

Impacts of CEO's Overconfidence in Financing Decisions on Shari'ah-Compliant Firms Listed on the Bursa Malaysia*

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ABSTRACT. A firm's financing decision is a key concern in corporate finance and has drawn strong interest from various stakeholders. This decision is more pertinent in Malaysia due to its uniqueness of having a dual financial system. Since the financing decision is part of a firm's strategic decisions, the CEO holds a significant responsibility for a firm's financial strategic policy and direction. In most cases, empirical results from previous studies could not pinpoint the factors as well as the theories that best explain a firm's financing choice. This issue arises because traditional theories assumed that economic players are always rational. However, corporate financing decisions can be less than fully rational or biased. Thus, this study aims to fill the gaps by examining the impacts of a CEO's overconfidence on financing decisions in Shari'ah-compliant firms (SCFs) listed on the Bursa Malaysia. This study analyzed panel data over a period from 2009 to 2017. The findings show that male CEOs are willing to take high-risk corporate strategic policies by increasing the debt level which enables SCFs to maximize the firm's value resulting from the benefits of tax-shield and lower agency costs arising from the conflict between managers and shareholders.

KEYWORDS: Financing decision, Behavioral finance, CEO overconfidence, Shari'ah-compliant firms.

JEL CLASSIFICATION: D22, D91, G32, G41

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1. Introduction

The uniqueness of Malaysia as a country lies in the existence of Islamic financial system legislation which operates side by side with the conventional financial system. This phenomenon is not surprising since 51 per cent of its population are Muslims (Said, Daud, Radjeman, & Ismail, 2013, p. 230). With the development and innovations in Islamic financial components, financial products, regulators, and facilities, Malaysia has been recognized as a comprehensive Islamic finance eco-system, which consequently leads to the recognition of Malaysia as a key player in Islamic finance especially in the Islamic capital market (ICM) (Sadeghi, 2008, p. 16). In 2009, Malaysia recorded the largest share of the global ICM which was estimated to be between 60 to 70 per cent (Pok, 2012, p. 70). Furthermore, the total size of the Malaysian ICM grew by 11.93 per cent at RM 1,893.47 billion in 2017 as compared to RM 1,691.64 billion in 2016. The Malaysian ICM has also been recognized as an important market in Malaysia as well as globally (Securities Commission Malaysia, 2017, p. 156). From 2015 to 2018, a steady increase in numbers of listed Shari'ah compliant firms was shown. This steady increase was a result of awareness and demands among investors to invest in accordance with Islamic principles (Said et al., 2013, p. 230).

While the Islamic financial market has grown tremendously, however, research on the Islamic financial market is relatively at a nascent stage, especially with respect to the financing decision of SCFs listed on the Bursa Malaysia. SCFs are required to comply with Islamic principles documented in the Shari'ah screening methodology adopted by the Malaysian Securities Commission and restricted from being involved in certain prohibited business activities. They are also required to have less than 30% of interest-bearing debt ratio in relation to their financing decisions. The restriction on *ribā* based activities is the distinguishing difference in financing decisions between SCFs with non-Shari'ah compliant firms (NSCFs).

Based on three dominant capital structure theories namely trade-off, pecking order, and agency, debt is said to be the best source of external funding as it provides lower cost of capital relative to equity financing.

Trade-off theory suggests that debt financing, due to the tax benefit, results in the increase of firm's net income and firm's value. Firms are said to have optimal level of debt when they have a balance between tax benefits and bankruptcy costs (Jahanzeb, Khan, Bajuri, Karami, & Ahmadimousaabad, 2014, p. 11; Şen & Oruç, 2009, p. 33; Ross, 1977, p. 24; Gaud, Hoesli, & Bender, 2007, p. 202).

On the other hand, pecking order theory considers debt financing cost that arises from the asymmetry information being lower than equity financing cost (Danso & Adomako, 2014, p. 1161).

The third prominent theory, agency theory, suggests that the agency costs exist due to the conflicts of interest between the firm's shareholders and the manager. These costs can be mitigated by using debt financing as a high debt level would discipline the manager's behavior and ensure that his course of action is in the shareholders' interest (Dawar, 2014, p. 1192).

Thus, these theories seem to conclude that a firm's characteristics are found to impact a firm's capital structure decision (Sheikh & Wang, 2010, p. 130; Chen, 2004, p. 1346; Handoo & Sharma, 2014, p. 174; Chang, Chen, & Liao, 2014, p. 102; Anna, Sotiria, Anna, & Alexandros, 2015, p. 97).

