Managerial Overconfidence and Accounting Information System Quality: Evidence from Iraqi Banks

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Abstract: This study investigates the impact of managerial overconfidence on the quality of accounting information systems, with a focus on financial reporting quality in the banking sector. Using panel data from ten banks listed on the Iraq Stock Exchange over the period 2010–2023, the study employs regression analysis to examine the relationship between managerial behavioral bias and earnings quality indicators. Managerial overconfidence is proxied by asset growth and sales growth, while accounting information quality is assessed through accruals quality and earnings persistence. The empirical results reveal a statistically significant negative effect of managerial overconfidence on accruals quality, indicating a higher likelihood of earnings management practices. However, no significant relationship is found between managerial overconfidence and earnings persistence. These findings highlight the importance of addressing behavioral biases in managerial decision-making, as they can undermine the reliability of accounting information systems. The study contributes to the literature by providing evidence from an emerging market context and offers practical implications for improving financial reporting quality and governance mechanisms in banking institutions.

1 INTRODUCTION

The business field has shown a growing interest in the concept of managerial overconfidence, which refers to the overconfidence that managers in positions of authority have in their abilities and judgment. One specific aspect that warrants close scrutiny is the impact of overconfidence on corporate profitability. Overconfidence, as a psychological bias, can significantly affect decision-making and financial reporting processes within organizations. Earnings quality, on the other hand, is a critical measure of a firm's financial performance and is often scrutinized by investors, analysts, and regulators. Earnings are important in shareholders' evaluation of the performance of executives, and lenders rely on earnings to make their decisions. Herein lies the need for earnings to be of high quality and reflect the real performance of the firm [1]. The study [2] found that overconfidence in management is an important factor in achieving higher predictable profitability and thus positively affects it. A study by Kunjal et al. [3] presented that Managerial bullishness negatively affects the value of the firm. Therefore, confident managers may take on risky projects and make bold decisions that can lead to innovation and development of products and services and thus generate higher earnings. Confident managers may be more likely to engage in earning management practices, which may jeopardize the sustainability of earnings and, therefore, have negative effects on stakeholders. The quality of dues, which is another aspect of the earnings quality, indicates the firm's ability to collect dues in a timely manner. Companies with high confidence in management may be more optimistic about the ability to collect their dues and be less inclined to write off bad debts or take appropriate allocations for doubtful accounts, thus leading to inflating accounts receivable balances, reducing the quality of dues and distorting the real financial situation of the firm. This study aims to explore the relationship between management's overconfidence and earnings quality, with a particular focus on earning persistence and the quality of Accruals. Therefore, this objective can provide insights into how administrative decisions affect the performance of companies and reporting practices.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Managerial Overconfidence

Decision-making bullishness refers to the tendency of bosses to be overly hopeful about future cash flows, planned asset returns, or the ability to overwhelm current problems facing the firm [4]. Indah Seminar & Djakman [5] reported that managerial optimism might cause a distorted investment policy in response to either underinvestment or overinvestment. According to [6], companies often tend to release positive financial reports in order to get a positive response from the market, especially when these companies show high levels of management confidence. Schrand & Zechman [7] argue that arrogant CEOs are more likely to publish data covering intentional errors once their actual presentation cannot meet their prospects. Arrogant CEOs are also inclined to issue additional debt, misjudging the value of corporate asset projects.

Demirkan et al., [8] was found. Companies run by overconfident CEOs demonstrate diverse performance and generate anomalous returns depending on the company's life cycle. Chouaibi & Chiekh [9] stressed that companies should hire self-confident managers since they tend to deliver fewer conservative monetary reports, which would improve the future success of the secure. Chen et al. stated that the overconfidence of the CEO of the firm has positive effects on the level of cash holdings and the value of cash. Another study found that the increase in earnings management occurs because high-strength CEOs are overconfident. CEOs who overinvest in the future do so because of a cognitive bias based on past performance [10]; according to a study [11], CEOs who are overconfident are more likely to have a favorable relationship with R&D and will not take measures to lower R&D spending even if sales fall. The CEO's social physiognomies, like overconfidence, have a significant impact on decisions about the company's policies, like financing and dividends [12]. As a result, overconfident managers exhibit a bias in self-attribution, giving themselves a lot of credit for success while attributing failure to bad luck.

