidence

Over confidence or self-esteem too, one of the most modern concepts of behavioral finance, both financial and psychological theories is important. Overconfidence causes people their knowledge and skills to excessive risks less than the estimate, the feeling of control issues and events, but may in fact it is not. In most of the control functions of overconfidence in our people, but security selection is a difficult task with the highest level of investor overconfidence only to be seen in it. But there is evidence that individual financial analyst to revise previous estimates of the likely future performance of the company's act, even when there is considerable evidence that their current assessment is incorrect. Different types of overconfidence are:

1. Grading wrong: the most common type of overconfidence in financial literature, and is sometimes referred to as the usually more careful of his knowledge and risk (over confidence in the prediction) and the variance of the random variable is less than estimate and are very narrow in their predictions have assurances value of a share, much lower inclination to consider the range of expected returns.
2. Unrealistic positive assessment or above-average effect: In this type of overconfidence, the psychological research. Their skills than is generally estimate suggests that positive people tend to unrealistic view of themselves and their skills. Many people, when with a group (like classmates or colleagues) are compared, the abilities and skills above the average level of capabilities and skills of other members of the group know.
3. Illusion of control and unrealistic optimism: makes people feel that the issue could affect control or at least while it may in fact this is not your probability of success is higher than the estimate. This overconfidence can be done with dice games that can be seen as an attempt to achieve a higher number of people, much more assertive throwing dice.

4. The effect on risk-taking experience, overconfidence and herding behavior of investment managers

Between experience and risk appetite, overconfidence and herding behavior management investment companies in Tehran Stock Exchange is a significant and meaningful relationship. Thus, the experience with risk-taking and overconfidence managers' inverse relationship between experience and herding behavior there is a direct relationship. With increasing experience of managers, they are more in control of herding behavior. Given the inverse relationship between risk-taking and herding behavior can be said that one of the reasons less experienced administrators tend to earn higher returns on herding less, the risk coefficient is lower and more risk-taking. Because of the inverse relationship between experience and risk taking, as well as experience and more confidence, less experienced managers than more experienced managers with more confidence and are more risks. Given the direct relationship between risk and return, more risk managers are less experienced and less risk aversion degree, achieving higher efficiency to bring them. In general it can be concluded that an inverse relationship exists between the experience and the performance of investment managers and less experienced managers earn higher returns compared to more experienced managers.

5. over the smoothing effect of confidence management

Profit significantly influenced by expectations about future profits and overconfidence affects management's expectations. Managers more confidence as a result of the belief that they have specific information (which others do not), accuracy of information and consequently your earnings and future cash flows of the entity over estimates and outlook positive risk and future returns are participating. Managers more confidence as a result of the belief that they have specific information (which others do not), accuracy of information and, consequently, profits and cash flows over estimate your future business and a positive outlook from future risk and return involved. Smoothing significantly influenced by expectations about future earnings, and more reliable to manage the expectations of impact. In other words, smoothing the balance between the amounts reported in the current period and future periods and the amounts reported in the balance on the beliefs of management regarding future events depends entity. Managers are more likely to achieve higher profits, more confidence in the future periods are allowed, and therefore more likely to benefit from future profits to increase profits during the current period, and this means that managers are more likely to report confidence over profits are higher than other managers. More significantly, leading to increased confidence in the management of the smoothing. The findings also showed that companies with higher systemic risk, the risk of further smoothing.

6. The effect of managerial overconfidence on dividend policy

The term is used for managers optimistic that systematically benefits of good corporate performance and profitability of firms' performance is too bad to be lower than estimated. Too much trust management on the dividend policy of listed companies has a positive effect basically dividend policy is directly a function of too much trust management. The impact of investment opportunities on the relationship between trust and control over dividend policy is negative. Namely, by increasing investment opportunities, the effects of too much trust management on the dividend policy is reversed. ROA impact on dividend policy has been significantly positive. Due to the positive impact of managerial overconfidence on dividend policy, it seems appropriate that the profitability of investment managers believe the current or accumulated earnings in the company's result does not see or do in order to establish themselves in the company, the long-term interests for the sake of current interest. Therefore, it is recommended that users of financial information, particularly small shareholders have paid special attention to corporate dividends; this means that too much trust management to achieve their short-term interests of their own.

7. The impact of overconfidence senior managers on investment cash flow sensitivity

The cash flow impact of the investment company, because it was cheaper than external financing, managers have more control over it. Thus, changes may be changes in investment cash flows and investing cash flows cause allergy. In addition, the company's cash flow sensitivity of investment properties and market conditions, influenced by personal characteristics such as self-management is also excessive. Managers have this feature, because of their excessive optimism to invest in projects that lack the cash flow needed to achieve the expected return on shareholders. The company's operating cash flows have a positive impact on new investments. The sensitivity of investment to cash flow in companies whose managers are confident too high.

Conclusion

The aim of this study was to investigate the relationship between overconfidence management variables such as dividend policy, smoothing, risk-taking experience, is the sensitivity of investment cash flows. After investigation, the following results were obtained.

1. The inverse relationship between experience and performance of investment managers are less experienced managers earn higher returns compared to more experienced managers.
2. Managers more confidence tended to report higher profits than other managers. More significantly, leading to increased confidence in the management of the smoothing.
3. Overconfidence management has a positive effect on dividend policy of listed companies; the dividend policy is directly a function of too much trust management.
4. The sensitivity of investment to cash flow in companies whose managers are confident too high.

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