

Effect of Management Ability and Type of Attitude on Predicting the Price Signal in the Stock Exchange

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Abstract– The main purpose of the current research was to explain the effect of management ability and type of attitude on the financing policy of companies admitted to the Tehran Stock Exchange. The research community is the financial intermediation companies that were active in the Tehran Stock Exchange and were continuously active in the stock exchange for a period of 5 years from 2017 to 2021. In this research, using judgmental random sampling approach, the researcher selected 120 companies to collect the required data. For data analysis, first the research variables were calculated using Excel software, and then the combined data was analyzed using EViews and Stata software. The results of the research showed that management ability had a positive and significant impact on financial leverage, debt maturity, and cash retention. Also, the attitude of the management has a positive and significant effect on the three variables of financial leverage, debt maturity, cash retention.

Keywords: Stock exchange, price signal, predicting.

1. Introduction

Managers in any organization play an important role in orientation and policy making [1]. Based on insight and understanding of the situations in which the organization is located, managers can prepare the ground for advancing organizational goals [2]. Therefore, the capabilities and capabilities of managers, which can be rooted in individual knowledge and skills or organizational structures, play a key role in adopting executive approaches in every organization [3]. One of the key discussions in every organization; Financing and the type of financing approach. Adopted strategies for financing are the responsibility of senior organizational managers[4]. The choice of financing approaches of any organization can play an important role in advancing programs and developing organizational performance. Managers with a proper understanding of internal organizational conditions, business environment and developed goals and strategic plans try to adopt a suitable approach in the field of financing[5]. In the meantime, the investigations carried out in the past research indicate that managers in choosing financing approaches try to carefully examine the risks of each type of financing and

by understanding the realities of society and the market of their field of activity, a kind of choose financing that brings the lowest cost to the company and supports the company well in the direction of advancing short-term, medium-term and long-term plans and projects, the manager can play a positive role in creating higher value for the company active in the capital markets[6]. In the meantime, one should not neglect the issue of managers' attitude in addition to managers' ability. Managers always try to make decisions based on their attitudes and perceptions of what is in the environment around the organization or the environment inside the organization [7]. One of the important challenges in discussing the ability and attitude of managers, which leads to a lack of consensus in the field of influencing financing policies, is the lack of specific behavioral standards among managers [8]. Many capable managers may suffer from self-centeredness and with greater risks create the possibility of higher mistakes in the field of financing approaches, which can undoubtedly have many negative consequences on the organization's performance and the organization's value. This is despite the fact that in a normal view, managers with higher capabilities can better analyze information and use this information in line with the development and improvement of decision-making in the field of choosing an optimal financing system that matches the organization's conditions. This challenge and problem has caused the researcher to try to solve this problem in this research. Also, one of the main issues is that in the capital market, it is very important to publish the type of actions and approaches

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taken by companies to carry out their activities. If the companies do not take advantage of the capabilities and capabilities of their managers along with coherent consulting teams and do not act correctly in adopting financing policies, we should expect an increase in debt and a decrease in the available resources of the companies. The issue, along with other negative information, can have a destructive role for the value of the shares of active companies in the capital markets and will reduce the level of shareholder satisfaction and support for the shares of each company, which will have a negative role in the value of each share in the capital markets. had the main question of this article is that the ability and attitude of management has an effect on financial provision policy?