2.2 Earnings Quality

The concept of accounting earnings quality varies according to the objectives of financial statement users. The existence of atypical features in declared payments is thought to diminish the quality of secretarial earnings. Some believe that payments are of good quality if they are made slowly and disclosed in accordance with established accounting principles. Creditors consider earnings to be of good quality if they can be transformed into cash flows [13], [14]. It is also a decisive factor in the irregularity of info, which enhances the development of the monetary marketplace. The possibility of achieving expected growth in earnings in the future is what determines the earnings quality [15]-[17].

The reliability of earnings is a qualitative feature of accounting earnings that depends on accounting data. Investor's use earning persistence as a measure to assess the earnings persistence ability of the firm and cash flow [18]. The more a firm is able to maintain present earnings, the more developed the excellence of the firm's pay [19]. The accruals element is considered less stable. The subjective nature of the accrual element reflects the role of the personal judgment of managers in the calculation of earnings. Managers estimate earnings based on their sympathy with present and future financial conditions and the financial setting of the unit, in which case the stated earnings are pretentious by the managers' ruling and approximations [20].

2.3 Relationship between Managerial Overconfidence and Earnings Quality

The agency theory considers that the relationship between the principal and the agent is a contractual relationship, and this theory is based on the agent's duty to represent and care for the welfare of the main, as the firm is seen as a number of relatives between organization, owners, labors, and stockholders [21], [22]. When evaluating the uncertainties of the future, leaders are susceptible to biases, such as overconfidence bias [23]. CEO overconfidence adversely impacts earnings quality [24]. This conclusion corroborates the assumptions of behavioral finance theory and indicates that CEO optimism is a social bias that affects profit quality [25]. Overconfident executives tend to engage in unearning able mergers and acquisitions due to their overconfidence in future returns [26]. The earnings of companies with overconfident managers are lower than those of companies with moderate managers [27]. A study by Suk et al. showed that increased earnings persistence enhances the sensitivity of the decision to terminate the CEO to earnings performance, which means that boards are more inclined to dismiss the CEO who achieves poor

performance in companies with high earnings persistence. management confidence is linked to the concept of earnings persistence, as it may lead to ill-considered decisions by executives, which affects the firm's performance [28]. There is a negative relationship between the CEO's overconfidence and the improvement in the accuracy of forecasts. This improvement is more prominent when looking at a longer period of time between the date of issuance of management forecasts and the end of the fiscal year, as these results can be broadly generalized with regard to corporate earnings forecasts [29]. Overconfident CEOs tend to issue overly optimistic expectations, which increases the likelihood that these expectations will not be met, which in turn may affect the firm's performance and earnings [30], [31]. The studies of [32], [33], and [34] indicate that arrogant CEOs tend to achieve real earnings through sales manipulation and discretionary expenditure budget cuts rather than managing accrued earnings in order to attain certain targets. Another study specifies that an arrogant CEO does not influence an organization's real earnings [35]. [36] indicated that bullishness in the CEO is definitely related to making management. As for the education of [37], it showed that decision-making bullishness leads to decisions that are integrally reproduced in the work of the secretarial system. After studying the above findings, we formulated the following main hypothesis: H1: Managerial overconfidence has a significant impact on the accrual's quality. H2: Managerial overconfidence has a significant impact on earnings persistence.

3 METHODOLOGIES

3.1 Identifying the Study Population and Sample

The field of study represented the investment sector due to its rank in native economies. A random sample of 10 banks was selected, representing 21.7% of the study population of 46 banks. The study period extended to 14 years from 2010 to 2023, so that the number of views covered by the current study was 140 (bank/year).

