The University of Tehran Press

Interdisciplinary Journal of Management Studies (IJMS)
Home Page: https://ijms.ut.ac.ir

Online ISSN: 2981-0795

The Effect of Business Strategy on Financial Reporting Quality of the Companies by Considering Managerial Overconfidence

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ARTICLE INFO

Article type:
Research Article

Article History:
Received 27 May 2023
Revised 24 September 2023
Accepted 07 January 2024
Published Online 18 September 2024

Keywords:
Business Strategy,
Financial Reporting Quality,
Overconfidence,
Operating Policies.

ABSTRACT

The present study aims to investigate the impact of companies' business strategies on financial reporting quality taking into account the effect of managers' overconfidence. The data of 140 companies listed on the Tehran Stock Exchange for ten years, from 2013 to 2022, were collected based on the systematic deletion model, and hypotheses were tested using multivariate linear regression. The results revealed the type of strategy chosen by companies significantly affects the quality of financial reporting. Companies that pursue aggressive strategies demonstrate better financial reporting quality compared with defensive companies, which aligns with previous research results. Bermpei (2021) showed that companies' operating policies significantly impact financial reporting. The results also revealed that managerial overconfidence has a significant adverse effect on financial reporting quality; it reduces the significant impact of business strategy on the quality of financial reporting. In companies with overconfident managers, the significant impact of business strategy on the financial reporting quality is decreased. The findings provide valuable insight into the importance of selecting an appropriate business strategy for enhancing companies' financial reporting quality, which should be considered by professional authorities to strengthen the quality of financial reporting.

Cite this article: Rostami, V.; Mohammadi, M.; Mehravar, M. & & Kargar, H. (2024). The Effect of Business Strategy on Financial Reporting Quality of the Companies by Considering Managerial Overconfidence. *Interdisciplinary Journal of Management Studies* (*IJMS*), 17 (4), 1031-1041. DOI: http//doi.org/10.22059/ijms.2024.358492.675812

Publisher: University of Tehran Press.
DOI: http//doi.org/10.22059/ijms.2024.358492.675812

1. Introduction

Today, professional accounting authorities are primarily concerned with the information asymmetry between producers and users of accounting information. This leads to poor decisions by uninformed investors comparing with informed investors, which allows for abnormal returns to be earned. In order to prevent the deepening of this information asymmetry and market failure, professional accounting authorities put a heavy responsibility on the accounting system to provide relevant and reliable information for capital markets to assist investors and creditors. They have also made great efforts to improve the quality of accounting information. Accordingly, several studies have been conducted to identify factors affecting financial reporting quality. On the other hand, it seems that companies' financial and operational policies as well as the personality traits of the board also affect the financial reporting quality. Despite the large number of studies available on financial reporting quality, relatively limited research in this field has been conducted to identify the impact of the above factors on financial reporting quality, especially in developing countries.

Relying on examining the impact of companies' chosen business strategies on financial reporting quality and considering the role of management overconfidence, as well as the research gap in this field, conducting the present study is worthwhile and its findings provide a pathway to enhance the financial reporting quality. Furthermore, it enriches accounting and financial literature and expands scientific and executive solutions. Thus, achieving high-quality financial reporting provides the basis for reducing information asymmetry between participants in capital markets and leads to the optimal functioning of capital markets.

2. Literature Review and Theoretical Principles

The financial reporting quality is defined as the usefulness of accounting information and the reported earnings figures for external users. It is also characterized by the accuracy of financial statements in expressing information about the company's operations, especially expected cash flows, to report to investors. However, there is no clear framework or definition of the financial reporting quality that is comprehensive and generally accepted by professional accounting authorities (McDaneil et al., 2002).