2. Theoretical foundations and research background

One of the important debates that is always challenged by the high-level managers of any organization is the choice of financing policies. Financing means the approach that the company tries to use to collect the resources needed to advance the pre-designed goals and activities. Managers with high ability and a positive attitude in the field of their individual ability and capabilities try to use a policy for their financing that brings the best efficiency for the organization [9]. Financing policies can be divided into three categories: financial leverage, debt maturity, and cash retention. Financial leverage can be defined as the amount of debt that is needed in order to finance the acquisition of profits. Debt maturity can be seen as one of the success indicators of the company that provides the basis for the sustainable growth of the company. The maturity of the debt indicates the period that the debt must be repaid, based on the maturity of the debt, the debt can be divided into two categories, long-term and short-term. The type of project can be very important in choosing the deadline. In relation to the third financing policy, we can refer to the issue of maintaining cash balances. This method is used when external financing is limited. Capable managers are less inclined to pay cash as dividends because these managers seek to invest in profitable projects [8]. According to different financing policies, it can be said that the ability and type of attitude or optimism of managers is very important in using these policies. Managers with high capabilities, with strong motivation and business skills, can undoubtedly be superior to other people in the field of choosing the right people and provide the basis for obtaining better results in projects and higher profitability, so it is expected Companies can gain higher value in competitive markets by increasing profitability in projects. When companies are better able to finance their activities, they will not face fluctuations in cash flows, which can play a positive role in advancing organizational goals. Mohammadi et al. (2019) studied the role of managers' overconfidence in financing policies and investment efficiency. The results showed that managers' overconfidence has a negative and significant effect on investment efficiency and a direct and significant relationship with overinvestment. Also, further investigations show that if company managers have access to internal financial resources, they will tend to invest more than

the limit, and in case of financing from sources outside the company, they will tend to invest less than the limit. Therefore, excessive self-confidence of managers as a personality trait is effective on their financing and investment decisions. Hamidian et al. Information and value of the company were paid. The results of the research hypotheses test showed that companies with capable managers have more financial leverage than overly optimistic managers. Also, companies with capable managers have less information asymmetry than companies with overly optimistic managers. In addition, the value of companies with capable managers is more than the value of companies with overly optimistic managers. Also, all the control variables except the company growth variable have a significant effect on financial leverage, information asymmetry, and company value. The main purpose of this research was to explain the role of management capability in financing companies. The time period of the investigated companies was from 2014 to 2019. The obtained results showed that if the management is capable, we can expect to improve financing policies. Lee et al. (2021) in research explained the role of management weakness in the selection of financing approaches in Taiwan. In this research, the main goal was to explain the role of management weakness in the selection of financing approaches. In this research, the researchers used Eaves software to analyze the data of the 10-year period under review. The results showed that weakness in financing systems leads to mistakes in financing approaches and increase in corporate debt. Sancho et al. (2020) in research explained the role of management capability in improving company value and developing organizational efficiency. The main purpose of this research was to find out the role of management capability in improving company value and developing organizational efficiency. In this research, the researchers used the data envelopment analysis approach to analyze their data. The obtained results have proved that management capability has a fruitful role on company value and organizational efficiency.

3. Research hypotheses

In terms of the purpose, the present research is an application that was carried out by multivariable regression method and using an econometric model. The statistical population of this research is the classified and audited financial data of manufacturing companies admitted to the Tehran Stock Exchange. The collected data was related to the time period between 2017 and 1400. The statistical sample of this research is those companies that have the following conditions:

- 1- They have been active in the stock market since the beginning of 2016 and remained in the stock market until 2021.
 - 2- The company should not have a trading break of more than 6 months between 2017 and 2021.
 - 3- In order to be able to compare, their financial year should end at the end of March.
 - 4- During the years of 2017 to 2021, they should not change the financial year.
 - 5- Do not belong to financial intermediary companies, including insurance institutions, banks, leasing, holding and investment companies.
 - 6- The information required by the companies should be available.
- In this way, the researcher had selected 120 companies and

business symbols in the stock market for data analysis.

3-1-Variables of research:

3-1-1-Management ability

The independent variable in this research is management ability, which is measured using the two-stage model of Demarjian et al. In order to measure the efficiency of the company, Demarjian et al. (2012) used the data envelopment analysis model (DEA Data Envelopment Analysis) have used. The data envelopment analysis model is a type of statistical model that is used to measure the performance of a system using input and output data, in the discussion of data envelopment analysis (DEA) regression model is sometimes used.