Nevertheless, several empirical studies revealed mixed results and researchers found difficulty in pinpointing the theories that could underpin the capital structure choice of the firms studied (Sheikh & Wang, 2010, p. 130). This was supported by Şen & Oruç (2009, p. 34) and Alom (2013, p. 321) also highlighted that there appeared to be an absence of one universal theory and dominant theories that explain the rationale behind financing motive.

Consequently, as of now, the relationship between a firm's financing decision and its determinants have remained the subject of considerable debate. The issue arises because traditional theories assumed economic players are always rational, which means they are efficient and unbiased processors of relevant information and that their decisions are consistent with utility maximization (Byrne & Brooks, 2008, p. 1). However, economic players can also be irrational while making decisions (Ishikawa & Takahashi,

2010, p. 55; Muradoglu & Harvey, 2012, p. 69). For that reason, modern finance theories recognize the effects of behavior in the corporate financial decisions (Bilgehan, 2014, p. 125; Daskalakis, Kokkinaki, Kalogeras, Hoffmann, & Chrysikopoulou, 2011, p. 1; Ishikawa & Takahashi, 2010, p. 55). Nevertheless, it is well documented in corporate finance that there is still scarce research on behavioral corporate finance (Mohamed, Fairchild, & Bouri, 2014, p. 11).

Furthermore, most of the past studies were examined from the traditional finance angle by looking at firm characteristics while ignoring the influence of managerial characteristics and the behavioral finance angle towards financing decision (Huang & Kisgen, 2013, p. 822). There is also less experimentation on the psychology aspect in finance and direct test of the financial effects of overconfidence (Muradoglu & Harvey, 2012, p. 70). Alternatively, most of these past studies only examined the behavioral finance from the perspective of investor behavior. However, behavioral finance from the perspective of irrational manager is less developed (Baker, Ruback, & Wurgler 2007, p. 148; Bilgehan & Yusuf, 2014, p. 288).

Furthermore, descriptive theory (also known as psychological theory) can be used to explain the manager's irrational decision-making process (Oliveira, 2007, p. 12). There are several types of cognitive bias but overconfident bias is one of the common types of cognitive bias (Hilary & Hsu, 2011, p. 300). Furthermore, Bilgehan (2014, p. 124), Ishikawa and Takahashi (2010, p. 55) and Barros and da Silveira (2007, p. 23) support that cognitive biases which refer to manager's overconfidence, are important determinants of financing decisions. The convenient theory named as Upper Echelon theory suggests managerial characteristics or demographic background traits to be efficient proxies for psychological constructs (Carpenter, Geletkanycz, & Sanders, 2004, p. 750) and proxies for underlying cognitive capacities (Aharoni, Tihanyi, & Connelly, 2011, p. 137).

Upper Echelon theory assumes that top managers are not always rational when making the decisions as they tend to rely on their cognitive biases and values. This theory explains that a manager's decision

making ability, especially on corporate strategy, is according to his managerial characteristics such as, age, functional tracks, career experiences, education, socioeconomic roots, financial position, and group characteristics (Hambrick & Mason, 1984, p. 198). Besides that, Marimuthu and Kolandaisamy (2009, p. 140) also revealed that demographic characteristics are associated with many cognitive biases, values, and perceptions that could influence one's decision. Furthermore, the greater the demographic diversity among the top management team, for example, age, gender, experience, education level, etc., the greater the positive impact on their decision-making process, and thereby contributing to a firm's performance. This is supported by Schrand and Zechman (2012, p. 319) who studied the executive's characteristics that have been associated with overconfidence in the psychology literature or have been used in more recent studies of the association between overconfidence and corporate financial decisions.

In addition, Hackbarth (2008, p. 843) also found that overconfidence and optimistic top management or executives would affect a firm's strategic decisions. With regards to the corporate financial strategic decisions, the CEO is the key person who manages and makes the decisions on a firm's strategic policies (Hooy & Ali, 2017, p. 127) based on their value and cognitive biases (Lee & Moon, 2016, p. 111). Moreover, there are numerous studies which found that a CEO's profile, traits, and power have an effect on the firm's performance (Hooy & Ali, 2017, p. 127). Gervais, Heaton, and Odean (2011, p. 1761), in their study revealed that overconfident CEOs have significant impacts on corporate financial decisions.