The Financial Accounting Standards Board states in Conceptual Statement No. 2 that quality should be defined in terms of the overall objectives of financial reporting, namely the provision of useful information to users for investment decisions, accreditation and the like (Conceptual Statement No. 2). The financial disclosure quality has always been of interest to present and potential investors. Following the Blue Ribbon Committee's proposal in 1991 to assess the quality of accounting principles used in preparing financial statements, the American Society of Certified Public Accountants sought to provide a clear definition of quality in 2000. They defined quality as an objective criterion used to help uniformly evaluate the accounting principles used in preparing the financial statements of a business unit (Rahmani, 2012). Numerous factors affect the quality of financial disclosures. According to Dechow and Daychow (2002), one of the main factors affecting financial reporting quality is accruals quality; the higher the accruals quality, the better the financial reporting quality. Thus, measuring accruals quality indicates the financial reporting quality. According to this view, accruals improve the information value of earnings by reducing the effect of volatile fluctuations in cash flows. Accruals are also estimates of cash flows and future earnings. Numerous research studies have been conducted to identify the factors affecting the financial disclosure quality or the effect of improving the financial reporting quality on the optimal performance of capital markets.

Mousavi shiri et al. (2018) indicated that audit risk in family companies is lower than in their non-family equivalents. Similarly, the findings indicated lower audit fees paid by family firms compared to non-family ones. The authors also found that auditors put more effort into family firms; thus, audit effort is more significant for these firms. Golmohammadi Shuraki et al. (2021) found a negative association between accounting comparability and financial reporting quality. The authors also documented a reverse relationship between financial reporting quality and audit opinions. The outcomes suggest that greater accounting comparability and financial reporting quality increase auditors' tendency to provide unqualified audit opinions. For instance, Verdi (2006) examined the relationship between financial reporting quality and investment outcome and found that the financial reporting quality index is named based on the accruals quality and has a relationship with investment, increasing the financial disclosure quality. Chen et al. (2010) showed that the highest degree of

accounting quality was observed after adopting standards for International Financial Reporting (Barth et al., 2009). Salehi and shirazi (2016) indicated that the number of AC meetings during the fiscal year had a reverse relationship with corporate disclosure quality. In contrast, AC expertise and size are positively associated with the quality of a firm's finances. Arianpoor and Sahoor (2022) found a direct and vital impact on financial reporting quality. Moreover, the annual report's readability influences financial disclosure quality only at the high level of the differentiation strategy.

Buschman and Smith (2001) argued that financial accounting information plays a regulatory role as an essential source of company-specific information. Thus, if financial reporting quality moderates agency problems, it can improve investment efficiency by increasing the capacity of shareholders to oversee managers and then improve project selection and reduce funding charges. Salehi et al. (2016) found a significant relationship between administrative, sale, material, labor and overhead costs and the financial reporting quality. Moreover, the relationship between financial reporting quality and investment efficiency is stronger for companies with a poor information environment. However, relatively few studies have identified the effect of intra-organizational factors on financial reporting quality. Companies must use strategic management and planning to grow and achieve organizational goals. The concept of strategy in the organizational literature was developed in the 1950s by researchers at the Howard School of Economics (Snow & Hambrick, 1980). In this regard, Miles and Snow (1978) defined strategy as the response of senior managers to the constraints and opportunities they face. Business enterprises use selective strategies to create value for their shareholders, and an organization's strategy determines how the economic entities want to create value for their shareholders, customers, and citizens (Kaplan & Norton, 2005). The three most significant levels of strategy in the largest multi-product organizations include 1- Company level strategy, 2- Functional level strategy (task) and 3- Business level strategy (Walker et al., 2003; Tanani & Mohebkhah, 2014). The business strategy focuses on how companies compete in a particular industry or marketplace and how a business enterprise gains a competitive advantage (Walker et al., 2003). In addition to the company's internal factors, external factors, such as market structure, competition, and competitors' activities, can affect the strategic decisions of a company's managers. In this regard, Wan (2004) states that the scene of intense competition in which today's companies play a role needs to be aware of the principles and advantages of competition and adopt strategies that ensure the company's flexibility in adapting or influencing its external environment. The market and its changes are the most significant challenges facing companies, and two critical factors (customers and competitors) are in this environment. Customers, due to their constantly changing tastes and demands, and competitors, due to their undeniable effects on the company's share of market demand, are two challenging factors for the company (Marfou & Shakeri, 2018). There are several typologies for classifying business strategy. The most remarkable are Miles and Snow's (1978) typology, which focuses on the tendency to change products and markets, and Porter's (1980) typology, which emphasizes customers and competitors. According to him, two overall strategies, including cost leadership and differentiation, are used more at the level of business units. In the cost leadership strategy, the organization seeks to reduce the cost of the product or service. The differentiation strategy seeks goods or services that are unique both in the industry and among competitors (Stewart & Brown, 2009). In this regard, Miles and Snow (1978) hold that organizations use one of the four types of strategies (defensive, aggressive, analytical and passive) to reduce the negative impact of the environment and increase the use of opportunities. Defensive and aggressive strategies are located at the two ends of the range of possible strategies (Tanani & Mohebkhah, 2014), and the right choice of appropriate strategies can guarantee great success in the market while keeping companies stable. In an aggressive strategy, companies are very innovative. They are always seeking new markets and new opportunities for additional growth. Such companies continually look to develop new and creative products and ideas and have a wide range of goods and markets. Product innovation is a new and creative solution to current conditions and trends and satisfies the covert and overt needs of the customers (Brounen et al., 2019). In contrast, organizations pursuing a defensive strategy seek to find and maintain a secure position in the stable areas of a service or product. Such organizations offer a relatively limited range of products compared to competitors and attempt to maintain superiority by emphasizing efficient operation and customer satisfaction. Such organizations usually do not take the initiative in developing and designing new products (Marfou & Shakeri, 2018). In other words, companies often use defensive strategies to

