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The Impact of General Manager's Overconfidence on Corporate Debt Financing

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Abstract

This article is based on the theory of behavioral corporate finance, and aside from the traditional assumption of managerial debt financing, the rational assumption of managers is studied. From the perspective of the fact that managers are irrational, studying the characteristics of managerial overconfidence will affect companies represented by capital structure and debt maturity structure. What kind of impact debt financing behavior has, based on the manager's personal characteristics, constructs an evaluation index to measure the manager's overconfidence, and conducts an empirical analysis based on the financial data of listed companies. The study found that managers' overconfidence has a significant positive correlation with the capital structure and a significant positive correlation with the debt maturity structure. Therefore, it can be proved that the manager's overconfidence is indeed an important factor affecting the company's debt financing behavior, and the mechanism of the manager's overconfidence affecting the company's debt financing behavior is explained and explained. Finally, suggestions are made on corporate governance.

Keywords

Behavioral corporate finance; Manager's overconfidence; Capital structure; Debt maturity structure; Debt financing cost.

1. Introduction

How to choose a financing method and how to determine the proper financing structure are the main research contents of modern corporate financing theory. Modern corporate financing theory starts from the MM theory proposed by Modigliani and Miller (1958). Since the introduction of the MM theory, in the past sixty years of development, many scholars have relaxed the strict assumptions required by the MM theory from different angles and proposed many corresponding theories to enrich the modern corporate financing theory. In order to better explain the company's debt financing behavior from a theoretical level. Among them, the main theories include capital structure theory based on information symmetry, capital structure theory based on information asymmetry, and capital structure theory based on agency costs and market selection theory However, both the MM theory and these new theories based on it are based on the rational assumption that managers can make unbiased predictions about the future and make financing decisions that maximize corporate benefits. However, in real life, these theories cannot provide a reasonable explanation of some financing behaviors of the company from the factual level. With the appearance and development of behavioral corporate finance, those financing behaviors that cannot be explained by traditional financing theories have the possibility of being explained or even predicted.

Behavioral finance combines psychology and finance. From the perspective of people, it focuses on human behavior and the underlying psychological mechanisms to explore and predict the

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interaction between individuals, collectives, and capital markets. Behavioral corporate finance questioned the assumption of rational economic people in traditional corporate finance theory. Behavioral corporate finance believes that managers are not completely rational in the process of corporate affairs and decision-making. Managers may have, for example, overconfidence. Psychological characteristics are then reflected in the decisions they make about the company. Behavioral corporate finance is to study how managers' irrational psychological characteristics, such as excessive self-confidence, affect a series of major decisions they make about the company, and to make recommendations based on this to enrich corporate financial theory and corporate governance theory .

At present, research on how managers' excessive self-confidence affects corporate decisions has focused on distortions in investment and financing decisions. The main research conclusions in the study of the impact of manager's overconfidence on company investment decisions are as follows. Roll(1986) found that manager's overconfidence causes many merger and acquisition projects to destroy business value after completion[1]. Heaton (2002) found that overconfident managers have overestimated investment projects and the net present value tends to lead to overinvestment [4]. Malmendier & Tate overconfident (2005) found that CEOs are more likely to implement M & A projects with destructive value, compared with rational CEOs, overconfidence Of CEOs are more sensitive to cash flow, and their decisions are more likely to distort the company's investment behavior [5].

The research on the impact of managers 'overconfidence on corporate financing behavior lags behind the research on the impact of managers' overconfidence on corporate investment behavior. In recent years, scholars have gradually shifted their focus from investment decisions to financing decisions. Hackbarth(2004) found that compared with rational managers, overconfident managers tend to have higher levels of debt[6]. Nofsinger (2005) found that managers' overconfidence leads to excessive investment in companies and excessive debt financing[7]. Yu Guiming et al(2006) found that overconfidence will lead the company to make aggressive debt financing decisions[8]. Huang Lianqin&Fu Yuanlue(2010) found that Managers' overconfidence is positively related to the company's asset-liability ratio[9].

Throughout the above research results, most scholars have theoretically analyzed the relationship between managers' overconfidence and corporate debt financing in theory, and the empirical research is relatively lagging. Based on the research of many scholars, this paper attempts to represent corporate debt financing behavior with two variables: corporate capital structure and debt maturity structure. Through empirical analysis, we test and explain whether managers' overconfidence affects corporate debt financing behavior and how to affect corporate debt. Financing behavior.