In line with these developments, this paper attempts to examine the impacts of CEO overconfidence on corporate financing decisions among Shari'ah compliant firms (SCFs) listed on the Bursa Malaysia. This study attempts to fill the gap in the following manners.

Firstly, it attempts to expand and enrich prior literature related to capital structure by integrating the element of behavioral finance which is a CEO's overconfidence in the financing decision process. As a CEO of a firm, the individual is the key person involved in the corporate's strategic policies (Hooy & Ali, 2017, p. 127; Lee & Moon, 2016, p. 111) and also the person who is always associated with the

nature of overconfident behavior (Gervais et al., 2011, p. 1735). Thus, they might also influence the firm's financing decisions instead of relying fully on the firm's characteristics.

Secondly, it sheds a new light on the issue of behavioral finance in the context of Shari'ah compliant firms (SCFs) listed on the Bursa Malaysia as previous studies do not segregate firms based on different financial markets.

The remaining sections of this study are structured as follows. Section two starts by reviewing related past literature. Next, in section three, the research methodology and data collection are discussed. In section four we present and analyze the results of the study, while section five concludes the paper.

2. Literature Review

2.1 Financing Decision

The decision to source for debt versus equity has been constantly debated by firms as it affects the firm's performance. Traditionally factors like size, tangibility, profitability, and cash flows are identified as factors influencing the financing decision of manager. However, studies in recent years have found that financing decision is not straightforward (Bilgehan, 2014, p. 123; Ishikawa & Takahashi, 2010, p. 55; Barros & Silveir, 2007, p. 23). Behavioral factors do play a role in determining whether debt financing or equity financing is preferred by the management. One of the behavioral factors that is CEO's overconfidence is revealed to have an influence on the type of financing made. The CEO's overconfidence is based on one's characteristics that are educational level, experience, gender, and age.

2.2 CEO's Overconfidence and Capital Structure Decision

A CEO's overconfidence tends to overestimate a firm's future cash flows (Lin, Hu, & Chen, 2005, p. 525), return to their investment projects (Malmendier & Tate, 2005, p. 2662; Nofsinger, 2005, p. 153), and underestimate the risk of the decision outcomes. Therefore, such firms are less likely to experience financial distress (Nofsinger, 2005, p. 153; Hackbarth, 2008, p. 845). They also accept greater risk (Hirshleifer, Low, & Teoh, 2012, p. 1459), and overestimate their own skills and knowledge (Barros & da Silveira, 2007, p. 5).

On that note, overconfident managers act more decisively and aggressively (Adam, Fernando, & Golubeva, 2015, p. 196). In addition, overconfident managers are also more motivated to exert their efforts to involve the risky projects (Gervais et al., 2011, p. 1737) which can benefit the performance of the firms by producing more profits to the firms.

In the context of corporate strategic financial decisions, CEO's overconfidence is more likely to choose higher debt as compared to equity (Hackbarth, 2008, p. 845; Nofsinger, 2005, p. 157) which obligates them to pay coupons rather than share future profits of investment with new shareholders (Park & Kim, 2009, p. 116). Therefore, it is hypothesized that:

H1: CEO's overconfidence is more likely to finance the business using debt financing.

2.3 CEO's Educational Level and the Capital Structure Decision

Based on previous studies like Sitthipon-gpanich and Polsiri (2015, p. 121), Lee and Moon (2016, p. 113), Ting, Lean, Kweh, and Azizan (2016, p. 12), Rakhmayil and Yuce (2005, p. 76), Rakhmayil and Yuce (2013, p. 53), Doukas and Mandal (2018, p. 138), Skala and Weill (2018, p. 66), and Huang and Kisgen (2013, p. 824), the common proxies used to measure the CEO's characteristics are age, experience, educational level, and gender.

Education provides managers with knowledge and skill which is useful later for strategic decision making. Rakhmayil and Yuce (2013, p. 61) found that managers with higher qualifications have a positive influence on the firm's value. However, Sitthipongpanich and Polsiri (2015, p. 125) discovered a negative relationship between a CEO's educational level and the performance of the firm. They argued that, CEOs with higher educational level could make ineffective decisions.

In the context of risk-taking behavior, Lee and Moon (2016, p. 114) presented a positive relationship between the formal educational level of airline CEOs and strategic risk-taking behavior. They also found formal educational level as critical for CEO's strategic risk-taking. Thus, formal educational level would encourage CEOs to be involved in risky strategic choices which represent overconfident managers (Lee & Moon, 2016, p. 115).