In the model used in this research, Authors have considered the income from sales as output and other variables, i.e. the price of goods sold - general, administrative and sales expenses - net property, machinery and equipment - and intangible assets as input. which largely cover management's right to choose the desired income. The efficiency measure is in the range between zero and one.

Model number 1:

$$Firm\ efficiency = \frac{Sales}{\beta_1 Cgs + \beta_2 Saexp + \beta_3 PPE + \beta_4 Intang}$$

Cgs \cong cost of goods

(It includes all the costs that are used to produce the products of a business, such as raw materials, wages, indirect materials, direct wages and other costs.)

Saexp \cong general, administrative and sales expenses

PPE \cong net property, plant and equipment

Intang \cong net intangible assets

(Intangible assets are assets that are not physical in nature, such as intellectual property, brands, ideas, and business methods.)

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The purpose of calculating the company's efficiency is to measure the management's ability, and since the calculations related to efficiency (model 1), the inherent characteristics of the company are also involved. Management ability cannot be measured correctly, because it is calculated more or less than the actual value due to these characteristics.

Demarjian et al. (2012) have divided the company's efficiency into two separate parts, i.e. efficiency based on the company's inherent characteristics and management ability, in order to control the effect of the company's inherent characteristics of the model they have presented. They have done this by controlling the specific characteristics of the company (company size, company market share, company cash flow, and the lifespan of the listed company). Each of these 4 variables that are inherent characteristics of the company. They can help management to make better decisions. Or

act in the opposite direction and limit management's ability. These 4 features are controlled in the following model .

$$Firm\ Efficiency = \beta_0 + \beta_1 SIZE + \beta_2 Market\ Share + \beta_3 AGE + \beta_4 Cash\ Flow + \varepsilon$$

where in:

Firm size: natural logarithm of total assets

Market share: The company's market share is equal to the ratio of the current year's sales to the total industry's sales this year

Cash Flow Indicator: Increase (decrease) in the operating cash flows of the company, which is equal to one if the operating cash flows are positive and zero if they are negative.

Company age: logarithm of the number of years the company has been a member of the stock exchange.

In this model, by measuring the efficiency of the company and then entering it in the multivariate linear regression as a dependent variable and controlling the inherent characteristics of the company, management ability is calculated. And the rest of the pattern (ε) Nair shows the level of management ability.

3-1-2-Management attitude

It is a virtual variable (Dummy Variable) that takes the value of one if the executive director of a company is overly optimistic, and zero otherwise. According to the research of Ishikawa and Takashi (2010), managers' overconfidence is measured as follows: the positive sign of managers' biased forecast indicates that managers had an optimistic bias.

Expected earnings per share – Actual earnings per share

Average share price in the second 6 months

Psychologists define an over-optimistic person as a person who believes that his information and knowledge are very accurate (more than what is true) [10-11].

3-1-3-Financial leverage

It is obtained from the ratio of liabilities to equity.

3-1-4-keeping cash

According to the research of Drobetz and colleagues (2010), it is equal to the ratio of cash value divided by the book value of total assets at the beginning of the period.

$$CASH_t = \frac{\text{Total cash}}{\text{Total assets at the beginning of the period}}$$

3-1-5- Debt maturity

According to the research of [12], the ratio of long-term debt to total debt is used as a representative of the debt maturity structure.

3-2- Control variables:

3-2-1- Size:

The natural logarithm of the total book value of company 'i' assets in year 't'

If we divide the amount of common equity of the company by the number of shares in the hands of the company, the resulting number will represent the book value of each share.

3-2-2- GROW_(i,t)=sales Growth:

Sales growth ratio compared to the previous year of company 'i' in year 't'

$$GROW = \frac{\text{Selling the current period} - \text{Last period sale}}{\text{Last period sale}}$$

3-2-3- LEV_(i,t)=Leverage:

Sum of the book value of liabilities divided by the book value of the company's assets. The book value of a company means the total value of the company's assets minus its debts, usually this value is expressed on a per share basis.