3.2 Measurement of Study Variables

The independent variable (Managerial Overconfidence), symbolized by (X), [3], [8], [10], [12], [24], is measured based on the studies according to the following equation:

$$SG_{it=}\beta_0 + \beta_1 * AG_{it} + \varepsilon_{it}\,. \quad (1)$$

Where:

- SGit expresses the sales growth at the end of the monetary retro of the firm I;
- AGit expresses the growth of assets at the end of the financial period t of the firm I;
- εit stands for random error.

Sales growth and asset growth are arrived at by the following equations:

$$SG_{it} = \frac{(S_{it}-S_{it-1})}{S_{it-1}}, \quad (2)$$

$$AG_{it} = \frac{(TA_{it} - TA_{it-1})}{TA_{it-1}}. \quad (3)$$

Sit value of sales at the end of the monetary period is for the firm I, Sit-1 value of sales at the end of the financial period it-1 of the firm I, TAit value of the assets at the end of the financial period it for the firm I, TAit-1 value of the assets at the end of the financial period it-1 for the firm i. The dependent variable (earnings quality) is symbolized by (Y). The methodology for measuring the earnings quality depends on two measures:

The first measure: the quality of Accruals: It is symbolized by (Y1) the quality of Accruals as one of the measures adopted on the basis of accounting, and the level of earning quality is judged according to the estimation of the value of absolute Nondiscretionary Accruals as shown in the following steps:

Step 1: Determine the total Accruals: The total Accruals are calculated using the following equation:

$$TA_{i,t} = NI_{i,t} - CFO_{i,t}. \quad (4)$$

Where:

- $TA_{i,t}$The total Accruals of the firm (i) in the year (t),
- $NI_{i,t}$Net income of the firm (i) in the year (t),
- $CFO_{i,t}$Cash flow from the Firm's operations (i) in the year (t).

Total Accruals characterize the difference between net income and money flows from functioning operations and the upsurge in net profits over cash flows from functioning operations earnings that the documented income surpasses the cash conventional, that is, the upsurge in Accruals, which might be a form of making management, but if the net revenue is less than money flows from operating processes, the result is bad, and this means that the secure follows conservative policies and here are no Accruals in this circumstance.

$$\frac{\mathrm{TA_{i,t}}}{\mathrm{A_{i,t-1}}} = \alpha + \beta_1 + \beta_2 + \beta_3 \left(\frac{\mathrm{PPE_{i,t}}}{\mathrm{A_{i,t-1}}}\right) + \beta_{4ROA_{it}} + \varepsilon_{\mathrm{i,t}}. \quad (5)$$

Step 2: Calculate Tilt Values for Businesses: The calculation of Nondiscretionary Accruals requires the estimation of the following slope values for the regression equation:$\mathrm{TA_{i,t}}$Total benefits in year t for firm i divided by $\mathrm{A_{i,t-1}}$. $\mathrm{A_{i,t-1}}$Total assets for the previous year. $\Delta\mathrm{REV_{i,t}}$Revenues in the year t minus revenues in the year t-1for the firm i. $\Delta\mathrm{REC_{i,t}}$Net debtors in year t minus net debtors in year t-1 represent the firm i. $\mathrm{PPE_{i,t}}$fixed assets for the current year. $\mathrm{ROA_{it}}$Return on assets. $\varepsilon_{\mathrm{it}}$Fault for duration t of firm i.

Step 3: Estimation of Nondiscretionary Accruals: To estimate Nondiscretionary Accruals, the technique necessitates adjusting the inclination values in the subsequent equation:

$$NDA_t = \beta_1 \left(\frac{1}{A_{t-1}}\right) + \beta 2(\Delta REV_t - \Delta REC_t) + \beta 3(PPE_{it}) + \beta 4(\mathrm{ROA_{it}}) + \varepsilon_{\mathrm{it}}. \quad (6)$$

Step 4: Discretionary Accruals are determined as: Total Accruals = discretionary Accruals + Nondiscretionary Accruals

$$TA_{i,t}^{i} = \mathrm{NDA}_{i,t} + \mathrm{DAC}_{i,t}. \quad (7)$$

Where as:

- $\mathrm{TA_{i,t}^{i}}$The total Accruals of the firm (i) in the year (t);
- $\mathrm{NDA_{i,t}}$Nondiscretionary Accruals to the firm (i) in the year (t);
- $\mathrm{DAC_{i,t}}$Discretionary Accruals of the firm (i) in the year (t).