consolidate their position in the market and apply aggressive strategies to gain new or increased market share.

However, companies pursuing aggressive business policies are seen by investors as riskier and less likely to attract investment. To solve this problem, these companies seem to have tried to address the investors' concerns by resorting to two strategies: increasing the level of disclosure and the quality of disclosed information. Higgins et al. (2015) also showed that companies that follow an aggressive strategy are more involved in tax avoidance than companies that follow a defensive strategy. Habib and Hassan (2018) and Lim et al. (2018) also found that the financial reports provided by companies with aggressive strategies are less readable than those of companies with defensive strategies. In Iran, Tanani and Mohebkhah (2014) stated that the rate of earnings management in defensive companies is higher than inoffensive companies. Kargar and Zanganeh (2018) also showed that the company's defensive business strategy intensifies the positive association between risk-taking and company value. However, the effect of the offensive business strategy on the relationship was reported to be significantly negative. Accordingly, the first hypothesis of the current study is an experimental test of this issue, presented as follows:

H1: The type of business strategy significantly affects the financial reporting quality.

Conversely, it seems that managers' personality traits and even gender affect the financial disclosure quality. Dabija et al. (2022) showed a significant direct relationship between the presence of women on the board and financial reporting improvement. In contrast, several managers behave rationally, seem more conservative and self-deprecating and enter the business and operational campaigns with a delay. The issue of overconfidence applies to both investors and managers. In investors' cases, confidence leads them to overestimate their own forecasting skills and believe they can schedule the market. Almaleki et al. (2021) showed a direct and certain relationship between managerial narcissism and Iran's financial statement comparability. Seifzadeh et al. (2021) revealed a reverse and significant relationship between managerial change and accrual-based earnings management as well as a direct and important relationship between real earnings management, managers' myopia, managers' narcissism and self-confidence and financial statement readability.