3-2-4- CF_(i,t)=Cash Flow:

Operating cash flow divided by the book value of the company's total assets. Operating cash flow is the cash created as a result of the company's normal operations after deducting operating expenses (such as long-term investment on capital items or spending to ensure the business, etc.) and a set of Adjustments are made on net profit.

3-2-5- TANG_(i,t)=Tangible Asset:

The ratio of tangible assets to the total assets of the company.

4. Research models:**4-1-First and fourth hypothesis test model:**

$$LEV_{i,t} = \alpha_0 + \alpha_1 MA_{i,t} + \alpha_2 CEO_{OC_{i,t}} + \alpha_3 SIZE_{i,t} + \alpha_4 GROW_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 CF_{i,t} + \alpha_7 TANG_{i,t} + \alpha_8 DIV_{i,t} + \varepsilon_{i,t}$$

According to the model, we have:

LEV_(i,t)≅Financial LEverage index

CEO_OC_(i,t)≅ Chief Executive Officer Obsessive Compulsive: Management attitude index

MA_(i,t)≅Management Ability index

4-2-The second and fifth hypothesis test model:

$$LT_{i,t} = \alpha_0 + \alpha_1 MA_{i,t} + \alpha_2 CEO_{OC_{i,t}} + \alpha_3 SIZE_{i,t} + \alpha_4 GROW_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 CF_{i,t} + \alpha_7 TANG_{i,t} + \alpha_8 DIV_{i,t} + \varepsilon_{i,t}$$

According to the model, we have:

LT_(i,t)≅liability tenor: Debt Maturity Index

MA_(i,t): Management ability index

4-3-The third and sixth hypothesis test model:

$$CASH_{i,t} = \alpha_0 + \alpha_1 MA_{i,t} + \alpha_2 CEO_{OC_{i,t}} + \alpha_3 SIZE_{i,t} + \alpha_4 GROW_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 CF_{i,t} + \alpha_7 TANG_{i,t} + \alpha_8 DIV_{i,t} + \varepsilon_{i,t}$$

According to the model, we have:

CASH_(i,t): Cash retention index

MA_(i,t): Management ability index

Since combined data are superior to cross-sectional or

time series models in terms of the number of observations, low probability of collinearity between variables, reduction of estimation bias and heterogeneity of variance, therefore, a multivariate regression model based on the combined data approach has been used to test the hypothesis.

5. Research findings:**5-1-The results of the first hypothesis test:**

The results related to the probability of the F statistic in Table 1 show that the model is significant in general and according to the value of 1.84 of Durbin-Watson's statistic, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during the research period for this hypothesis, 0.52 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there is a positive and significant relationship between the variables of management ability and the financial leverage of the company, it can also be said that the management ability has an impact on the financial leverage of the company.

Table 1- The results of the first hypothesis test

Statistical probability	Statistics of 't'	Coefficients	Variable
0.008	2.108	0.15	Management ability
0.016	2.404	0.007	Size of participation
0.028	2.197	0.027	Sales growth
0.019	2.345	0.47	Operating cash flow
0.000	-2.205	-0.025	Tangible assets
0.000	3.11	0.03	Payout ratio
0.000	4.29	0.18	Fixed variable
1.848	-	0.52	The coefficient of determination
0.007	-	0.51	Adjusted coefficient of determination

5-2-The results of the second hypothesis test:

The results related to the probability of F statistic in Table 2 show that the model is significant in general and considering the value of Durbin-Watson's statistic of 1.98, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during

the research period for this hypothesis, 0.67 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there was a positive and significant relationship between the management ability variables and the maturity of the company's debt. It can also be said that the management ability has an effect on the maturity of the company's debt.

