

Investigating the Mediating Role of Excessive Overconfidence on the Effect of Personality Traits of Senior Managers on the Financial Distress of Companies Listed on the Tehran Stock Exchange

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ARTICLE INF	ABSTRACT
Received: 2020-09-26 Accepted: 2021-01-18	The purpose of this research is to investigate the mediating role of senior managers' overconfidence in the extent to which their personality traits affect companies' financial distress. The statistical sample studied in this paper is 181 senior managers of companies listed on the Tehran Stock Exchange in 2018, using the following questionnaires: Neo five-factor model (McCrae and Costa, 1985), Rosenberg overconfidence (1965), and the designed checklist of financial distress and structural equation modeling method, PLS software were tested. The results showed that the personality dimensions of extraversion, openness to experience and agreeableness with indirect path coefficients of 0.23, 0.073 and 0.101, respectively, through the mediating variable of Overconfidence had a positive effect on firms' financial distress, but the characteristics of conscientious personality and neuroticism had no effect on financial distress through the mediating variable of overconfidence. The variable of overconfidence has a positive direct effect on financial distress and directly explains more than 45% of the changes of the variable of financial distress.
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1. Introduction

Corporate financial distress has always been one of the main concerns of creditors, investors and governments, so that early detection of companies that are on the verge of financial distress can to some extent prevent potential losses to stakeholders (Mashayekhi & Ganji, 2014). Determining the exact cause or causes of bankruptcy and financial problems is not an easy task. In most cases, multiple causes together lead to the phenomenon of bankruptcy. However, these factors can be classified into two general groups of intra-organizational and extra-organizational reasons (Bruno and Lei Decker, 2008). Inefficient management and lack of management are among the most important reasons within the organization of this phenomenon (Newton, 1998). Studies conducted by personality models have often highlighted the role of personality as one of the most important determinants in job performance, success and productivity (Alizadeh, 2007). According to Taylor and Brown (1998), "overconfidence is an effective factor in increasing performance, but if people are overconfident in their capabilities, it will lead to judgmental biases." Therefore, identifying the factors affecting companies' financial distress, including: personality traits of senior managers (including: neuroticism, extroversion, openness to experience, adaptability and conscientiousness) and their overconfidence, factors that greatly influence companies' financial decisions and performance, is one of the most important issues in predicting and preventing financial distress and corporate bankruptcy, which has been addressed in the present study.

2. Hypotheses

The purpose of this study was to investigate the mediating role of overconfidence on the effect of personality traits of senior managers on corporate financial distress. Accordingly, research hypotheses are formulated as follows.

H1: The personality factor of neuroticism indirectly has a negative effect on corporate financial distress through the intermediate variable of overconfidence of senior managers.

H2: The personality factor of extroversion indirectly has a positive effect on the financial distress of companies through the intermediate variable of overconfidence of senior managers.

H3: The personality factor of openness to experience indirectly has a positive effect on corporate financial distress through the intermediate

variable of overconfidence of senior managers.

H4: The personality factor of adaptation indirectly has a positive effect on corporate financial distress through the intermediate variable of overconfidence of senior managers.

H5: The conscientious personality factor indirectly has a negative effect on corporate financial distress through the intermediate variable of overconfidence of senior managers.

H6: Overconfidence of senior managers has a positive effect on companies' financial distress.

3. Method

To examine the subject of the research, the required data through the financial statements of companies listed on the Tehran Stock Exchange and standard questionnaires of Five factors of neo personality (McCrae and Costa (1985), overconfidence (Rosenberg, 1965) and designed checklist of financial distress were collected. Structural equation modeling method, Smart PLS2 software was used to analyze the data. The statistical sample studied in this study includes 181 senior managers of manufacturing companies listed on the Tehran Stock Exchange in 1397 who were selected by purposive removal method.

4. Results

The results of testing the hypotheses showed that some personality traits of senior managers indirectly affect the financial distress of companies through the mediating variable of overconfidence, in such a way that:

The test results of the first and fifth hypotheses indicated that personality traits of neuroticism and conscientious did not have an indirect effect on managers' financial distress through overconfidence of managers.

The test results of the second, third and fourth hypotheses showed that the personality dimensions of extraversion, openness to experience and adaptability with indirect path coefficient of 0.23, 0.073, 0.101, respectively, indirectly through the mediating variable of overconfidence have a positive effect on companies' financial distress.

The result of the sixth hypothesis, showed that the variable of overconfidence with a positive effect on financial distress, directly explains more than 45% of the changes of the variable of financial distress.

5. Discussion and Conclusion

Findings showed that the three personality dimensions of extraversion, openness to experience and adaptability of senior managers indirectly through the variable of overconfidence have a positive effect on the financial distress of companies and two personality dimensions of neuroticism and conscientiousness indirectly through the intermediate variable of overconfidence had no effect on the financial distress of companies. Therefore, considering the strategic decisions of senior managers in the success and failure of companies, which can be affected by the personality traits and their overconfidence behavioral bias, and also requires the responsibility of managers to be accountable to the company's stakeholders, shareholders and the appointing committee of senior managers of companies, when selecting senior managers, consider the personality traits and behavioral bias of their managers' overconfidence as two factors affecting the company's performance. From the perspective of this study, are individuals with conscientious personality traits, the best range of personality and the option of appointment to hold managerial positions at various organizational levels, especially senior managers.

Keywords: overconfidence, corporate financial distress, Personality traits.