Through this equation, discretionary Accruals are reached in absolute value as follows: Discretionary Accruals = Total Accruals – Nondiscretionary Accruals.

Since the above measure is to measure the management of earnings, it is multiplied by (-1) to indicate the increase in value (decrease in negativity) on the increase in the Accruals quality (earnings quality), while the decrease in value (increase in negative value) on the decrease in the quality of Accruals (earnings quality). The second measure, earning persistence (Y2), will be based on the model in measuring earnings persistence, and the following is the regression equation used to measure this model:

$$\frac{\mathrm{Earnings}_{\,i,t}}{\mathrm{TotalAsset}_{\,\mathrm{i,t-1}}} = \alpha + \beta_1 \frac{\mathrm{Earnings}_{\,\mathrm{i,t-1}}}{\mathrm{TotalAsset}_{\,\mathrm{i,t-1}}} + \varepsilon_{i,t}. \quad (8)$$

Where:

- i is the facility;
- t represents the year;
- $\mathrm{Earnings}_{\,\mathrm{i,t}}$Net income of the establishment before strange items in the present year, divided by total assets in the year t-1;
- $\mathrm{Earnings}_{\,\mathrm{i,t-1}}$ The net income of the establishment beforehand the strange items in the preceding year divided by the entire assets in the day t-1;
- α+ β1 are the coefficients of the regression model. The closer the value of the coefficients is to one or greater, the more it indicates earnings persistence. Conversely, the closer the value is to zero, it indicates that these earnings do not have persistence;
- εi,t is the estimated error in year t.

4 RESULTS AND ANALYTICS

4.1 Descriptive Analysis of Variables

Table 1 presents the average values of the study variables - managerial overconfidence (X), accruals quality (Y1), and earnings persistence (Y2) - for each bank over the 14-year study period.

Table 1: Availability levels of study variables according to each bank.

#	Bank	X	Y1	Y2
1	Business Bay	.048	-0.051	0.742
2	Commercial Iraq	.074	.053	-.231
3	Al-Sharq Al-Awsat	0.025	145	774
4	Bank of Baghdad	0.102	0,099	1.620
5	Iraqi Islamic	.364	-131	0.246
6	Mosul for Development	071	163	0.608
7	Iraqi Credit	0.027	.067	.699
8	SOMER	0.000	-0.100	-.023
9	Union Bank	1.190	197	0.521
10	Iraqi Investment	1.001	– 0.063	0.698

The results indicate that managerial overconfidence is present in most sampled banks. Union Bank recorded the highest level (X = 1.190), while the lowest level was observed in Iraqi Credit Bank (X ≈ 0.027), indicating relatively low overconfidence.

With respect to earnings quality, significant variation is observed across banks. For accruals quality (Y1), Business Bay Bank shows the most favorable value, whereas Union Bank exhibits the weakest performance. In terms of earnings persistence (Y2), Bank of Baghdad reports the highest level (1.620), indicating stronger

sustainability of earnings, while Commercial Iraq Bank records the lowest value (−0.231), reflecting weak persistence.

Table 2 provides descriptive statistics for the full sample. The mean value of managerial overconfidence is 0.285, suggesting a moderate level of overconfidence overall. However, the wide dispersion between minimum and maximum values, along with a high coefficient of variation (247%), indicates substantial heterogeneity across observations.

For earnings quality, the mean value of accruals quality is negative (−0.107), indicating generally low quality. Earnings persistence has a mean of 0.565, which is below the benchmark value of 1, suggesting weak persistence across the sample. The relatively high standard deviations and coefficients of variation (above 50%) confirm significant variability and limited consistency in earnings quality measures.

