

THE EFFECT OF MANAGERIAL OVERCONFIDENCE ON CORPORATE FINANCING DECISION

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Abstract

The objective of this research is to examine the effect of managerial overconfidence on corporate financing decision of the miscellaneous industry sector in Indonesian Stock Exchange for the period of 2011-2015. This research uses quantitative perspective with linier regression in a panel data for all of the research's observation. Fixed effect models (FEM) is employed to examine the effect of managerial overconfidence on corporate financing decision. CEO personal characteristics such as profile photo, education, experience, gender, tenure, and age are used as the proxy of managerial overconfidence. The result of this research indicate that: first, CEO overconfidence has positive significant effect on corporate financing decision; second, CEO profile photo has negative significant effect on leverage; third, CEO education has no significant effect on leverage; fourth, CEO experience has positive significant effect on leverage; fifth, male CEO tend to use more debt than female CEO which means gender has positive significant effect on leverage; sixth, CEO tenure has positive significant effect on leverage; seventh CEO age has negative significant effect on leverage.

Keywords: Managerial overconfidence, Corporate financing decision, CEO personal characteristics, Leverage

Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh managerial over confidence terhadap keputusan pendanaan perusahaan pada sector aneka industri di Bursa Efek Indonesia periode 2011-2015. Penelitian ini menggunakan pendekatan regresi linier dalam bentuk data panel untuk keseluruhan data observasi. Model fixed effect (FEM) digunakan untuk menguji pengaruh managerial over confidence terhadap keputusan pendanaan perusahaan. Karakteristik pribadi CEO seperti foto profil, pendidikan, pengalaman, jenis kelamin, tenure, dan usia digunakan sebagai proxy dari managerial overconfidence. Hasil dari penelitian ini menunjukkan: pertama, managerial over confidence memiliki pengaruh positif terhadap keputusan pendanaan perusahaan; kedua, foto profil CEO memiliki pengaruh negative signifikan terhadap leverage; ketiga, pendidikan CEO tidak memiliki pengaruh terhadap leverage; keempat, pengalaman CEO memiliki pengaruh positif signifikan terhadap leverage; kelima, CEO pria akan lebih banyak menggunakan utang daripada CEO wanita, artinya jenis kelamin memiliki pengaruh positif signifikan terhadap leverage; keenam, tenure CEO memiliki pengaruh positif signifikan terhadap leverage; ketujuh, usia CEO memiliki pengaruh negative terhadap leverage.

Kata kunci: Managerial overconfidence, Keputusan pendanaan perusahaan, Karakteristik pribadi CEO, Leverage

JEL Classification: M14

1. Research Background

Determinant factor in company financing decision always become important issue which is interesting to learn because the decision that is going to be chosen can bring the consequences for company risk and return. Generally, the research that exist supports capital structure theory as in Trade-off Theory (Miller, 1977), Pecking Order Theory (Myers and Majluf, 1984), and Agency Theory (Jensen and Meckling, 1976) in determining company capital decision. The capital structure theory seeing that the decision makers are rational. But psychological research revealed that decision makers are not fully rational and oftenly show cognitive biases (Weinstein, 1980; Alicke & Klotz, 1985). One of the biases is overconfidence.

Upper Echelon Theory (UET) stated that managerial background or characteristic affecting organizational result, option planned and performance level (Hambrick and Mason, 1984). This theory further stated that the more complicated a decision the more important personal characteristic of the decision maker such as age, tenure, and specialization. UET emphasize that leaders that are limited by rationality will make decision based on cognitive, social, and physiological characteristic sides.

Ting *et al.*, (2016) conducted a research about the influence of managerial overconfidence on company financing decision on all companies that listed in Malaysia Stock Exchange during the 2002-2011 periode. This research also tested moderation effect of government ownership on connection between managerial overconfidence and company financing decision. Ting *et al.*, (2016) used CEO personal characteristics such as education, job experience, and professional skill as measurement of managerial overconfidence. The research result shows that managerial overconfidence has negative effect on company financing decision, meanwhile educational level has positive effect on company financing decision, beside that the moderation effect on company with high concentrate of government ownership (more or less than 50%) will reduce the negative effect of managerial overconfidence on company financing decision. This research is supported by some other researchers such as Fairchild (2009) who found the negative connection between overconfidence and debt level in business. Wei *et al.*, (2011) who stated that company with overconfidence will have a smaller debt because the overconfidence manager will estimate the profit too high and underestimate the existed risk so that creditor will refuse to give loans when the company has low credit ratings.