Next, Rakhmayil and Yuce (2005, p. 76) reported that managers with higher qualifications will use greater leverage. Theoretically, the managers' educational level should provide lenders with signals on the quality of the enterprises' human capital and improve their ability to access external financing (Borgia & Newman, 2012, p. 186). Hence, this study assumes that CEOs with higher educational level will generally be more overconfident and tend to use greater leverage. Therefore, next hypothesis is:

H1a: CEOs with higher educational level are more likely to finance the business using debt financing.

2.4 CEO's Gender and the Capital Structure Decision

Currently, the number of women involved in corporate executive offices have increased, and different genders have different risk preferences. In the context of gender differences, past studies have proven that gender will influence the behavior (see for example, Skala & Weill, 2018, p. 68; Barno, 2017, p. 499; al-Baity & Rahman, 2012, p. 510; Huang & Kisgen, 2013, p. 838; Ting et al., 2016, p. 18; Graham, Harvey, & Puri, 2013, p. 115).

Barno (2017, p. 491) revealed that female CEOs are more conservative in financial reporting compared to their male counterparts.

On the other hand, from the perspective of risk-taking behavior, al-Baity and Rahman (2012, p. 510) found that Malaysian Malay males are more overconfident than their female counterparts. This is parallel with Barber and Odean's (2001, p. 261) research which reported that men trade 45 percent more than women which indicated that men are more overconfident than women. Besides that, Skala and Weill (2018, p. 64) also revealed that in the banking sector, women CEOs of banks are more risk averse than men CEOs.

Surprisingly, in corporate financial decision, Ting et al., (2016, p. 17) reported a significantly negative relationship between male CEO's overconfidence and the capital structure in Malaysia's public listed firms during the period of 2002-2011. While, Graham et al., (2013, p. 115) found that male CEOs are likely to prefer having higher debt ratios, and in particular, higher short-term debt ratios than their female counterparts.

Furthermore, Huang and Kisgen (2013) also confirmed that men are overconfident because men provide narrower earnings forecasts, are less likely to exercise options earlier, are more likely to execute value destroying acquisitions, and are also likely to be removed from their position as executives. In contrast, firms with female executives are less likely to make acquisitions and are less likely to issue debt (p. 829).

From the discussion above, it shows that most male CEOs are risk takers and more overconfident than female CEOs. Therefore, the next hypothesis is:

H1b: Male CEOs are more likely to finance the business using debt financing.

2.5 Tenure of CEOs and the Capital Structure Decision

Decision making process is always related to psychological elements and the decision-making process usually has the elements of schemata, heuristic, and cognitive bias. Hence, while making the strategic decisions, managers might use their schemata (past experience) as a reference, process the information (heuristic), and lastly, take the strategic decisions. Unfortunately, bias might occur during this process. This shows that a manager's past experiences are an important element to consider in investigating the manager's behavior. However, different past experiences will result in different behaviors as illustrated in Lee and Moon (2016, p. 114), and Rakhmayil and Yuce (2005, p. 82). They found that CEOs who have a longer tenure in their position in a firm are more likely to take less strategic risks. While, Rakhmayil and Yuce (2005, p. 84) revealed that longer tenure CEOs have significantly negative relationship with capital structure. Hence, the next hypothesis is:

H1c: Firms with shorter tenure of CEOs are more overconfident and are more likely to finance the business using debt financing.

2.6 Age of CEOs and the Capital Structure Decision

Upper Echelon theory suggests that young managers are more likely to be involved in risky strategies followed by positive contribution to the firm's performance (Hambrick & Mason, 1984, p. 198). This statement is parallel to the argument from Abatecola and Cristofaro (2018, p. 2) and empirically supported by Sitthipongpanich and Polsiri (2015, p. 125) which

found that young family CEOs who have business expertise or are in the elite alumni network of family CEOs could boost the firms' value. They suggest that young CEOs are more likely to generate innovation and are more confident to pursue risky strategies for the growth of the firm. Nevertheless, Lee and Moon (2016, p. 115) reported that the impact of CEOs' age on risk-taking behavior is insignificant.

Based on upper echelon theory, the present study proposes that young CEOs are overconfident and are more likely to finance the business using debt. Thus, the final hypothesis is:

H1d: Firms with young CEOs are more overconfident and are more likely to finance the business using debt financing.