This article uses the personal characteristics of the general manager to construct a measure of manager's overconfidence. Using A-share companies listed on the Shenzhen Stock Exchange from 2014 to 2017 as a sample, this article demonstrates whether and how managers' overconfidence affects the company's debt financing behavior. Empirical test results show that managers' overconfidence is significantly positively related to the asset-liability ratio and short-term debt ratio. Afterwards, the "overholding change of managers" method was used to re-measure the overconfidence of the managers of the sample companies, and the robustness test was performed on the above empirical results. The test results were roughly consistent.

This article is divided into five parts, the rest are arranged as follows: the second part proposes hypotheses, the third part empirical research design, the fourth part empirical test, the fifth part brief conclusions and recommendations.

ISSN: 2688-9323

2. Theoretical Analysis and Research Hypotheses

2.1. Managers' Overconfidence and Capital Structure

As mentioned above, with the rise and development of behavioral corporate finance, a large number of psychologists and economists have found through experimental research that people have the psychological phenomenon of overconfidence, and this phenomenon is in the hands of managers who control the fate of companies The performance in the group is more common, and then under the effect of the psychological phenomenon of overconfidence, the decisions made by managers have the possibility of deviating the company from the optimal operating mode and road. Based on the existing literature and the research results of scholars, this article will theoretically deduce how managers' overconfidence affects the capital structure from three aspects.

Firstly, when external financing is needed, over-confident managers are more inclined to choose debt financing than equity financing. Secondly, over-confident managers have the urge to over-invest. When investment project spending exceeds the budget and the company's own funds cannot support the project financing needs, they will fill the project financing needs through debt financing to meet their excessive investment needs. As a result, companies have excessive debt levels. Thirdly, overconfident managers will overestimate investment project returns and underestimate investment project risks, thereby underestimating the possibility of the company falling into a financial crisis. Compared with rational managers, overconfident managers tend to choose High debt levels.

Based on the above discussion, this paper draws the first hypothesis about how managers 'overconfidence affects corporate debt financing behavior .

H1: Managers' overconfidence is positively related to the company's debt level.

2.2. Managers' Overconfidence and Debt Maturity Structure

Based on the discussion above, we have drawn the hypothesis that managers 'overconfidence is positively related to debt levels. Following this idea, since managers' overconfidence may affect the company's debt level, do they have What about long-term / short-term debt financing preferences? That is, does the manager's overconfidence have something to do with the company's debt maturity structure? Based on the existing literature and the research results of scholars, this article will discuss this from two aspects.

Firstly, overconfident managers have misjudged their ability to run the company. They often believe that their ability to operate is higher than their peers and will overestimate their ability to operate. One of the performances is that they will overestimate the payback period of investment projects and believe that under their own operations, the actual payback period of investment projects will be shorter than the expected payback period. Therefore, overconfident managers are more willing to choose more short-term liabilities to match the payback periods of investment projects. Secondly, the overconfidence of managers' overestimation of their operating capabilities is another aspect of their belief that under their own operations, the actual return level of investment projects in each period will be higher than the expected return level, and they underestimate the investment project's risk. Therefore, under the principle of maximizing benefits, although long-term loans have the advantage of smoothing the pressure of repayment in each period, over-confident managers will still tend to choose lower-cost but high-risk short-term liabilities when financing investment projects instead of Higher cost but less risky long-term debt.

Based on the above discussion, this article draws a second hypothesis on how managers 'overconfidence affects corporate debt financing behavior .

H2: Managers' overconfidence is positively related to the company's short-term debt ratio.

ISSN: 2688-9323

3. Data , Variable Definition and Model Setting

3.1. Data

This article selects the Shanghai-Shenzhen A-share listed companies from 2014 to 2017 as the initial sample, and screens the initial sample according to the following rules: excluding sample listed companies in the financial industry; excluding listed companies with ST and PT marks; At the same time, this article chooses to use the personal characteristics of the general manager to measure the manager ’s overconfidence, so it is necessary to exclude the sample listed companies whose general manager position changed during the inspection period. After screening, a total of 5896 sample observations were obtained, involving 1371 listed companies. Among them, the personal characteristics data of the general manager of the listed company is obtained from the RESSET database, and the financial data of the listed company is obtained from the CSMAR database. This paper uses Excel software to make preliminary arrangement of the data and Stata software for empirical analysis.