This research is limited on discussion about the influence of managerial overconfidence (profile photo, education, experience, gender, tenure, and age) on company financing decision (leverage) in miscellaneous industrial sector because the leverage average in miscellaneous industrial sector is the highest compare to another sector in Indonesia Capital Market during the conducted research periode.

1.1 Literature Review

1.1.1 Behavior Finance Theory

Traditional financial theories used in financing decision taking commonly opposite with rationality assumption. Variety of research which are conducted in last couple decades show that there is anomaly in capital market that have conflict with traditional financial theories. This thing show that human is not fully rational.

Kahneman (2012) stated that factor that also considered in decision taking process is also varying. Sometimes decision can be made without thinking for so long and also some decisions can be made after considering a lot of factors. Because of that, behaviour finance starts to grow in order to complete the traditional finance inability to explain the anomaly.

According to Ricciardi and Simon (2000) "Behavioral finance attempts to explain and increase understanding of the reasoning patterns of investors, including the emotional processes involved and the degree to which they influence the decision-making process".

Behavioural finance is a discipline that inherent many kinds of disciplines interaction inside of it (interdisciplinary) and continually integrates so that in there can be no more isolation

within the discussion. Behavioural finance built by a lot of assumptions and idea of economical attitude. Emotional involvement, character, favourite and many kinds of things that cling to human as intellectual and social creature will underlie the occurrence of decision of taking action.

1.1.2 Upper Echelons Theory

Upper echelons firstly introduced by Hambrick and Mason (1984). This theory considers top management concept as the primary strategic decision maker within the organization. Strategic decision that made by top management has direct effect on result achieved by the company.

Upper echelons theory stated that managerial background or characteristic affect organization result, option planned and performance level (Hambrick and Mason, 1984). Based on the theory explained, organization strategic result and the process are the function of managerial characteristic of top manager. This theory further explained that the more complicated a decision, the more important individual characteristics of the decision maker such as age, tenure, and specialization.

Chuang *et al.*, (2009) contended that decision maker behaviour and specialization components such as cognitive base and value preference can produce a lot of strategic options. In the other words, upper echelons theory admits that the different top manager characteristic such as age or job experience are able to affect decisions on strategy and structure and directly will affect strategic options and organization performance.

1.1.3 Overconfidence

Thaversky and Kahneman (1974) stated that there are three factors in human behaviour that conflict with assumptions that base classics economical model in decision taking. This phenom mentioned as cognitive illusions because it is related to perception that oftenly causes error. One of the three factors are overconfidence.

Lichtenstein and Fischhoff (1997) stated that overconfidence phenomenon is the tendency of decision taking in order to give over rating to obtained knowledge and information accuracy and also ignore available public information. Meanwhile Shefrin (2002) defined overconfidence as bias that related to how confident an individual in understanding the capability and limit of knowledge.

The cause of overconfidence is the excessive confidence in terms of obtained information can be put to good use because having the accurate and precise analysis skill, but this thing actually a knowledge and skill illution because of some reasons such as the lack of experience and limit of information interpretation skill.

Shefrin (2007) then divided overconfidence bias in two groups which are: (1) overconfidence about ability, and (2) overonfidence about knowledge. An individual that is too confident of the skills usually thinks that he or she is better than the actual truth. Meanwhile an individual that is too confident about the knowledge level will think that he or she knows more than what he or she actually knows.

Investor with overconfidence bias will set aside information that obtained caused by becoming too confident to the personal belief. The excessive confidence causes investor estimates too high on obtained knowledge and too low on risk; also overstate the skills in doing control of what happens.

1.1.3 Narcissism Concept

Ellis (1898) introduced narcissism concept for psychological literature, took the picture of a young man in Greek myth, Narcissus, he which fell in love with his own reflection in the pool and finally die as the result of his excitement. This concept has big effect in Freud (1957) idea which finally identified man manifest and narcissism including selflove, self-admiration, and self-aggrandizement).

In the effort to build narcissism concept as personality dimention, psychologists have developed psychometric scale to rate narcissism. Raskin and Hall (1979) which is sparked

Narcissistic Personality Inventory (NPI) is taking the most attention. In NPI factor analysis, Emons (1984) identified four factors which are: (1) leadership / authority; (2) superiority / arrogance; (3) self-absorption/self-admiration; (4) exploitativeness / entitlement.