3. Data and Methodology

The sample data consists of non-financial SCFs listed on the Bursa Malaysia between 2009 and 2017. From the sample, we screened through the data using the following criteria: first, the firms must be continuously listed as SCFs during the sample period; second, SCFs must have complete data on CEO demographic background and financial reporting on firm's characteristics as well as debt.

After removing the unavailable data, the total number of firms was 200. The data was collected from two main sources. Financial data was sourced from Thomson Reuters Data Stream and CEO overconfidence data (CEO educational level, CEO gender, CEO age, and CEO experience) were hand-collected from the annual reports of the SCFs, retrieved from the Bursa Malaysia website (<https://www.bursamalaysia.com>).

3.1 Variables Measurement

The dependent variable of this study is leverage, while CEO's overconfidence is treated as the independent variable and the firm's characteristics are treated as control variables. Table (1) illustrates the variables, measurement, and source of variables identified.

3.2 Model Specifications

Several steps were taken to identify the best model that would assist in attaining the objectives of the study.

The Breusch and Pagan LM (Lagrange multiplier) test is employed to test whether to use OLS (ordinary least squares) or GLS (generalized least squares) model and the results revealed significance at p-value of 1 percent. This result indicates that the regression should be performed using GLS technique, leading to the rejection of the homogenous hypothesis. Therefore, RE (random effect) model is more appropriate than the POLS (pooled OLS) model. This shows that there are firm-specific effects (heterogeneity, λ) in the data.

Further testing using Hausman test also shows p-value of less than 0.05, denoting the rejection of the null hypothesis that firm-specific effects are similar and suggest that the FE (fixed effect) model is more appropriate than the RE model.

Besides that, the diagnostic test is employed to test multicollinearity problem and the result indicates *vif* is less than 10, signifying that there is no multicollinearity problem.

Since FE is the best model, this study further tests for probability presence of heteroskedasticity. The result indicates p-value is less than 0.1, rejecting the null hypothesis and concluding that there is a heteroskedasticity problem.

Further test on serial correlation shows the p-value to be less than 0.1, rejecting the null hypothesis and concluding that the data does have autocorrelation.

Test for time-effects in our dataset indicates that the p-value is less than 0.1, resulting in the rejection of the null hypothesis and the conclusion that there are significant time-fixed effects. Therefore, the data of this study indicates the presence of firm fixed and time effects.

As the model appears to have heteroskedasticity and autocorrelation problem, we study the robustness of the model using the estimation of standard error clustered by firm while addressing the time effects.

$$\begin{aligned} \text{Debt Ratio (DR)}_{i,t} = & \alpha_i + \beta_1 Cedu_{i,t} + \\ & \beta_2 Cmale_{i,t} + \beta_3 Cexp_{i,t} + \beta_4 Cage_{i,t} + \\ & \beta_5 Prof_{i,t} + \beta_6 Tang_{i,t} + \beta_7 Size_{i,t} + \\ & \beta_8 Growth_{i,t} + \beta_9 Risk_{i,t} + \beta_{10} NDTS_{i,t} + \\ & \beta_{11} Liq_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (\text{Eq. 1})$$

Where, subscripts *i* and *t* denote firm and year, respectively. CEO overconfidence is measured by four proxies namely, CEO educational level, CEO gender (CEO male), CEO age, and CEO experience. The control variables are profitability, tangibility, size,

growth rate, risk, non-debt tax shields (NDTS), and liquidity. The firm-specific effect is represented by $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}$, and β_{11} and ε is the error term.

Table (1) Variables, Measurement, and Sources of Variables of Dependent and Independent Variables