3.2. Variable Definition

3.2.1. Explanatory Variable-Manager Overconfidence (OVERCON)

Regarding the measurement method of manager's overconfidence, this article has briefly sorted out and explained in the introduction part, and divided into two categories based on the cause and effect. Foreign scholars use the methods of “change in manager's shareholding” and “mainstream media evaluation” to measure managers ’overconfidence. Domestic scholars use the methods of“ earnings forecast bias ”and“ CEO relative compensation ”to measure manager ’s overconfidence. confidence. Each of the above methods has advantages and disadvantages, and they can only ensure the appropriateness of the proxy variables and the accuracy of the experiments within the bounds of limited rationality. As the saying goes, "personality determines destiny", people's unique growth background and living environment have created their unique personality characteristics. These characteristic factors will have a huge impact on the decisions and choices we make from a psychological level. Combining the basic theories of psychology and the availability of data and effective processing, this article decided to use the personal characteristics of the general manager to construct a substitute variable OVERCON that measures the degree of managerial overconfidence.

The personal characteristics of the general manager concerned in this article include: gender, age, education, professional background and the combination of two positions. (1) Gender. Research by Huang and Kisgen (2012) shows that female managers tend to be more cautious than male managers in corporate financial decisions. Therefore, if the general manager of the sample company is male, Gender = 1, otherwise it is 0. (2) Age. Jiang Wei (2010) came to the conclusion that the older the managers are, the stronger the risk avoidance consciousness is, and the more able they are to have accurate cognition of their abilities. This article argues that younger managers are more likely to develop overconfidence. According to this, if the general manager's age is less than the sample average, Age = 1, otherwise 0. (3) Educational background. Psychological research shows that the more educated people are, the more confident they are in their personal abilities, and the easier it is to overestimate the accuracy of their decisions, and the more likely they are to be overconfident. Accordingly, if the general manager's education level is graduate or above, Education = 1, otherwise 0. (4) Professional background. Executives who have studied economic management in the system will have a clearer understanding of risks and benefits, and they are less likely to have overconfidence when making decisions. Those executives who have no management knowledge reserve are more likely to have blind follow-up and overconfidence. According to this, if the general manager has not studied economics and management majors, then Background = 1, otherwise 0. (5) The situation where two jobs are combined. If the company's general manager and the chairman

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are the same person, their high status will exaggerate their affirmation of their own capabilities, and the more likely they are to become overconfident when making decisions. According to this, if the general manager and the chairman are the same person, Two = 1, otherwise 0. According to the above rules, the general manager characteristic indicators of each sample observation are assigned and summed up. If the sum of the five indicators is greater than or equal to 4 (that is, the general manager has any four or more of the above characteristics), then Define it as overconfident, OVERCON value is 1, otherwise it is 0.

3.2.2. Explained Variable

This paper studies how managers' overconfidence affects corporate debt financing behavior. The explanatory variables involved include two: capital structure (LEV) and debt maturity structure (MAT). Among them, the capital structure (LEV) is defined as the percentage of liabilities to total assets. Here, the total asset-liability ratio (TLEV) and short-term asset-liability ratio (SLEV) are selected as proxy variables of the capital structure, and the overconfidence of managers and the relationship between them are examined separately. TLEV is the percentage of total liabilities and total assets, and SLEV is the percentage of current liabilities and total assets. The debt maturity structure (MAT) is defined as the percentage of current liabilities to total liabilities.

3.2.3. Control and Dummy Variables

we chooses the following variables as control variables: company size, growth, tangible asset ratio, profitability, equity Structure and real interest rates. Among them, company size (SIZE) is defined as the natural logarithm of total assets; growth (GRO) is defined as the main business income growth rate; tangible assets ratio (TANG) is defined as the percentage of net fixed assets and total assets; profitability (PRO) is defined as the sum of profit before interest and tax, depreciation and amortization, and the percentage of total assets; equity structure (STATE) is defined as the percentage of state-owned shares in the total number of companies; the actual tax rate (TAX) is defined as income tax and pre-tax The ratio of total profit. This article uses the annual dummy variable and industry dummy variable to eliminate the possible impact of time differences and industry characteristics on the company's capital structure and debt maturity structure. Taking 2014 as the base year, three annual dummy variables were obtained. In accordance with the relevant provisions of the "China Securities Regulatory Commission Industry Classification Guide", a total of 11 industry dummy variables were obtained.

