CHAPTER V

CONCLUSION AND SUGGESTION

5.1 Conclusion

The employment of merger and acquisition tactics to improve performance and competitiveness in the market has increased as business rivalry, particularly in Indonesia, gets more fierce. Both psychological elements, such management overconfidence, and logical analysis play a role in merger and acquisition choices. Managers may make risky choices as a result of this overconfidence, which could lower the performance and worth of the business. Even if the goal of managerial ownership is to match managers' interests with those of shareholders, it can occasionally make matters worse by giving the impression that control is in place, which eventually lowers the value of the company.

The relationship between managerial overconfidence and corporate value has been the subject of numerous studies, but the results have been mixed, and no comparable research has been done in Indonesia as of yet. The differing results of previous studies may be due to variations in geographical or industry contexts, which affect business dynamics, regulations, and organizational culture. Additionally, differences in methods of measuring managerial overconfidence, such as ownership stakes or frequency of optimistic projections, lead to different interpretations of its impact on firm value.

In response to these issues and the inconsistency in previous research, the researcher aims to further investigate the impact of managerial overconfidence on firm value in companies involved in mergers and acquisitions in Indonesia. In order to better understand how managerial overconfidence affects business value, this study spans the years 2013–2023. Additionally, the COVID-19 pandemic occurred at this time, which had a substantial impact on business decision-making and economic conditions. For this reason, it is critical to examine if the pandemic influenced the relationship between managerial overconfidence and firm value.

The study's conclusions show that managerial overconfidence lowers corporate value, especially when it comes to strategic choices like mergers and acquisitions. Excessive confidence among managers often leads them to make suboptimal decisions, such as overinvesting or pursuing high-risk projects, which can ultimately harm the company's performance. Overconfidence in merger and acquisition decisions can lead to a lack of rational analysis, making it unlikely that expected synergies and added value will be realized. Therefore, overseeing managerial behavior is crucial to balance the risks and outcomes of these strategic decisions. In addition to managerial overconfidence, this study also highlights that factors such as profitability, cash flow, and firm size have a significant impact on firm value. In other words, firm value is not only determined by managerial characteristics but also by the operational performance and financial structure of the company itself. Furthermore, the results show that the COVID-19 pandemic does not have a significant effect on Tobin's Q, indicating that the pandemic factor does not have a significant relationship with firm value in this study. This research contributes significantly to companies, especially in the context of mergers and acquisitions, which often involve high-risk strategic decisions. By understanding the negative impact of managerial overconfidence on firm value, companies can take preventive measures such as strengthening corporate governance, enhancing internal oversight mechanisms, and involving independent parties in decision-making processes. These steps can help companies manage strategic risks, ensure more rational merger and acquisition decisions, and support sustainable business growth. This study offers scholars and researchers fresh perspectives on the dynamics of management conduct in merger and acquisition contexts and how it affects business value.

5.2 Limitations and Suggestions for Future Research

In order to get better results, future research should take into account and address the limitations of this study. Only the managers' ownership of shares served as the basis for measuring management overconfidence, which may not fully reflect the overall level of overconfidence. This approach might overlook other psychological aspects that influence decision-making, such as managerial experience, educational background, or personal risk profiles. Future researchers are encouraged to adopt a more holistic approach that can provide a more comprehensive understanding of managerial overconfidence levels. Additionally, this study only uses data at the time the merger and acquisition transactions are successfully completed, not during the merger and acquisition process itself. Future research should consider examining different timeframes to observe the real-time impact of managerial overconfidence. Furthermore, future research should consider incorporating additional variables such as corporate governance structure, the type of financing used in mergers and acquisitions, or investor reactions to better understand the broader impact of managerial overconfidence on firm value.