Distinguishing and modifying overconfidence is a fundamental step in designing the foundations of an effective good financial program. Salehi et al. (2020) showed a reverse relationship between managerial overconfidence and conditional conservatism. Furthermore, the findings suggest that managerial overconfidence is negatively associated with real earnings management. This implies that when Iranian managers have more financial problems, they do not engage in real earnings management, as real earnings management does not enhance the value of the companies in the long run and may even lead to losses. Individuals' overconfidence is the strongest finding in the psychology of judgment. One of the obvious irrationalities of this bias is that investors may underestimate the downside risks due to the accumulation of unnecessary risks in their portfolios. Overconfidence indicates a situation in which investors are excessively confident in their judgments. A common consequence of this trait is that the investor believes the investment is flawless when identifying investment opportunities. Still, its low performance leads investors to overtrade in search of the next best opportunity. Therefore, it is highly probable that investors with overconfidence will maintain a limited portfolio with minimal diversity and infrequent investment transactions (Statman et al., 2006). Safari Gerayli et al. (2021) revealed that the direct relationship between managerial overconfidence and ICW is less pronounced in larger companies. While the role of corporate governance mechanisms in the standard and traditional corporate governance literature results from theories of agency costs and information asymmetry, and impact on corporate decisions, the issues of over-optimism and overconfidence are raised; the role should be in line with controlling such behavioural distortions and limiting the potential effects of these behaviours on company strategies (Baccar et al., 2013). Overconfidence is a personality trait that can be defined as a behavioural bias, and having idealistic (positive) beliefs about each aspect of an event in conditions of uncertainty (Skala, 2008). Managers with excessive overconfidence are optimistic about decisions and consequences, particularly when investing decisions (Cooper et al., 1988). Due to their overconfidence, managers believe the market underestimates the costs associated with external financing, increasing the tendency to over-invest. However, little investment may be required if project financing requires external resources

(Malmendier & Tate, 2005). Unreasonable and overconfident managers appear less inclined to provide real and non-biased information to the market due to high narcissism and, therefore, perceive a negative relationship between managers ' distrust and the quality of companies' financial reporting. Based on this, the second hypothesis is presented as follows:

H2: Managers' overconfidence negatively affects the company's financial reporting quality.

Finally, it is expected that management overconfidence reduces the positive impact of an aggressive business strategy on increasing financial disclosure quality. Accordingly, the third research hypothesis was formulated and presented as follows:

H3: Managers' overconfidence reduces the positive impact of aggressive business strategy on increasing financial reporting quality.

3. Research Methodology:

In order to test the hypotheses, the following models are postulated in the study:

$FRQi, t=B_0+B_1BS_{i,t}+B_2MOC_{i,t}+B_3BS_{i,t}*MOC_{i,t}+B_4LEV_{i,t}+B_5FirmAge_{i,t}+ B_6FirmSize_{i,t}+\varepsilon$

Model 1

RI, t: The financial reporting quality as a dependent variable

BSc, t: The business strategy for period t as an independent variable

MOCi, t: The management's overconfidence as an independent variable

LEVi, t: The ratio of the company's debts to the company i assets as a control variable

Firm Age i, t: The life of company i as a control variable

Firm Size i, t: The company size i as a control variable

e: error percentage

Financial Reporting Quality: According to the theoretical foundations in this study, Francis et al.'s (2005) model has been used to measure financial disclosure quality as an independent variable similar to Verdi's (2001). The indicators used in Francis et al. (2005) model to measure the quality of financial reporting are based on accruals. Below, you can see how to calculate the quality of accruals (as an indicator of FRQ) based on Francis et al. (2005):

$TCA_{i.t} = B_0 + B_1CFO_{i,t-1} + B_2CFO_{i,t} + B_3CFO_{i,t+1} + B_4REV_{i,t} + B_5PPE_{i,t} + \varepsilon_{i,t}$

Model 2

$TCA_{i.t}$: Total accruals of the company i in year t, year t-1 and year t + 1

$CFO_{i,t}$ and $B_1CFO_{i,t-1}$ and $CFO_{i,t+1}$: Cash flows from the operating activities of the company i in year t, year t-1 and year t + 1

$REV_{i,t}$: Changes in revenue from sales of the company i in year t

$PPE_{i,t}$: Changes in sales revenue of company i in year t

B_0: Fixed coefficient of the model

β1 to β5: Model coefficients

Preparing the cash flow statement in accordance with Iranian Accounting Standard No. 2 differs from Standard 95 of the American Financial Accounting Standards Board. For this purpose this study, similar to Khajavi and Rezaei's (2012) study on CFOit, includes the following adjustments:

Operating cash flow is calculated as cash flow plus dividends paid, plus cash flow related to returns on investments and dividends paid to finance tax-related cash flows.