3.3. Model Setting

3.3.1. Managers' Overconfidence and Capital Structure

$$LEV=\beta_0+\beta_1 OVERCON+\sum Year+\sum Industry+\varepsilon \quad (1)$$

$$LEV=\beta_0+\beta_1 OVERCON+\beta_2 SIZE+\beta_3 GROWTH+\beta_4 TANG+\beta_5 PROFIT+\beta_6 STATE+\beta_7 TAX+\sum Year+\sum Industry+\varepsilon \quad (2)$$

Models 1 and 2 are used to test Hypothesis 1. Model 1 is the basic regression model. Model 2 adds a series of control variables and dummy variables on the basis of model 1 to continue testing Hypothesis 1. The coefficient β_1 indicates the effect of the explanatory variable OVERCON on the explanatory variable LEV. If β_1 is significant, the hypothesis 1 is verified.

ISSN: 2688-9323

Table 1. Variable definition table

Variable type	Variable name	Variable symbol	Variable definitions
Explanatory variables	Managerial Overconfidence	OVERCON	According to the general characteristics of the general manager, the value of overconfidence is 1, otherwise it is 0
Explained variable	Capital Structure	TLEV	Total liability / Total assets
		SLEV	Short liability / Total assets
	Debt Maturity Structure	MAT	Short-term debt / Total liability
Control variable	Company Size	SIZE	Natural logarithm of total assets
	Ability to grow	GROWTH	Main business income growth rate
	Tangible assets ratio	TANG	Net fixed assets / Total assets
	Profitability	PROFIT	Net profit / Total assets
	Shareholding structure	STATE	State-owned shares / Total shares
	Effective tax rate	TAX	Paid income tax / Total profit before tax
virtual variable	Annual effect	Year	Take 2014 as the base year, get 3 annual dummy variables
	Industry effect	Industry	According to the "China Securities Regulatory Commission Industry Classification Guide", a total of 11 industry dummy variables were obtained

3.3.2. Managers' Overconfidence and Debt Maturity Structure

$$MAT=\beta_0+\beta_1 OVERCON+\sum Year+\sum Industry+\varepsilon \quad (3)$$

$$MAT=\beta_0+\beta_1 OVERCON+\beta_2 SIZE+\beta_3 GROWTH+\beta_4 TANG+\beta_5 PROFIT+\beta_6 STATE+\beta_7 TAX+\sum Year+\sum Industry+\varepsilon \quad (4)$$

Models 3 and 4 are used to test Hypothesis 2. Model 3 is the basic regression model. Model 4 adds a series of control variables and dummy variables on the basis of model 3 to continue testing Hypothesis 2. The coefficient β_1 represents the effect of the explanatory variable OVERCON on the explanatory variable MAT. If β_1 is significant, then hypothesis 2 is verified.

ISSN: 2688-9323

4. Empirical Results

4.1. Descriptive Statistical Analysis

Table 2. Descriptive statistics of variables

variable	Mean	Max	Min	Standard deviation	N
OVERCON	0.306	1.000	0.000	0.461	5896
TLEV	0.418	0.982	0.046	0.202	5896
SLEV	0.339	0.675	0.000	0.197	5896
MAT	0.821	1.000	0.038	0.171	5896
SIZE	22.201	26.428	19.208	1.052	5896
GRO	0.247	87.484	-0.942	1.927	5896
TANG	0.214	0.948	0.001	0.159	5896
PRO	0.054	0.671	-0.641	0.064	5896
STATE	0.021	0.772	0.000	0.085	5896
TAX	0.170	6.691	-5.427	0.800	5896

Table 2 lists the descriptive statistical results of all variables except the annual and industry dummy variables. From the statistical results, we can see that the average measure of managers' overconfidence is 0.306, indicating that the irrational assumptions of managers are not completely correct. As far as the sample is concerned, about 30.6% of the general managers of listed companies have overconfidence psychological phenomenon. The average value of the capital structure measured by the total asset-liability ratio TLEV is 0.418, the median is 0.307, the maximum value is 0.982, and the minimum value is 0.046. For the overall sample, the average debt ratio of listed companies is less than 0.5, but it is extremely poor. Very large, indicating that the debt level of listed companies is very scattered. The average value of the capital structure measured by the short-term asset-liability ratio is 0.339, the median is 0.234, the maximum value is 0.675, and the minimum value is 0, which also indicates that the capital structure of listed companies in different samples varies greatly. The average value of the debt maturity structure measured by SLR is 0.821, the median is 0.872, the maximum value is 1, and the minimum value is 0.038, indicating that most of the sample listed companies use short-term liabilities more than long-term liabilities. The large difference indicates that the differences between different companies are large. In terms of profitability, the maximum value of PRO is 0.671, the minimum value is -0.641, and the average value is only 0.054, indicating that the profitability gap between different listed companies is very large, and many companies are losing money.