As personality characteristic, narcissism has two sides which are cognitive and motivation. In cognitive side, narcissus represents the individual belief on superior quality within themselves. Narcissus considered himself as more superior compare to another person. Narcissus really believes in their ability that they have. Narcissus considered themselves better than general people in quality such as intelligent, creativity, competence, and leadership ability (John and Robins, 1994; Farwell and Wohlwend-Lloyd, 1998).

In motivational side, narcissism needs recognition on superiority that owned by someone. That thing can be performed in form of confirmation, applause, and flattery (Wallace and Baumeister, 2002)

At the same time, narcissus is oftenly seen as unique personality and interpersonally skilled (Chatterjee and Hambrick, 2007). Confidence oftenly causes other people follow narcissus so that narcissus will try to promote them and look for situation where narcissus can dominate (Hogan *et al.*, 1990).

Takne from Chatterjee (2009) dissertation about narcissus stated that there are four key characteristics that build narcissism concept. One of the four characteristics is interpersonal dominance orientation.

Domination concept has been learned in literature from some diciplines. From interactional perspective, domination is stated on its connection to another response that comes from another (Burgoon and Dillman, 1995). Kelleey and Thibaut (1978) stated that domination is the process of social trade, and individual that depends on its mate has less power in a relationship.

Domination can be divided through verbal communication (Burgoon *et al.*, 1998) and non-verbal (Harper, 1985). Verbal indicator is related to vocal control (Lamb, 1981), loudness measured by amplitude, tone measured by frequency, speaking time amount (Burgoon and Hoobler, 2002), interruption (Karawosky *et al.*, 2009), conversation level or amount of words that used in meeting, message length (Dunbar and Burgoon, 2005). Meanwhile non-verbal indicator can be easily found on face. Non-verbal behaviour indicator can be seen in face through some factors such as expressive, visual domination ratio, sight, and emotion, also through the body like body control, posture, and movement.

1.1.4 Profile Photo

According to Berger (1972), what appears visually will be caught, recognized, and accepted faster from something appears verbally. Human way to see a subject is affected by what they know and believe.

In individual photo or portrait, individual as an actor performs certain pose. Individual character and personality can be drawn through pose beside face expression.

Personality came from persona which mean mask. Personality is mask that represents an individual to the world, and photography catches this personality mask. Elements on profile photo which represents individual personality includes (a) background that gives the image of atmosphere and condition surrounding the individual; (b) appearance which consist of physical appearance and face expression; and (c) body language which becomes nonverbal communication element and sending certain message. Beside that, attributes which are exist in individual also ave important meaning such as: (a) hairstyle which gives certain impression and image; (b) glasses which give individual lifestyle meaning; (c) fashion style which submits information about an individual; and (g) attribute such as bag which supports impression that is formed by an individual.

1.1.5 Education

According to ENcyclopedia Americana, education is a process that is used by an individual in order to acquire knowledge or insight, or developing attitude and skill.

Pardoen (1992) stated that one of the forms of Human Capital is education. Someone that well educated will be more rational in thinking and act also understand task and responsibility that given to them so that they can do their task and responsibility well.

According to Richmond (2001) someone with competence usually has high morale personality and has the ability to make ethical decision. The higher education they take, whether formal or non-formal in accordance with field of work, the higher intellectual experience that they have. This intellectual experience will make work activities easier.

Bernardin and Russel (1993) stated that someone who is more educated will be more participates in decision making.

1.1.6 Experience

Experience is a process of learning and potential development of conducts oneself, whether from formal or no-formal education or can be defined as a process that brings someone to a higher behaviour pattern. A learning also covers a relatively proper change form attitude which caused by experience, understanding, and practice. (Knoers&Haditono, 1999).

According to Robbins experience can be obtained directly through practice or can be indirectly such as reading. Job experience also gives a pretty big contribution on someone's ability to handle the job, especially for complicated work and needs special skills. Beside that, past performance is the best basic estimation of future performance.

1.1.7 Gender

According to WHO (World Health Organization), gender is defined as sets of roles, attitudes, activities, and attributes which is considered as worthy for boys and girls which is socially constructed within a society. Lips (1993) defined gender as cultural hopes for boys and girls. For instance: girls are identical with tender, beauty, emotional, and motherhood. Meanwhile men considered as strong, rational, masculine, and mighty.