Total accruals in this study are calculated based on the following equation:

$TCA_{i.t} = NI_{i.t} - CFO_{i,t}$

$NI_{i.t}$: Net profit after tax of company i in year t

Since εi, t indicates the error in estimating accruals relative to cash flows, larger (or smaller) values indicate accruals' quality.

Business Strategy: To measure business strategy as a dependent variable, the combined scoring system developed by Ittner and Larcker (1997) has been applied. The following five ratios have been used to obtain a combined score: sales growth rate, advertising cost for total sales, number of employees, the market value of the company at its book value and fixed assets to total assets ratio. First, companies were classified into five groups from top to bottom based on the first four ratios. The

company ranked highest, receives a score of 5, while the lowest-scored company receives a score of 1, and the rest are scored accordingly. Companies are then divided into five groups based on the last one. This time, the company at the top gets a score of 1, the company at the bottom gets a score of 5, and the rest are scored based on their respective rankings. In the last step, the points obtained from the above two steps are added together, and each company's final score is obtained.

The range of combined scores (the sum of the above five ratios) for each company during a year should be between 5 and 25. Companies with a total score in the range of 5 to 10 are classified as highly defensive, companies with a total score in the range of 10 to 15 are classified as defensive, companies within the range of 15 to 20 are classified as highly aggressive and companies with a total score of 20 to 25 are classified as aggressive. Table 1 shows the aforementioned classifications.

Table 1. The combined scoring system of Ittner and Larcker

Quintile	Sales growth	Advertising expense	Number of Employees	The market value of the company	Fixed assets
		Total sale	Sales	Book value	Total assets
First	5	5	5	5	1
Second	4	4	4	4	2
Third	3	3	3	3	3
Fourth	2	2	2	2	4
Fifth	1	1	1	1	5

Management Overconfidence: A two-way relationship, similar to previous research, measures management overconfidence.

Similar to the preceding research, to address the effects of variables such as size, life and leverage of the company on the research results, these variables were included as control variables under the following conditions and measurement methodsmodel:

Financial Leverage: The ratio of a company's debts to assets.

Firm Age: Similar to previous research, the age of the company is equal to the logarithm of the number of years from the year the company enters the stock market to the year of research (Rahmani et al., 2012).

Firm size: The logarithm of company assets at the end of the period.

The statistical population of the current study consists of all corporations listed on the Tehran Stock Exchange. The required data for 10 years, from 2013 to 2022, has been collected. Sample companies were listed on the Tehran Stock Exchange before 2013 and did not change their fiscal year during the mentioned period. Furthermore, while having the required information, the companies under review during the mentioned period have not been taken off the stock exchange, and to achieve high comparability, the end of their fiscal year should be March 20. Also, there was no trading interruption for more than three months in the mentioned period. Finally, due to the different nature of the activities of investment companies, banks, and insurance companies, the mentioned companies were not included in the sampling. Consequently, 140 companies were selected as the study sample for the statistical tests, according to the research period.

4. Findings

Tables 2 and 3 present the descriptive statistics to provide an overview of the statistical population. As can be seen in the following tables, the descriptive indicators of the variable financial reporting quality with 1400 observations indicate that the minimum is 0.039124, the maximum is 0.853012, the average financial reporting quality is equal to 0.139541, and its standard deviation is 0.0069541.

Descriptive analysis of the financial leverage variable indicates that the minimum equals 0.089632, the maximum is 0.996752, and the average financial leverage is 579631, which shows that more than 57% of the capital structure of the companies is composed of debt with a standard deviation of 0.106541. The study of the company age variable shows that the minimum is 11 years and belongs to the youngest company the maximum is 66, associated with the oldest company.The average life span of companies is 36 years.Furthermore, the results regarding of the size of the company size indicate that the minimum size is equal to 9.693421, and the maximum size is 13.36201 and the standard deviation is 0.322598.