Table 2 - The results of the second hypothesis test

Statistical probability	statistics of 't'	Coefficients	Variable
0.001	2.08	0.07	Management ability
0.024	2.26	0.003	Size of participation
0.000	2.11	0.065	Sales growth
0.000	2.67	0.017	Financial Leverage
0.000	3.21	0.504	Operating cash flow
0.171	-1.36	-0.012	Tangible assets
0.015	2.41	0.028	Payout ratio
0.006	-2.74	-0.049	Fixed variable
1.98	-	0.67	The coefficient of determination
0.000	-	0.66	Adjusted coefficient of determination

5-3-The results of the third hypothesis test:

The results related to the probability of F statistic in Table 3 show that the model is significant in general and considering the value of Durbin-Watson's statistic of 1.94, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during the research period for this hypothesis, 0.44 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there was a positive and significant relationship between the variables of the ability to manage and maintain the company's cash, and it can also be said that the ability to manage the company's cash is effective.

Table 3- The results of the third hypothesis test

Statistical probability	statistics of 't'	Coefficients	Variable
0.000	2.72	0.542	Management ability
0.002	2.45	0.035	Size of participation
0.24	1.15	0.006	Sales growth
0.000	-4.002	-0.113	Financial Leverage
0.009	2.051	0.304	Operating cash flow
0.016	2.41	0.023	Tangible assets
0.66	0.42	0.005	Payout ratio
0.04	2.008	0.039	Fixed variable
1.98	-	0.44	The coefficient of determination
0.000	-	0.43	Adjusted coefficient of determination

5-4-The results of the fourth hypothesis test:

The results related to the probability of the F statistic in Table 4 show that the model is generally significant and considering the value of Durbin-Watson's statistic of 1.77, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during the research period for this hypothesis, 0.62 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there is a positive and significant relationship between the management attitude variables and the company's financial leverage, and it can also be said that the management attitude is effective on the company's financial leverage.

Table 4 - The results of the fourth hypothesis test

Statistical probability	statistics of 't'	Coefficients	Variable
0.000	2.994	0.007	Management attitude
0.014	2.452	0.0077	Size of participation
0.026	2.221	0.028	Sales growth
0.018	2.356	0.475	Operating cash flow
0.214	-1.24	-0.026	Tangible assets
0.006	2.09	0.062	Payout ratio
0.000	4.93	0.198	Fixed variable
1.776	-	0.62	The coefficient of determination
0.008	-	0.61	Adjusted coefficient of determination

5-5-The results of the fifth hypothesis test:

The results related to the probability of the F statistic in Table 5 show that the model is generally significant and considering the 1.98 value of Durbin-Watson's statistic, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during the research period for this hypothesis, 0.76 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there was a positive and significant relationship between the management attitude variables and the company's debt maturity, and it can also be said that the management attitude has an impact on the company's financial performance.

Table 5 - The results of the fifth hypothesis test

<i>Statistical probability</i>	<i>statistics of 't'</i>	<i>Coefficients</i>	<i>Variable</i>
0.000	3.008	0.033	Management attitude
0.006	2.22	0.002	Size of participation
0.001	2.11	0.026	Sales growth
0.471	0.72	0.018	Operating cash flow
0.000	46.15	6.50	Tangible assets
0.159	-1.40	-0.01	Payout ratio
0.015	2.43	0.028	Fixed variable
0.005	2.77	0.047	The coefficient of determination
1.98	-	0.76	Adjusted coefficient of determination
0.000	-	0.75	Management attitude

5-6-The results of the sixth hypothesis test:

The results related to the probability of F statistic in Table 6 show that the model is significant in general and considering the value of Durbin-Watson's statistic of 1.93, there is no autocorrelation problem. In addition, the results related to the coefficient of determination show that during the research period for this hypothesis, 0.63 of the dependent variable changes were influenced by the independent and control variables of this test. According to the results of the above table, there is a positive and significant relationship between the management attitude variables and the maturity of the company's debt, and it can also be said that the management attitude has an impact on the company's cash reserves.