Human resource structure diversification which is related to race and gender is oftenly seen as important thing in order to maximize company's human resources (Siciliano, 1996). Variety is needed in order to be able to optimize and improve company innovation.

Gender and gender's role are two different concepts, gender is biological term whereas someone is seen as man or woman depends on the organs and sex. Meanwhile according to Basow (1992), gender's role is psychological and cultural term, defined as subjective feeling of someone about maleness or femaleness.

By this concept, Bem (1974) then developed measurement tools called as Bem Sex Role Inventory (BSRI). This test tool is consisted of 60 adjectives, 20 of them are adjectives that show masculine characteristics, another 20-show feminine and the rest of them show characteristics that are not suitable with gender's role but hoped by the society to be owned by each individual. Through BSRI, individual classified in terms of one ownership from four types of gender's role orientation which are: masculine, feminine, androgynous, and undifferentiated. Masculine is a characteristic that is believed to be formed by culture as the ideal characteristic for man, meanwhile feminine is a characteristic which is believed and formed by culture as the ideal characteristic for woman.

Tabel 1. The Masculine and Feminine BSRI Items

Masculine	Feminine
Act as a leader	Affectionate
Aggressive	Cheerful
Ambitious	Childlike
Analytical	Compassionate
Assertive	Does not use harsh language
Athletic	Eager to soothe hurt feelings
Competitive	Feminine
Defends own beliefs	Flatterable
Dominant	Gentle
Forceful	Gullible
Has leadership abilities	Loves children
Independent	Loyal
Individualistics	Sensitive to the needs of others
Make decision easily	Shy
Masculine	Soft spoken
Self-reliant	Sympathetic
Self-sufficient	Tender
Strong personality	Understanding
Willing to take a stand	Warm
Willing to take risks	Yielding

(Source: BEM, 1974)

1.1.8 Tenure

Tenure has 3 interpretations, but the one that is relevant for this topic is the one that represent the means of periode of certain position that held by an individual. In this term is how long a CEO has been in the position.

1.1.9 Age

Chaniago (2002) in Nursalam (2003) stated that age is the length of life which is counted since birth up to present. Age determined by counting the years.

According to Hurlock (1998) the more age, maturity, and strength someone will be more mature in think and work. From the society trust side, someone more grow up will be more trusted from someone who has not reach full maturity. This thing can be seen from experience and maturity. Besidethat, Suryabudhi (2003) stated that the more someone living their life, the more experiences, more knowledge, deeper skills, and more wisdom in terms of taking decision.

1.2 Influence of Managerial Overconfidence on Company Financing Decision

Previous study has proven that managerial irrational decision brings significant effect on company financing decision. Wei *et al.*, (2011) stated that the over confident manager can exaggerate investment projects profitability and underestimate related risk. Company with over confident manager will have a lower debt because creditors refuse to give loan when the company is having high liquidity risk.

Abdullah (2004) in Ting *et al.*, (2016) stated that creditors can refuse to give loan when company is having a low credit rate. Low credit rate happens because bankers believe that company exaggerates investment project.

Because of that creditors can refuse to give loans when manager is over confident and underestimate risk so that the credit becomes low. Ting *et al.*, (2006) research also discussed about the effect of managerial overconfidence on financing decision, it finds that managerial overconfidence has negative effect on financing decision. Therefore, it can be said that managerial overconfidence has negative effect on company financing decision

H₁: Managerial overconfidencehas negative effect on company financing decision

1.3 Influence of Profile Photo on Company Financing Decision

Chatterjee and Hambrick (2007) shows that CEO has significant influence on the role within yearly report based on discussion with three communication specialists.

Company yearly report gives opportunity for CEO to reports the progress of the company and future prospect but also to show themselves as the leader of the company. Eventhough CEO photo is a standard feature from yearly report, but CEO photo characteristic is not universal. Chatterjee and Hambrick (2007) held a discussion with three communication specialists (two executives Communication Company and external communication consultant) and it is said that CEO is very attentive on the contents and report design of yearly report, beside that CEO has his or her own opinion and control of how CEO wants to be shown.