Variable	Measurement	Author
<i>Debt ratio (DR)</i>	Total debt of book value divided by total assets.	Handoo & Sharma (2014, p. 173); Acaravci (2015, p. 162); Akinyomi & Olagunju (2013, p. 1002); Rajan & Zingales (1995, p. 1429); Chen (2004, p. 1344).
<i>CEO educational level (Cedu)</i>	Dummy: coded as 1 if CEO possesses master's degree, a MBA degree, or a PhD degree, and 0 if CEO holds a bachelor's degree or other higher education.	Lee & Moon (2016, p. 113); Wei, Min, & Jiaying (2011, p. 267).
<i>CEO male (Cmale)</i>	Dummy: coded as 1 if firm has male CEOs and 0 if otherwise.	Ting et al. (2016, p. 12); Barno (2017, p. 496).
<i>CEO experience (Cexp)</i>	Number of years that a CEO continuously holds this position in a company.	Matemilola, Bany-Arifin, Azman-Saini, & Nassir (2018, p. 491); Abdeldayem & Sedeek (2018, p. 932); Baatwah, Salleh, & Ahmad (2015, p. 1006); Rakhmayil & Yuce (2005, p. 78).
<i>CEO age (Cage)</i>	CEOs current age in years.	Doukas & Mandal (2018, p. 138); Barno (2017, p. 496); Lee & Moon (2016, p. 113).
<i>Profitability (Prof)</i>	Earnings before Interest and Taxes (EBIT) divided by total assets.	Chow, Muhammad, Bany-Arifin, & Cheng (2018, p. 316); Awan & Amin (2014, p. 26); Chen (2004, p. 1344); Arosa, Richie, & Schuhmann (2015, p. 187); Junior & Funchal (2013, p. 158); Hassan, Shafi, & Mohamed (2012, p. 207); Ahmad & Azhar (2015, p. 1987); Chkir & Cosset (2001, p. 24); Haron (2014, p. 64); Akinyomi & Olagunju (2013, p. 1002).
<i>Tangibility (Tang)</i>	Fixed assets over total assets.	Hassan et al. (2012, p. 207); Ahmad & Azhar (2015, p. 1987); Junior & Funchal (2013, p. 158); Chen & Chen (2011, p. 4).
<i>Size (Size)</i>	Natural logarithm of total assets.	Chow et al. (2018, p. 308); Hassan et al. (2012, p. 207); Ahmad & Azhar (2015, p. 1987); Khan, Shah, Haq, & Shah (2014, p. 23); Junior & Funchal (2013, p. 158); Chkir & Cosset (2001, p. 23); Tarus & Ayabei (2016, p. 1065); La Rocca, La Rocca, Gerace, & Smark (2009, p. 812); Babu & Chalam (2014, p. 104).
<i>Growth (Growth)</i>	Change in total sales between two consecutive years divided by previous year total sales.	Babu & Chalam (2014, p. 104); La Rocca et al. (2009, p. 812).
<i>Earning volatility (Risk)</i>	Yearly change in the firm EBIT.	Haron (2014, p. 64); Deesomsak, Paudyal, & Pescetto (2009, p. 29).
<i>Non-debt tax shield (NDTS)</i>	Annual depreciation expenses to total assets.	Haron & Ibrahim (2012, p. 90); Khan et al. (2014, p. 23); Schoubben & Van Hulle (2004, p. 601); La Rocca et al. (2009, p. 810); Chen (2004, p. 1344); Awan & Amin (2014, p. 27).
<i>Liquidity (Liq)</i>	Current assets divided by current liabilities.	Chow et al. (2018, p. 316); Babu & Chalam (2014, p. 104).

4. Empirical Results and Analysis

4.1 Descriptive Statistics

Table (2) presents the statistical description of all the variables in the sample with 1800 number of observations. On average, SCFs listed on the Bursa Malaysia finance their operations and investments using debt at 17.34 percent. This finding is consistent with the Malaysian screening methodology that requires SCFs to have less than 33 percent of the debt ratio.

As for the statistics of the CEOs, only 31.56 percent of CEOs have education at the master's level and above with the majority of them being male. Besides that, on average, CEOs have 13 years of experience in their existing firms with an average age of 57.

In terms of profitability, the statistics show that on average, SCFs can generate their earnings before interest and tax from their total assets at 6.25 percent. The small standard deviation indicates the small variation of profitability among the SCFs.

Next, on average, SCFs have 51.02 percent of tangibility measured by fixed assets over total assets with a standard deviation of 0.18.

While, regarding the firms' size, the mean value of 6.45 reflects that the firms' size is quite large, indicating more diversification which in turn enables them to have better access to credit markets (al-Ajmi, Abo Hussain, & al-Saleh, 2009, p. 464).

On the other hand, the statistics for the overall firm's growth reveals large disparity in the sales among the SCFs, and by the same token, the firm's risks, measured by earning volatility among the SCFs, also have great variations.

Meanwhile, the results for NDTs indicate a small variation among the SCFs.

Regarding liquidity, the table shows that the minimum value for liquidity is 0.1, while the maximum value is 26.78. These results signify that some of firms have a current ratio of 0.1 times while other firms have a current ratio of 26.78 times and the difference could be due to the nature of the business they are in.