Table 6 - The results of the sixth hypothesis test

<i>Statistical probability</i>	<i>statistics of 't'</i>	<i>Coefficients</i>	<i>Variable</i>
0.003	3.04	0.069	Management attitude
0.000	3.43	0.012	Size of participation
0.23	1.18	0.006	Sales growth
0.000	-3.91	-0.110	Operating cash flow
0.009	2.01	0.031	Tangible assets
0.016	2.40	0.023	Payout ratio
0.008	2.37	0.064	Fixed variable
0.009	2.59	0.049	The coefficient of determination
1.93	-	0.63	Adjusted coefficient of determination
0.001	-	0.62	Management attitude

6. Conclusion and discussion:

One of the main reasons for the success of companies in various industries is the presence of capable and efficient managers in organizations. Due to the access to internal and confidential information of the company, top managers are expected to have a better understanding of their business, which is positive. They can make better estimates and judgments. In accounting theories, management ability is one of the dimensions of human capital of companies, which is classified as an intangible asset. Management ability is defined as the efficiency of managers compared to competitors in converting the company's resources into income. These sources of income generation in companies include the price of inventories, administrative and distribution costs, fixed assets, operating leases, research and development costs, and intangible assets of the company. A higher managerial ability can lead to the management of the company's daily operations and the improvement of financial reports, especially in critical periods of operations, when managerial decisions can have a significant impact on the company's performance. In addition, during periods when the company is facing a crisis, managers will have the ability to make more appropriate decisions regarding the provision of needed resources. More appropriate investment in valuable projects and efficient management of employees is also a characteristic of capable managers.

When the issue of companies' investment is raised, the issue of financing these investment projects is also raised. In perfect capital markets, it is expected that all companies have easy access to external sources for financing, and investment decisions are solely based on expected future profitability, and access to domestic capital has no effect. Do not make decisions. But in the real world, according to the mechanism of asymmetric information, the cost of financing using internal and external

sources is different, and in these environments, asymmetric information between the lender and the borrower affects the company's ability to obtain credit and therefore investment power. And their economic activity is effective. Historical information related to the flow of cash can help the users of financial statements in judging the amount, time and degree of assurance of the realization of future cash flows. The mentioned information shows the relationship between the profitability of the business unit and its ability to generate cash and thus determines the quality of the profit earned by the business unit. In addition, analysts and other users of financial information often formally or informally use models to evaluate and compare the present value of future cash flows of business entities. Historical information related to the flow of cash can be useful to control the accuracy of past evaluations and show the relationship between the business unit's activities and its receipts and payments. The information reflected in the cash flow of the current year alone is not enough to evaluate the future cash flows because some transactions may have been carried out using the cash flows of previous years and also some transactions may have occurred in the periods. The financial situation has occurred before and sometimes it is expected to lead to other cash flows in one of the future periods. In the evaluation models of business units, cash is used as a direct data and therefore its historical flows can be used. According to some, what has caused the importance of the relationship between investment and cash flow is the financial limitations that companies face. Investigating the effect of financial constraints and the factors that create this financial constraint on investment-cash flow sensitivity has been the subject of discussion in recent years, because it is expected that companies that have financial constraints, with a greater cost difference between capital internal and external issues face each other. And as a result, they should rely more on the internal cash flow for investment. Therefore, at the end, it is suggested that suitable and documented training programs in the field of information and data refinement be held for high-level managers so that managers can analyze data and information about the environment of the companies should act with a more appropriate view and try to create a think tank with managers and expert advisors in the field of financial policies in business companies, so that in this way, the field of collaboration and consensus among managers to improve their skills. Make decisions and increase knowledge about financing policies and their consequences. Also, in the field of financing policies in business companies, managers should be asked to explain the consequences of their decisions correctly, so that the cost and opportunity matrix is clear for all stakeholders. The community should be created to create communication, interaction and exchange of ideas and actions while having fun.

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