CEO is very confident of getting many visibilities in yearly report, whether as arrogance and strong declaration means that he or she is way more important than all the people in the company. Visual domination within the yearly report indicates that CEO has tendency to be narcissist. Narcissist has one of the sides of narcissism which is cognitive that represents the belief of an individual towards the superior quality within her or himself. Narcissist of CEO will exaggerate his or her ability in terms of controlling something that happens. Narcissit CEO believes that she or he can create a high profitability so that company does not need any loan because internal funds is already enough to fund company operational activities. Therefore, it can be said that profile photo has negative effect on leverage.

H_{1a}: Profile photo has negative effect on leverage.

1.4 Influence of Education on Company Financing Decision

According to UET (upper echelon theory), CEO education reflected within organizational (Orens and Reheul, 2013). Based on the theory, CEO with high education is more open for new ideas, change and investment chance (Barker and Mueller, 2002).

Rakhmayil and Yuce (2008) also stated that a higher level of education has positive effect on company finance. Lichtenstein and Fischeof (1977) believe that the higher education, the higher confident in making decision. CEO with MBA considered more aggressive so that the leverage lever is higher (Bertrand and Schoar, 2003). This effect can affect whether personal or company debt. Therefore, it is canbe said that education has positive effect on leverage.

H_{1b}: Education has positive effect on leverage.

1.5 Influence of Experience on Company Financing Decisison

Further UET (upper echelon theory) explains that managerial decision taking also affected by previous leader experience. Patzelt *et al.*, (2008) stated that previous experience. Patzelt *et al.*, (2008) stated that previous experience increase the CEO's knowledge and help CEO to identify chance.

Next Fischer and Pollock (2004) stated that previous CEO's experiences will increase company efficiency and life survival level. In other words, top manager skills and background can bring significant effect for company strategy and decision making.

Chein (1983) explained that leader usually will bring previous experience to the new company. When leader has more experinces, leader can gather information from many kinds of aspects and be more careful to take deicision. Therefore, it can be said that experience has negative effect on leverage.

H_{1c}: Experience has negative effect on leverage.

1.6 Influence of Gender on Company Financing Decision

Gender is another primary variable to draw CEO characteristics. Organizational theory usually show that man is more confident compare to woman (Ting *et al.*, 2016)

Abor and Biekpe (2007) stated that business that runs by woman uses less loan for many kinds of reasons, including discrimination and bigger risk avoidment. This result is in accordance with Facio *et al.*, (2012) which found that company that runs by woman CEO has

lower leverage, less stable earnings, and higher chance to survive compare to company that runs by man CEO.

Meanwhile Kusumatuti *et al.*, (2007) showed that woman has higher careful attitude, tend to avoid risk, and more precise than man. This side of woman is the one that makes woman not in a hurry in taking decision. For that, with the existence of woman in board of directors it is said to be more helpful in taking a more proper and lower risk decision. Therefore, it can be said that gender has positive effect on leverage (man CEO uses more loan compare to woman CEO)

H_{1d}: Gender has positive effect on leverage.

1.7 Influence of Tenure on Company Financing Decision

Tenure is important attribute to draw CEO characteristics because tenure reflects CEO experience and influencing risk avoidance level. Berger *et al.*, (1997) stated that CEO with longer tenure tends to avoid risk. This research result shows that if a CEO has a longer period in the company the CEO probably will be more conservative and tend not to use debt a lot. This result is then supported by founding of Bertr and and Schoar (2003). Therefore, it can be said that tenure has negative effect on leverage

H_{1e}: Tenure has negative effect on leverage.

1.8 Influence of Age on Company Financing Decision

Based on UET, older CEO is more risk averse and less aggressive from young CEO (Hambick and Mason 1984). Because of that, CEO will choose internal funding rather external funding. Bertrand and Mullainathan (2003) explained that older CEO has influence on board of directors but less aggressive in taking financial policy because of the lack of skill. Serfling (2012) also stated that company with younger CEO will invest more and has larger growth chance. Therefore, it can be said that age has negative effect on leverage.

H_{1f}: Age has negative effect on leverage.

