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Managerial Optimism in Financial Disclosure; Prospects for Operational Efficiency and Market Reaction

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1. Introduction

Managerial personal behavior and character play an important role in reporting and information communication. The company's business and financial performance also reflects, to some extent, the managerial subjective opinions and beliefs, as well as the managers' beliefs. Therefore, the manager's personality and expectations are considered important behavioral factors that affect future operational performance and trigger market reactions (Wang et al., 2024). Also, considering the key and significant role of capital markets in the macroeconomics of countries and due to the presence of inexperienced and unprofessional shareholders and managers in it, it seems necessary to analyze the impact of management emotions on financial disclosure in the form of operational efficiency and market reaction. Although the characteristics and behavior of management can affect operational efficiency and resource allocation and profoundly affect the performance and development of the company, the role of managerial optimism has not been fully investigated with empirical analysis. Therefore, this study has created an index of managerial optimism to examine the relationship between this variable and operational efficiency and market reaction. Understanding this relationship can help investors, analysts, and researchers better identify tensions and asymmetries in the financial market and, as a result, make better decisions.

2. Hypotheses

The first three hypotheses of this study to measure the impact of managerial optimism on operational efficiency are stated as follows:

Hypothesis 1: Managerial optimism has a significant effect on companies' sales productivity.

Hypothesis 2: Managerial optimism has a significant effect on companies' ROA.

Hypothesis 3: Managerial optimism has a significant effect on companies' growth opportunities.

The second three hypotheses of this study to measure the impact of managerial optimism on market reaction are stated as follows:

Hypothesis 4: Managerial optimism has a significant effect on companies' stock returns.

Hypothesis 5: Managerial optimism has a significant effect on companies' systematic risk.

Hypothesis 6: Managerial optimism has a significant effect on companies' stock returns volatility.

3. Methods

The present study is applied in terms of purpose. The statistical population in this study includes all companies listed on the Tehran Stock Exchange from the beginning of 2014 to the end of 2023. Sampling was carried out by systematic elimination method. By applying some conditions to the statistical population, 149 companies (1490 year-company) were selected as a statistical sample. The documentary method was used to collect model data. Finally, statistical tests were performed using the statistical software Eviews version 13. The research variables are as follows: The independent variable of the study is managerial optimism, which was measured following the research of Wang et al. (2024). The dependent variables of the study include operational efficiency and market response, whereby the company's operational efficiency was measured through three indicators of sales productivity, return on assets and growth opportunities; the market response variable was calculated using three indicators of stock returns, systematic risk and stock return volatility. The control variables of this study include company size, financial leverage, operating income growth, operating cash flow, market value to book value ratio, and company age.

4. Results

The results of the hypothesis test showed that managerial optimism has a negative and significant effect on sales productivity, return on assets of companies, and systematic risk. Managerial optimism also has a positive and significant effect on growth opportunities and stock returns of companies. According to the results of the hypothesis test, it can be stated that managerial optimism has a significant effect on the operational efficiency of companies and on the market reaction of companies.

5. Discussion and Conclusion

The findings show that managers who use more positive emotions in management commentary are optimistic about the company's current and future performance and, as a result of this optimism, invest optimistically in projects and assets. Also, managerial optimism about the company's current and future performance is reflected by the market in the stock price and causes growth opportunities and returns on the company's stock price to increase. On the other hand, considering the negative relationship between managerial optimism and the systematic risk of companies, it can be concluded that capital market actors react to the qualitative information of annual financial reports, and stock prices move based on the company's specific financial and non-financial information, and as a result, systematic risk is reduced.

Keywords: Managerial optimism, operational efficiency, market reaction.