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Effects of Managers' Behavioral Bias on Decision Making and Financial Information Quality[1]

Nazanin Bashirimanesh[2], Zahra Hajizadeh[3], Saeed Ghobadi[4]

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Research Paper

Introduction

According to agency theory, owners delegate management and decision-making about their assets and rights to management. Therefore, decision making is the main essence of management and managers are faced with making decisions in various areas such as the level of investment, level of cash holding, dividend distribution and so on. Giving decision-making authority creates accountability for the manager. To fulfill this responsibility, managers are required to provide quality of financial statements that provide reliable and timely information to owners and other stakeholders. Given that the behavioral and personality characteristics of managers affect decision-making approaches and information quality, the purpose of this study is to investigate the effect of managers' behavioral biases on decision-making and information quality.

Methodology

The research sample included 161 companies listed on the Tehran Stock Exchange in the period 2011 to 2013. To test the hypotheses, multivariate regression method with combined data was used.

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2. Assistant Professor, Department of Accounting, Faculty of Management, Economic & Accounting, Payame Noor University, Tehran, Iran. (Corresponding Author). (bashirimanesh@gmail.com).

3. M.Sc. Student in Accounting, Payame Noor University, Tehran, Iran. (zahra.hadjizadeh@gmail.com).

4. M.Sc. Student in Accounting, Payame Noor University, Tehran, Iran. (saeidghobadi44@gmail.com).

Results and Discussion

The results show that managers' overconfidence reduces the level of reliability of financial information and timely presentation of information. Managers' narcissism also reduces the reliability of financial statements and reduces delays in submitting financial statements. Because Myopia managers, see their position and demand for points in the short term, manipulate accounting profits and reduce the reliability of financial information, but this behavioral feature does not affect the timely presentation of information. The findings also showed that managers' overconfidence has a positive and significant relationship with the level of cash holdings and excessive investment. Managers' narcissism also leads to an increase in the level of cash holdings, but does not have a significant effect on over-investment. Managers' short-sightedness also has a significant negative effect on investment expenditures, but has no effect on the level of cash holdings.

Conclusion

Based on the research findings, the behavioral characteristics of managers have a significant effect on the quality of accounting information and decision-making approach of managers. Therefore, to Managers and officials of the Tehran Stock Exchange are also advised to adopt more practical and supervisory strategies to improve the quality of financial reporting in companies to reduce the incentives of managers to hide or manipulate financial information in reports.

Keyword: Managers' Behavioral Bias, Reliability, Timely, Cash Holding, Investment.

JEL Classification: M41, G32