1.9 Research Model

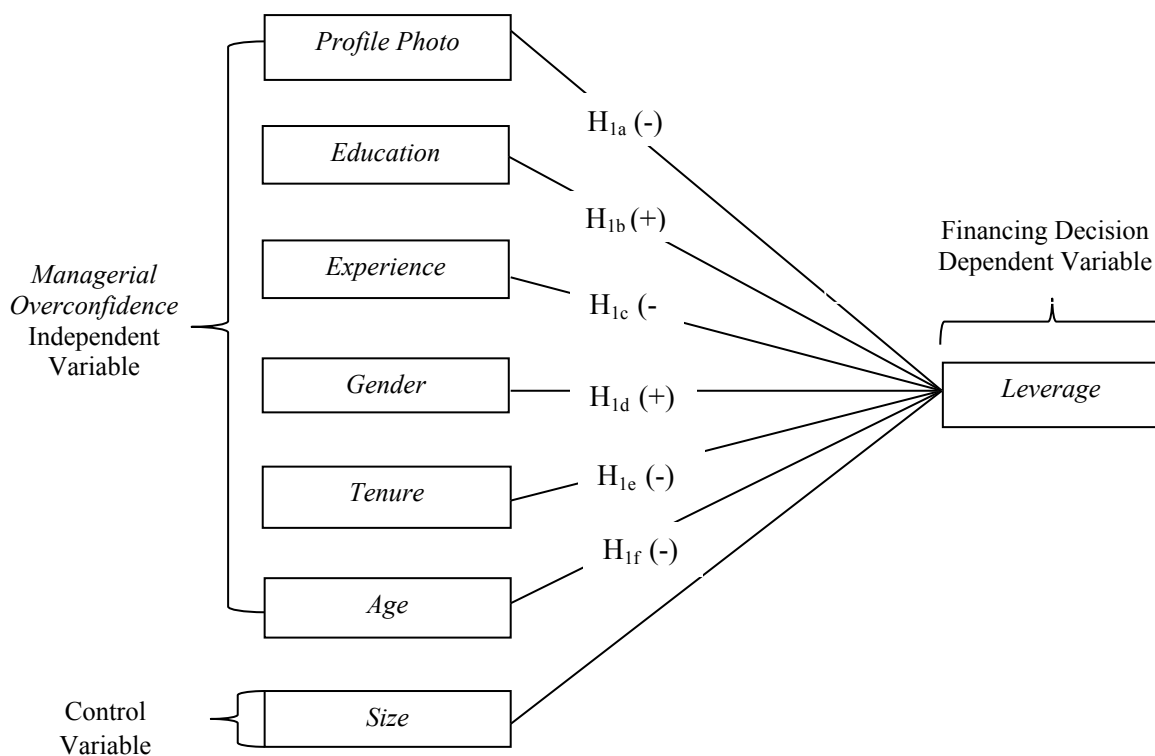


Figure 1. Research Model

2. Research Method

This research is included into basic research which is a research for developing previous research that has been conducted before. Based on the purpose, this research is included into causal research because this research conducted in order to test independent variable effect (profile photo, education, experience, gender, tenure, and age) on company dependent variable (leverage) on miscellaneous industry sector that registered in Indonesian Stock Exchange during 2011-2015 periode. Based on the approach, this research is quantitative which involves a lot of certain times (time series) with a lot of factors (cross section) or so-called data panel. Data used is company secondary data which is got from company yearly report and financial report in miscellaneous industry sector that registered in Indonesian Stock Exchange during 2011-2015 periode. Level of measurement used in this research is ordinal level, nominal level, and ratio level. Data collection procedure used is as follows:

1. Establish the necessary data in accordance with the variables measured in this research;
2. Look for the secondary data from the data provider's site (www.idx.com);
3. Processing the raw data obtained in accordance with the needs analysis;
4. Tabulating data into Microsoft Excel.

This research uses using multiple linear regression data processing to test influence of managerial overconfidence on company financing decision.

3. Result and Discussion

The regression equation in Table 1 shows the leverage as dependent variable, meanwhile profile photo (PP), education (EDU), experience (EPR), gender (GEN), tenure (TNR), age (AGE) as independent variable.

Tabel 1 Regretion Test Result

Dependent Variable: Leverage				
Independent Variable	Coefficient	t-Statistic	Prob.	Result
C	3,003173	13,10561	0,0000***	
PP	-0,202544	-18,53000	0,0000***	Negative
EDU	-0,008833	-0,650376	0,5164	Insignificant Negative
EPR	0,350096	23,70932	0,0000***	Positive
GEN	0,448967	11,71588	0,0000***	Positive
TNR	0,007591	7,011699	0,0000***	Positive
AGE	-0,007379	-4,085793	0,0001***	Negative
Control Variable				
SIZE	-0,072989	-8,608156	0,0000***	Negative
R-squared	0,142736	Mean dependent var		0,687104
Adjusted R-squared	0,084883	S.D Dependent var		0,697111
S.E. of regression	0,666869	Durbin-Watson stat		0,523455
F-statistics	2,467248			
Prob (F-statistics)	0,00690			

Information: *: significance on 10%; **: significance on 5%; ***: significance on 1%

Leverage= 3,003173 + (-0,202544).PP + (-0,008833). EDU + 0,350096.EPR + 0,448967.GEN+ 0,007591.TNR + (-0,007379).AGE + (-0,072989).SIZE +e.