Table 2. The descriptive statistics of quantitative variables

Sing	Variable	Mean	Median	Std. dev.	Min.	Max.
FRQ	Financial reporting quality	0.139541	0.096321	0.069541	0.039124	0.853012
Lev	Financial leverage	0.579631	0.589541	0.106541	0.089632	0.996752
Age	Firm age	36.750000	36	0.215	11	66
Size	Firm size	10.69314	10.16321	0.322598	9.693421	13.36201

Table 3. Descriptive statistics of qualitative variables

Sing	Variable	no. of zero	no. of 1	Total
v. Defensive	Very Defensive strategy	1008	392	1400
Defensive	Defensive strategy	840	560	1400
Invasion	Invasive strategy	868	532	1400
v. Invasion	Very Invasive strategy	1134	266	1400
MOC	Managers' overconfidence	588	812	1400

As shown in Table 3, the total number of companies under the study equals 1400, of which 392 companies are highly defensive, 266 are aggressive, and 266 have overconfident managers.

The Jarque-Bera test results indicate that the regression model has a normal distribution. Moreover, according to the results of the alignment between the independent variables of the research in Table 4, the variance inflation factor is slightly higher than 1, which shows a low alignment between the research variables. The Bartlett test was used to verify the absence of variance heterogeneity. According to the results of Table 4, the probability of the model's test is higher than the error level of 5%, indicating thatand there is no heterogeneity of variance between the regression equations.

Table 4. Normality, linearity, F-Limer, and Hausman tests

Test	No. of Observation	Jarque-Bera	p-value	
Normality	1400	11.913458	0.169345	
No linearity test	Variable	symbol	Test statistics VIF	Tolerance
	Business St.	BS	1.71	0.108
	Manag. Overcon.	MOC	1.25	0.011
	BS* MOC	BS*MOC	2.75	0.156
	Financial Leverage	LEV	1.02	0.109
	Firm Age	AGE	2.19	0.209
	Firm size	SIZE	1.11	0.029
	T statistics	degree of Freedom	p-value	Test result
Bartlett	1.109547	4	0.8752	variance homogeneity
F-Limer	10.536414	(139)	0.0000	Panel data
Hausmann	2.523149	4	0.7321	random effects

The F-Limer and Hausman's tests were used. The results of these tests in Table 4 show that the probability of F test statistics is less than the 5% error level, and using the panel data method is more appropriate. Furthermore, the results of the Hausman test showed that the probability of test statistics is higher than the error level of 5%, so using the random effects method to estimate the regression model is preferable to the fixed effects method.

Table 5. Coefficients and estimation of the regression model of the research

Variables	Symbol	Coefficients	t-statistics	P-value
Constant	C	4.610678	2.217333	0.0268
Business Strategy	BS	3.424938	3.260203	0.0011
Managers' overconf.	MOC	-0.013020	-2.645103	0.0083
Business Strategy* managers' overconf.	BS*MOC	-0.188427	-3.236270	0.0012
Financial leverage	LEV	0.191799	0.722782	0.4700
Firm Age	AGE	0.202366	1.770399	0.769
Firm Size	SIZE	-1.505403	-2.228300	0.0261

According to Table 5, it can be seen that the probability value of the F statistic is 0.00, indicating that the model is significant at the 99% confidence level. In this regard, the adjusted coefficient of determination of the research regression model indicates the degree of relevance of independent variables to the dependent variable of financial reporting quality. According to Table 5, the adjusted coefficient of determination equals 0.48321. It indicates that the changes of the dependent variable are well explained by the independent variables included in the regression model, accounting for more than 48% of the variability in the dependent variable changes. Durbin-Watson (D.W) statistics were used to evaluate the observation's independence and the lack of autocorrelation among the explanatory variables. The autocorrelation results show that the value of the Durbin-Watson statistic equals 2.215, indicating the relative independence and a lack of autocorrelation among the research variables. The t-statistic was used at an error level of 0.05 to evaluate the significance of the correlation coefficient between the dependent and independent variables of the first hypothesis.