Table (2) Descriptive Statistics

	Mean	Std. Dev.	Minimum	Maximum
<i>DR</i>	0.1733917	0.1609535	0	1.415014
<i>CEO educational level</i>	0.3155556	0.6097068	0	1
<i>CEO male</i>	0.9622222	0.1907114	0	1
<i>CEO age</i>	56.95889	8.95008	30	87
<i>CEO experience</i>	13.23611	10.91527	0	47
<i>Profitability</i>	0.062467	0.0832651	-0.7578348	0.8495935
<i>Tangibility</i>	0.5102095	0.1857632	0	0.9709544
<i>Size</i>	6.44567	1.353511	3.462606	11.87949
<i>Growth</i>	0.0845713	0.6693153	-1	20.96305
<i>Risk</i>	0.4038813	3.582142	-9.379746	9.182764
<i>NDTS</i>	0.0260319	0.0206704	0	0.2765011
<i>Liquidity</i>	2.587174	2.452988	0.0992622	26.77966

Note: This table provides descriptive statistics of our whole sample on Shari'ah-compliant firms' characteristics and CEO overconfidence.

4.2 Analysis

Table (3) displays the estimated results and the panel fixed effect-time effect regression is used for analysis. The empirical evidence reveals that the main explanatory variable which is the CEO's overconfidence measured against the CEO gender (CEO male) has a positively significant factor affecting debt ratio at the 5% significant level. This implies that male CEOs are more overconfident to pursue risky corporate strategy policies and, therefore, are more likely to finance the business using debt relative to female CEOs. The result is consistent with Graham et al. (2013). Nevertheless, CEO educational level, CEO age, and CEO experience do not have a significant effect on the debt ratio decision.

In the context of the relationship between firm characteristics and the debt financing decision, the table demonstrates that profitability and liquidity have a significantly positive relationship related to debt ratio at the 1% significance level. This result is consistent with pecking order theory and previous studies (Chen & Chen, 2011, p. 6; Awan & Amin, 2014, p. 33; Hassan et al., 2012, p. 208; Ahmad & Azhar, 2015, p. 1987; Chen, 2004, p. 1345; Sheikh & Wang, 2010, p. 134; Affandi, Mahmood, & Shukur,

2012, p. 134; Danso & Adomako, 2014, p. 1167). High profitability of the firm indicates that the firm has more internal funds, leading to increase in its liquidity. Since the cost of internal financing is cheaper due to lowest asymmetric information cost, profitable firms tend to use retained earnings to finance the business activity rather than external financing (Danso & Adomako, 2014, p. 1167).

However, size appears to have a similar result to that reported by Thabet and Hanefah (2014, p. 6), as it has a negative relationship with the debt ratio at the 1% significant level. This proves that SCFs will increase the debt level as a firm grows larger. Other studies also show the positive relationship between size and debt, for example, Affandi et al. (2012, p. 134), and Sheikh and Wang (2010, p. 134).

This is consistent with the trade-off theory where larger firms should borrow more as these firms are more diversified and there is less possibility for bankruptcy. Besides that, the agency theory also argues that larger firms would reduce the monitoring cost because of less volatile cash flows and easy access to capital market (Sheikh & Wang, 2010, p. 131).

Table (3) Estimated Results of the Regression

VARIABLES	POLS	RE	FE	Fixed effect-time effect	Fixed effect-time effect robust cluster (code)
CEO educational level	0.0151***	-0.0006	-0.0037	0.0163***	0.0163
CEO male	0.0562***	0.0541**	0.0553**	0.0532***	0.0536**
CEO age	0.0008*	-0.0008*	-0.0011**	0.0009**	0.0009
CEO experience	0.0007**	0.0009*	0.0005	0.0009**	0.0008
Profitability	-0.3270***	-0.2990***	-0.2948***	-0.3366***	-0.3357***
Tangibility	0.0750***	0.0719***	0.0742***	0.0765***	0.0767*
Size	0.0290***	0.0468***	0.0663***	0.0302***	0.0301***
Growth	-0.0001	0.0021	0.0018	0.0005	0.0003
Risk	0.0011	0.0013**	0.0014**	0.0011	0.0010
NDTS	0.8720***	0.5175**	0.4537**	0.8544***	0.8512
Liquidity	-0.0181***	-0.0148***	-0.0141***	-0.0179***	-0.0179***
Constant	-0.1188***	-0.1415***	-0.2461***	-0.1082***	-0.1145
R Square	0.2434	0.2128	0.1978	0.2503	0.2499
F-Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000
BP LM Test	-	0.0000	-	-	-
Hausman Test	-	-	0.0054	-	-
Multicollinearity: Mean vif	1.16	-	-	-	-
Heteroskedasticity: Breusch pagan test (p-value)	0.0000	-	-	-	-
Autocorrelation (p-value)	0.0000	-	-	-	-
Time effect (p-value)	-	-	-	0.0366	-
Two-way effect	-	-	-	Yes	-