This equation has a constant value of 3.003173. This shows that the average value of leverage would be equal to a constant value if the independent variables assumed to be zero.

Profile photo variable has a value of regression coefficient of -0.202544. This value indicates there is a negative influence between the profile photo variable changes to leverage

changes. This means that if there is an increase or decrease of 1 unit of profile photo variable, then leverage variables will move in opposite directions by 0.202544 assuming other variables remains the same. These results are supported by research of Ting *et al.*, (2016) who found significant negative results. According to Chatterjee and Hambrick (2007) which held discussions with the three communication specialists, it is known that the CEO has no control over how the CEO himself wants to be described in the company's annual report. Profile pictures depict how much visual dominance shown by the CEO. Visual dominance closely related to narcissism in which the narcissist regards himself able to generate sufficient profits to fund its operations, consequently narcissist CEOs are more confident to use internal funding than external funding which is debt.

Education variable has a value of regression coefficient of -0.008833. This value indicates there is a negative influence between education variables change with the change of leverage. This means that if there is an increase or decrease of 1 unit of education variable, then the leverage variable will move in opposite directions by 0.008833 assuming other variables remain the same. Education variable has negative but insignificant effect on leverage. These results are supported by research Custódio and Metzger (2014) who found that education has no effect on leverage. According to Hribar and Yang (2016) in Wang *et al.*, (2016), managerial overconfidence does not only depend on the personal characteristics of CEOs but also the external environment. CEO decision to use debt or not, can be influenced by external factors such as the condition of the economy at that time. Rashid (2014) suggested that during the country's economy is uncertain; companies tend to reduce the leverage ratio for the company will be more careful against the risk of bankruptcy.

Experience variable has a regression coefficient of 0.350096. This value indicates that there is a positive influence between the variables change with the change of leverage experience. This means that if there is an increase or decrease of 1 unit of variable experience, the leverage variable will increase or decrease by 0.350096 assuming other variables remain the same. These results are supported by the research result of Custódio and Metzger (2014) and Rakhmayil and Yuce (2008) found that the experience has a significant positive effect on leverage. In accordance with the upper echelon theory, managerial decision making is also influenced by the experience of the previous leader. CEO with a lot of experience has a broad perspective in looking at various strategic issues and opportunities so that the CEO became an increasingly confident and more courageous in taking risks.

Gender variable has a value of regression coefficient of 0.448967. This value indicates that there is a positive influence between gender variables change with the change of leverage. This means that if there is an increase or decrease of 1 unit of gender variable, then the variable leverage will increase or decrease by 0.448967 assuming other variables remains the same. These results are supported by research and BiekpeAbor (2007) and Faccio *et al.*, (2012) who found that gender has a significant positive effect on leverage. Men CEO will be more use of the debt due to gender roles does more identical on masculine traits in which men are more confident, more aggressive, more competitive, and would rather speculate than women. By contrast, women have very high carefulness, tend to avoid risk, and more thoroughly than men. This side of women what makes them do not rush into making a decision. Women avoid using debt to various reasons including risk aversion.

Tenure variable has a coefficient of 0.007591. This value indicates that there is a positive influence between the tenure variable changes with leverage change. This means that if there is an increase or decrease of 1 unit of tenure variable, then the leverage variable will increase or decrease by 0.007591 assuming other variables remains the same. These results are supported by the results Ting *et al.*, (2015) who found that tenure has a significant positive effect on leverage. Tenure significant positive effect on leverage shows that along with the increase in tenure, CEOs are becoming more confident and will take more challenges in its financing decisions.