4.2. Correlation Analysis

Table 3 lists the Spearmam correlation coefficients among the variables. According to the test results, without considering the influence of other factors, managers' overconfidence and capital structure and debt maturity structure have a significant positive correlation. The correlation coefficients between managers 'overconfidence and capital structure measured by TLEV and SLEV were 0.05 and 0.01, and the correlation coefficient between managers' overconfidence and debt maturity structure was 0.03. It has been shown initially that overconfident managers have higher levels of debt, and they are more inclined to make debt financing decisions; their debt maturity structure is shorter, and they prefer short-term debt. At the same time, the variance expansion factor (VIF) of each variable is less than 10 and the

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correlation between the control variables is not high. Therefore, there is no serious multicollinearity problem between the variables.

Table 3. Correlation analysis of variables

Variable	TLEV	SLEV	MAT	OVERCON	SIZE	GRO	TANG	PRO	STATE	TAX
TLEV	1.00									
SLEV	0.42	1.00								
MAT	0.22***	0.44**	1.00							
OVERCON	0.05 ***	0.01 ***	0.03 *	1.00						
SIZE	0.49 ***	0.03 ***	-0.28 ***	-0.01	1.00					
GRO	0.01 **	0.006 ***	-0.01	0.05 ***	0.11 ***	1.00				
TANG	-0.01	0.06	-0.14 ***	-0.13 ***	-0.09 ***	-0.17 ***	1.00			
PRO	-0.22 ***	-0.34 ***	0.03 *	0.04 ***	0.10 ***	0.34 ***	-0.10 ***	1.00		
STATE	0.13 *	0.10 *	-0.09 ***	-0.01 *	0.20 ***	-0.04 ***	0.09 ***	-0.05 ***	1.00	
TAX	0.11 *	0.09	-0.05 ***	-0.03	0.19 ***	0.04 **	-0.06 ***	0.14 ***	0.05 ***	1.00

Note: *, **, and *** represent significant levels at 10%, 5%, and 1%, respectively.

4.3. Regression Analysis

4.3.1. Managers' Overconfidence and Capital Structure

In order to overcome possible endogenous problems, this paper uses GMM estimation technology to test the relationship between managers' overconfidence and capital structure and debt maturity structure. This article uses the total asset-liability ratio TLEV and short-term asset-liability ratio SLEV to represent the capital structure and managers' overconfidence regression analysis. The regression results are shown in Table 4. Among them, Model 1 is the basic regression model. Model 2 adds some control variables that may affect the capital structure based on Model 1. From the regression results, it can be seen that the adjustment determination coefficient Adj-R2 of Model 2 is better than Model 1. The obvious improvement indicates that these control variables do have a significant impact on the capital structure, and the overall goodness of fit of the equation has improved significantly. In the above four regressions, the OVERCON coefficient is significantly positive at the level of 1%, indicating that an increase in the degree of overconfidence of managers will significantly increase the total asset-liability ratio and short-term asset-liability ratio, which is consistent with the hypothesis 1 of this paper This proves that managers' overconfidence is positively related to debt levels. At the same time, the test result that the manager ’s overconfidence is significantly positively

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related to the short-term debt ratio also supports Hypothesis 2 to a certain extent, which provides a basis for further testing whether the overconfident managers have short-term debt preferences. As far as the regression results of the control variables in Model 2 are concerned, the company's size, growth ability, tangible assets ratio, and equity structure are significantly positively related to the total debt level; profitability is significantly negatively related to the total debt level, indicating that the higher the company's profitability The lower the debt level, it can be known from the pecking order theory that to a certain extent, the more profitable the company is, the greater its internal financing space. Compared with debt financing, the company is more willing to choose internal financing. The regression coefficient of the actual tax rate is positive but not significant, which indicates to some extent that the tax shielding effect of the debt financing of the sample listed companies is not obvious, which may be caused by China's special institutional environment.