Table 2: Description of the study variables.

Variable	Code	mean	Std.	Lowe	High	variation
Managerial overconfid.	X	0.285	0.706	-0.065	.938	247%
Accrual's quality	Y1	-0,10	0.104	631	0.000	97.3%
Earnings persistence	Y2	.565	0.482	-.231	1.620	85 (3rd)

4.2 Normality Test

To examine the distribution of the data, skewness and kurtosis coefficients were calculated. A variable is considered approximately normally distributed if skewness falls within the range of −1 to +1 and kurtosis within −3 to +3.

As shown in Table 3, all variables fall within these acceptable thresholds. Therefore, the data can be considered approximately normally distributed, supporting the use of parametric statistical techniques in the subsequent analysis.

Table 3: Torsion coefficient and kurtosis coefficient.

Variable	Code	Skewness coefficient	Kurtosis coefficient
Managerial overconfidence	X	0.442	2.130
Accrual's quality	Y1	-105	2.157
Earnings persistence	Y2	0.411	0.383

4.3 Hypothesis Testing

4.3.1 Effect of Managerial Overconfidence on Accruals Quality (H1)

The regression results reported in Table 4 indicate that the model is statistically significant ($F = 4.539$, $p < 0.05$). The t-statistic (-2.130, $p < 0.05$) confirms a significant negative relationship between managerial overconfidence and accruals quality. The estimated regression coefficient ($\beta = -0.026$) suggests that higher levels of managerial overconfidence are associated with a decline in accruals quality. However, the explanatory power of the model is relatively low ($R^2 = 0.032$), indicating that managerial overconfidence explains only 3.2% of the variation in accruals quality. Therefore, H1 is supported.

4.3.2 Effect of Managerial Overconfidence on Earnings Persistence (H2)

The results in Table 5 show that the regression model is not statistically significant ($F = 0.008$, $p > 0.05$). In addition, the t-statistic (0.091, $p > 0.05$) indicates that managerial overconfidence does not have a significant effect on earnings persistence. Accordingly, H2 is not supported.

Table 4: Results of the impact of managerial overconfidence in the accruals quality.

Variable	(R^2)	Adjusted (R^2)	F	Sig.
	0.032	0.025	4.539	0.035
	(β0) constant	(β) coefficient	T	Sig.
Managerial Overconfidence	-0.099	-0.026	-2.130	0.035

Table 5: Results of the impact of management overconfidence on the earnings persistence.

Variable	(R^2)	Adjusted (R^2)	F	Sig.
	0.000	-0.007	0.008	0.927
	(β0) constant	(β) coefficient	T	Sig.
Managerial Overconfidence	0.564	0.005	0.091	0.927

5 CONCLUSIONS

This study investigates the effect of managerial overconfidence on earnings quality, measured through accruals quality and earnings persistence, using data from banks listed on the Iraq Stock Exchange over the period 2010–2023. The empirical results indicate that managerial overconfidence has a significant negative effect on accruals quality, thereby supporting the first hypothesis. This suggests that higher levels of managerial overconfidence are associated with increased earnings management behavior, potentially through greater use of discretionary accruals, which in turn reduces accruals quality and overall earnings reliability. As a result, the credibility of reported financial information declines, which may negatively affect users' decision-making processes.

In contrast, the findings show no statistically significant relationship between managerial overconfidence and earnings persistence. Accordingly, the second hypothesis is not supported.

Overall, the study highlights the importance of improving accruals quality in financial reporting, as stronger accounting quality can limit managerial discretion and reduce earnings manipulation practices. This enhances the reliability of reported earnings and increases users' confidence in financial statements for decision-making purposes. Finally, future research is encouraged to further explore the economic consequences of managerial behavioral biases and earnings quality across different sectors and institutional contexts, as well as to consider alternative measures and proxies for earnings quality.

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