Age variable has a coefficient of -0.007379. This value indicates that there is a negative influence between age variables change with the change of leverage. This means that if there is an increase or decrease of 1 unit of variable age, then the variable will move in opposite leverage by 0.007379 assuming other variables remain the same. These results are supported by research Ting *et al.*, (2015) who found that the age variable has a significant negative effect on leverage. Based on the upper echelon theory, the older CEO is more risk averse and less aggressive than the young CEO. Older CEO tends to avoid all risk measures because it is constrained by ability. Older CEO may be at a point in life where financial security and career security is more important. Risky actions that may interfere generally be avoided.

Size variable has a coefficient of -0.072989. This value indicates that there is a negative effect of changes in variable size with leverage change. This means that if there is an increase or decrease of 1 unit of variable size, then the leverage variable will move in opposite directions by 0.072989 assuming other variables remain the same. These results are supported by research of Ezeoha (2008) who find that size has a significant negative effect on leverage. In accordance with the pecking order theory which states that companies prefer internal financing (retained earnings and depreciation) rather than external funding (debt and equity), companies that are larger in size will be relatively stable in generating profits so much cash flow that makes that can be exploited as a source of internal funds. If internal resources are not able to meet the funding needs, the company will choose the order of debt financing with the most secure, high-risk debt, convertible securities, preferred stock and lastly, common stock.

Regression test results illustrate there are three independent variables that have a significant positive effect, two independent variables that have a significant negative effect, and 1 independent variables were not significant. These results indicate that the majority of the independent variables tested had a positive effect and significant on leverage so it can be concluded that managerial overconfidence has a positive effect on company financing decisions. These results are supported by research Almeida *et al.*, (2005), Malmendier and Tate (2005), Abor (2007) and Wang *et al.*, (2013). Overconfident CEO will overestimate the future cash flows generated by the company. CEOs are confident to see that after all the interest payments to creditors, the company remains profitable and in the end, all the tax benefits can be realized. Therefore, CEOs are confident it will use more debt because overconfident CEOs tend to overestimate the tax benefits. On the other hand, excessive expectations about the future cash flows will make overconfident CEOs underestimate their risk of default.

The coefficient of determination (R^2) indicates a value of 0.084883. This value indicates that the independent variable (profile photo, education, experience, gender, tenure, and age) can explain the dependent variable (leverage) amounted to 8.4883% while the rest 91.5117% is explained by other variables that are not included in this research.

4. Conclusion

Based on the results of hypothesis testing using the F test with software EvIEWS8, obtained statistical calculation results which show that $F_{count} = 2.467248$ with a probability of $0.006990 < 0.05$. This means that the profile photo, education, experience, gender, tenure, and age variables together have a significant effect on leverage.

Based on the results of hypothesis testing with T test, has obtained results that experience, gender, and tenure variable have significant positive effect on leverage. Profile photo, age, and size variables have significant negative effect on leverage. Education variable has significant negative effect on leverage.

Based on the results of multiple linear regression tests, there are three independent variables that have a significant positive effect, two independent variables that have a significant negative effect, and 1 independent variable were not significant. These results indicate that the majority of the independent variables tested had a positive effect and significant leverage so that

it can be concluded that managerial overconfidence have a positive effect on company financing decisions. It is noted that managerial overconfidence has positive effect on corporate financing decisions.

The value of adjusted-R2 of 8.4883%, which indicates that independent variables (profile photo, education, experience, gender, tenure, and age) in this study could well explain the dependent variable which is the leverage the company in miscellaneous industry sectors registered in Indonesia Stock Exchange 2011-2015 period. Meanwhile the rest 91.5117% is explained by other variables that are not used in this study.

This study can be reference for investors, especially for investors who have a tendency to be risk averse to be caution against overconfidence bias because CEOs are confident there will be more use of debt to fund its operations. The use of the huge debt will increase interest expenses borne by the company, so it can reduce the profitability of the company. In addition, the use of excessive debt will increase leverage ratios where companies with high leverage will be at risk of financial failure (financial distress).

For companies in the miscellaneous industry sectors, it needs to look at the comparison between the costs and benefits incurred before deciding to use debt as a source of external funding. The proportion of use should be tailored to the company's ability to pay in order to avoid a default that would lead to financial distress in the future.

This study can be recommended for further research. This study has limitations, namely the short study period, the size of managerial overconfidence that only focuses on the characteristics of the CEO, and only examines the miscellaneous industry sectors only. For further research, it is expected to examine the other sectors with a longer study period, and adds another measure of managerial overconfidence that has not been investigated in this study as CEO compensation.

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