Table 4. Regression results of Managers' Overconfidence and Capital structure

Variable	Model 1 TLEV	Model 2 TLEV	Model 1 SLEV	Model 2 SLEV
Constant	3.4213*** (31.65)	1.7769*** (29.04)	3.4143*** (31.62)	2.7539*** (30.76)
OVERCON	0.0374*** (3.35)	0.0219*** (3.18)	0.0173*** (2.61)	0.0116*** (2.49)
SIZE		0.1005*** (36.56)		0.0877*** (29.76)
GRO		0.0043*** (2.91)		0.0032 (2.56)
TANG		0.0268* (1.74)		0.0097* (1.23)
PRO		-0.8237*** (-18.48)		-0.5093*** (-17.80)
STATE		0.0192** (3.21)		0.0097** (0.49)
TAX		0.0012 (0.32)		0.0008 (0.27)
$\sum$ Year	Control	Control	Control	Control
$\sum$ Industry	Control	Control	Control	Control
N	5896	5896	5896	5896
Adj-R^2	0.3235	0.4013	0.2472	0.2857

Note: *, **, and *** represent significant levels at 10%, 5%, and 1%, respectively.

4.3.2. Managers' Overconfidence and Debt Maturity Structure

Through the above test, we have obtained empirical results of positive correlation between manager's overconfidence and short-term debt ratio. In order to further test the relationship between manager's overconfidence and debt maturity structure, we perform regression analysis on models 3 and 4. The regression results As shown in Table 6. From the regression results, it can be seen that the OVERCON coefficient is significantly positive at the level of 1%, indicating that managers' overconfidence is significantly positively related to the debt maturity structure, that is, overconfident managers prefer to choose short-term liabilities. This

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conclusion validates Hypothesis 2. As far as the regression results of the control variables are concerned, the size of the company is significantly negatively related to the debt maturity structure, indicating that the larger the company, the more inclined to choose long-term debt; the GRO coefficient of 0.0006 is not significant, indicating that the company's ability to grow affects the company's debt duration The choice has an insignificant effect; the proportion of tangible assets is significantly negatively related to the debt maturity structure, which indicates that companies with a lot of fixed assets tend to choose long-term liabilities; the profitability is significantly positively related to the debt maturity structure, indicating the tendency of companies with strong profitability I choose short-term debt because the term of the short-term debt is more flexible; the coefficients of the equity structure and the actual tax rate are both positive but not significant, indicating that there is no significant difference in the impact of state-owned enterprises or non-state-owned enterprises on the debt maturity structure, and tax shielding of debt financing The effect is not obvious.

Table 5. Regression results of Managers' Overconfidence and Debt Maturity Structure

Variable	Model 3	Model 4
Constant	1.6774*** (30.13)	1.8391*** (30.99)
OVERCON	0.0132*** (2.09)	0.0164*** (2.17)
SIZE		-0.443*** (-16.63)
GRO		0.0006 (0.45)
TANG		-0.1991*** (-11.27)
PRO		0.1467*** (3.39)
STATE		-0.0315* (-4.61)
TAX		0.0006 (0.18)
$\sum$ Year	Control	Control
$\sum$ Industry	Control	Control
N	5896	5896
Adj-R^2	0.3662	0.3718

Note: *, **, and *** represent significant levels at 10%, 5%, and 1%, respectively.

5. Conclusion

This article takes the Shenzhen Stock Exchange A-share company from 2014 to 2017 as a sample, and conducts an empirical study on whether and how managers' overconfidence affects the company's debt financing behavior based on the behavioral company financial theory and capital structure theory. The research results show that managers' overconfidence has a significant positive correlation with both the capital structure and the debt maturity structure,

which shows that overconfident managers tend to debt financing and prefer short-term debt in terms of debt maturity, further explaining that management Investors' overconfidence will have an impact on the company's debt financing behavior, and it will have a radical effect. From this, the following conclusions and recommendations are further drawn:

Managers do not exist completely rationally. Managers' overconfidence does exist. In this regard, the company should further establish an effective mechanism to restrain managers' overconfidence, strengthen the professional and psychological training of managers, establish an overconfidence early warning system for managers, and improve the company's financing decision-making procedures.

Managers' overconfidence will cause the company's debt financing behavior to be biased, prompting the company to make aggressive debt financing decisions. When companies need to make financing decisions, over-confident managers tend to use debt financing and prefer short-term debt, which changes the capital structure of listed companies, increases the debt ratio of listed companies, and increases the possibility that the company will fall into a financial crisis. . Therefore, the company should further improve the internal governance structure, establish and improve the internal control system, improve the fund monitoring and risk early-warning mechanism, keep vigilant over the possible overconfidence of managers when making financing decisions, and promptly correct the irrational behavior of managers To avoid the negative impact of managers' overconfidence on the company.

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