Table 5 indicates that the correlation coefficients among the independent variable of business strategy and the dependent variable of financial reporting quality are positive (B1 = 3.424938), and the value of t-statistic to test statistical hypotheses equals 3.260203. The significance level obtained is equal to 0.0011 at a 95% confidence level. The type of business strategy of the company has a significant effect on the company's financial disclosure quality. It can be interpreted as follows: companies that pursue an aggressive business strategy have a higher financial reporting quality than defensive companies. However, this finding contradicts the conclusions of Habib and Hassan (2020) and Lim et al. (2018; 65), who showed that financial reports with an aggressive strategy are less readable than those with a defensive strategy. One possible reason for this discrepancy may be the different criteria used to measure financial disclosure quality, which may include factors such as the quality of profit accruals and the readability of financial reporting, potentially linkedto the simplicity and eloquence of the text in financial statements. Nevertheless, it is recommended that future researchers explore this subject in greater depth.

Similarly, the results of the second hypothesis indicate a negative correlation coefficient between the variable of managers' overconfidence and financial reporting quality (B-= -0.013020). Moreover, the value of the t-statistic to test the statistical hypotheses is equal to -2.645103. The significance level is equal to 0.0083. Thus, the second hypothesis is accepted, and managers' overconfidence significantly negatively affects the company's financial reporting quality resulting in a decline in the quality of financial reporting. This finding is in line with the conclusions of Zaheri et al. (2021), which confirmed that managerial transactions significantly negatively affect companies' quality of financial reporting, and increasing managerial transactions reduces the financial disclosure quality.

Finally, the results of the third hypothesis indicate that the correlation coefficients between the explanatory variable multiplied by business strategy in managers' overconfidence and financial reporting quality are negative (β3 = -0.188427) (Table 5). The t-statistics for the statistical testing hypothesis is equal to -3.236270, with a significance level of 0.0012. Therefore, the third hypothesis is accepted; managers' overconfidence reduces the positive impact of an aggressive business strategy on increasing the financial disclosure quality.

5. Conclusion

The positive relationship between applying an aggressive business strategy and improving the financial reporting quality can be interpreted as follows: companies pursuing a defensive business strategy have not made many attempts to improve the quality of their financial reporting despite having much practical capacity compared to companies following an aggressive business strategy. As a result, authorities are expected to strengthen and improve the financial disclosure quality by prescribing more open-ended enforcement procedures to provide defensive strategies for all companies, especially those in follow-up stages.

The current study's findings, in line with positive accounting theories, indicate the impact of management on quality and its effect on the quality of financial reporting. Accordingly, it is suggested that authorities neutralize the magnified earnings reported by management to maximize the personal benefits. By using a degree of professional care in applying the principles and standards of accounting in the form of procedure, prescribe conservatism to mitigate the negative consequences of managerial overconfidence, devise a professional and legal mechanism, and take practical steps to rank managers

based on the possibility of having a negative overconfidence and classify companies based on the rank of disclosure and timely reporting in terms of accounting. Especially since this feature was even lower in companies pursuing an aggressive business strategy, which exhibited higher financial disclosure quality compared to others, this effort was less in those companies with more overconfident managers. As decision-makers, managers can have behavioral biases. Overconfidence is a well-known and well-documented phenomenon in psychology. Psychologists define a person with behavioral characteristics of overconfidence as someone who believes that his information and knowledge are very accurate. Overconfidence is one of the most critical findings of psychology in the field of judgment and decision making. Studies have found that such people exaggerate abilities, including predictive power, information perception, and knowledge. One factor contributing to overconfidence and the failure tonot correct it through learning is that people take responsibility for their successes while attributing failures to external factors. Overconfident managers, believing in asymmetric information, overestimate the accuracy of their information and, as a result, the future profits and cash flows of their business. They often maintain an overly optimistic outlook on risk and return, envisioning a promising future for the company.Behavioral finance combines classical economics and finance with psychology and decision-making sciences, explaining and describing the reasons behind some anomalies reported in the financial literature. Behavioral finance emphasizes applying economic and psychological principles to improve financial decision-making. Therefore, overconfident managers who unnecessarily involve shareholders' capital may incur losses, affecting the quality of the financial report. The results align with Almaleki et al. (2021) and Arianpour and Sahour (2023). In this regard, it is recommended that future researchers examine the impact of management narcissism on the quality of financial reporting.

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