Notes: Dependent variable is debt ratio

***, ** and * denote significance level at 1%, 5%, and 10%, respectively.

Vif: variance inflation factor.

Vif less than 10 = there is no multicollinearity problem.

Heteroskedasticity: Breusch Pagan test (p-value less than 0.1) = have the problem of Heteroskedasticity.

Autocorrelation (p-value less than 0.1) = have the problem of Autocorrelation.

5. Conclusion

This study examines the impacts of a CEO overconfidence on a firm's financing decision. Motivated by the expansion of the Islamic equity market in Malaysia, with 76.32 percent of the firms listed on the Bursa Malaysia in the year 2018 being SCFs, we study the financing decisions of SCFs. Moreover, to the best of our knowledge, up until now, there has been no study that focuses on the effects of CEO overconfidence on the financing decision of SCFs listed on the Bursa Malaysia.

The Empirical findings verified that male CEOs are overconfident to commit the future financial obligations of the firm (arising from debt financing) as they are confident of their own skills and knowledge to generate future returns.

Overall, beside the CEO overconfidence, the firm's financing decision also depends on the firm's characteristics namely profitability, size, and liquidity.

Thus, the empirical findings in this study provide a new understanding and indication to the SCFs especially for the board of directors on selecting new potential CEOs so that the new CEO appointment will meet the firm's expectation.

Although this study demonstrates the significant element of CEO overconfidence, it has certain limitations in terms of the measurement of CEO overconfidence. Future research may use other measurements of CEO overconfidence. For example, CEO experience can be studied further to include CEO's past experience as a senior manager, CEO's past performance and job tenure.

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تأثيرات ثقة المدير التنفيذي في قرارات التمويل على الشركات المتوافقة مع الشريعة الإسلامية المدرجة في بورصة ماليزيا

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المستخلص. يُعد قرار تقديم التمويل من الشركات من القرارات المهمة التي تتخذها الإدارة التنفيذية في الشركة بصفة عامة. وهو يكتسب أهمية خاصة للشركات في ماليزيا بسبب استخدام النظام المالي المزدوج. كما أنه يُعد من القرارات التي تساهم في تنفيذ الاستراتيجية العامة في الشركة وتقع مسؤولية تنفيذها على المدير العام للشركة. لم تتمكن النتائج العملية في السابقة حول هذا الموضوع من تحديد العوامل والنظريات التي تفسر على نحو أفضل خيار تمويل الشركة. وتنشأ هذه المشكلة لأن النظريات التقليدية تفترض أن اللاعب الاقتصادي دائماً ما يكون عقلانياً، ومع ذلك يمكن أن تكون قرارات تمويل الشركات أقل عقلانية أو متحيزة تماماً. تهدف هذه الدراسة إلى سد الثغرات من خلال دراسة آثار ثقة المدير التنفيذي المفرطة في قرارات التمويل في الشركات المتوافقة مع الشريعة الإسلامية المدرجة في بورصة ماليزيا. وقد استخدمت هذه الدراسة بيانات (panel data) خلال الفترة ٢٠٠٩م إلى ٢٠١٧م. وبينت النتائج أن كبار المديرين التنفيذيين في الشركات من الذكور على استعداد لاتخاذ سياسات استراتيجية عالية المخاطر عبر زيادة مستوى الديون وفقاً لنظرية التبادل التي ترى أن اعتماد الشركة على الدين مع وجود الإعفاء الضريبي يعزز من قيمة الشركة ويزيد من مستوى الصراع بين المديرين والمساهمين.

الكلمات الدالة: قرار التمويل، التمويل السلوكي، ثقة المدير التنفيذي، الشركات المتوافقة مع الشريعة الإسلامية.

تصنيف JEL: D22, D91, G32, G41

تصنيف KAUIE: H21, H22, J32