

IS GENDER IMPORTANT TO FIRM PERFORMANCE? EVIDENCE FROM BUSY CEO

Ricky Ricky¹, Wisnu Yuwono², Robin Robin³

Program Study of Magister Management, Faculty of Business and Management,
Universitas Internasional Batam, Batam, Kepulauan Riau, Indonesia^{1,3}

Program Study of Management, Faculty of Business and Management, Universitas
Internasional Batam, Batam, Kepulauan Riau, Indonesia²

Abstract. *This study investigates whether CEO busyness have an impact on company performance, and if this relationship is moderated by female CEOs by analyzing all company sectors apart from finance, insurance, and property that are included in the Kompas 100 index listed on the Indonesia Stock Exchange (IDX) in the 2017-2020 period. Our findings have shown that the presence of a busy CEO will cause a decrease in company performance. In addition, we also found that negative relationship is stronger in companies whose CEOs are female. For firms and shareholders, our findings indicate that it is not a good idea for CEOs to hold more than one outside directorships, especially those who occupy the position of CEO are female. Our results suggest that restrictions on CEO busyness would be beneficial to shareholders.*

Keywords. *CEO Busyness; CEO Characteristics; Female CEOs; Financial Performance.*

Abstrak. Penelitian ini menyelidiki apakah kesibukan CEO berdampak pada kinerja perusahaan, dan apakah hubungan ini dimoderasi oleh CEO wanita dengan menganalisis semua sektor perusahaan selain keuangan, asuransi, dan properti yang tergolong dalam indeks Kompas 100 dan tercatat di Bursa Efek Indonesia (BEI) periode 2017-2020. Penemuan kami menunjukkan bahwa kehadiran CEO yang sibuk dapat menyebabkan penurunan pada kinerja perusahaan. Selain itu, kami juga menemukan bahwa hubungan negatif menjadi lebih kuat di perusahaan yang CEO-nya adalah wanita. Untuk perusahaan dan pemegang saham, temuan kami menunjukkan bahwa bukanlah ide yang baik bagi CEO untuk memegang lebih dari satu jabatan direktur dari luar perusahaan, Terutama yang menduduki posisi CEO adalah seorang wanita. Hasil kami menunjukkan bahwa pembatasan terhadap kesibukan CEO akan memberikan manfaat bagi pemegang saham.

Kata kunci. CEO Wanita; Karakteristik CEO; Kesibukan CEO; Kinerja Perusahaan.

Corresponding author. Email: 2044057.ricky@uib.edu¹, wisnu@uib.ac.id², robin@uib.ac.id³

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INTRODUCTION

Discussion and research on the relationship between the characteristics of a CEO and the performance of the company he leads has become a very interesting topic and continues to grow, especially in the United States, Australia and Europe. In Indonesia, this problem has not been discussed much and research on this matter is still very limited

In a business or company, financial performance is an important thing, considering

this can affect the sustainability of the business itself. Not limited to companies with certain industries or certain ownership, all of them must pay attention to their financial performance. Various conflicts and issues that have arisen regarding the characteristics of a CEO have led to questions about their impact on financial performance and the sustainability of the company he leads.

Companies tend to hire CEOs based on their knowledge, expertise and the ability to create value for their stockholder. Experienced

CEOs who hold outside directorships from other companies can bring benefits to their firms as their growing network helps them build new partnerships and expand business opportunities. However, too much external commitment can overwhelm the CEO and negatively impact the company's operations and performance.

Previous studies about board of directors have shown that when a board member overwhelmed themselves, they become busier and lose concentration. Which causing them to be less optimal on their performance and as a result lower firm profitability. Many studies have shown the negative effects of busy directors. Lee and Lok (2020) found that lower firm performance and higher operating risk take place in firms with busy directors. Hauser (2018) show that busy directors tend to be absent from their board meetings. Cashman et al. (2012) point out that busy directors do not have sufficient time to perform their task effectively.

We apply this same argument to companies listed in Indonesia where many CEOs hold multiple directorship from outside the company so we can examine the negative relationship between busy CEO and corporate performance. The research sample that we used for this study consisted of 284 firm-year observations from companies listed in Indonesia Kompas 100 index 2017 to 2020.

We find that most of busy CEOs in Indonesia are linked with lower corporate performance. This shows that CEOs who hold more than one outside directorships are disturbed and unfocused. As a result damaging their firm performance.

In this study, we also extends the available debate by investigate if this negative relationship is stronger with female CEOs. Prior literature suggest that CEO gender may have an impact on their behavior to influence their decision making and the ability to perform their work. For example, Jadiyahpa et al. (2019) mention that the risk-averse nature of female CEOs who tend to make decisions to avoid debt because of the financial risks, might result the company's potential to finance its growth is hampered.

We consistently find evidence showing that there is a stronger negative relationship when busy CEOs are female. This suggests that female CEOs are not implement effective practices to limit the negative impact of busy CEOs on corporate operations.

The CEO plays a key part in managing and promoting the success of the company. This study in particular looks for the impact of CEOs with more than one outside directorships on firm performance. Using the available literature, we highlight two ideas about CEOs having secondary appointment from another firm.

The first idea is based on the CEO's reputation, expertise, and talent. Withisuphakorn and Jiraporn (2018) stated that the number of board duties held by the CEO in other companies demonstrates the quality of his reputation. A Reputable CEOs will be more in demand and are more likely to secure additional positions in other companies. In terms of expertise, some studies have shown that corporate officers who are more experienced and skilled in corporate governance are preferred by stockholder. As an example, Fich (2005) indicates that there is a positive response from the shareholders about the presence of an outside director who has the position of CEO in another company, with the hope that the company will benefit and experience from the CEO.

The second idea is that having a board of directors position in another company is a sign of busyness that can lead CEOs to lose focus on their main task of managing their company due to not having enough time and energy. As a result, the company activities will be disturbed and the company performance will decline. This view is in line with previous research on busy directors (Mohd et al., 2016). Previous research also has a similar view on busy directors where Lee and Lok (2020) explains that busy directors tend to excess their capabilities by reducing their dedication on time and effort in managing the company. the same discovery was found by Chen and Guay (2020) that the busy director doesn't have sufficient time to fulfill their duties. Field et al. (2013) found that busy directors skipped board

meetings more often than non-busy directors. Other research conducted by (Devos et al., 2009; Liu & Paul, 2015; Ferris et al., 2020) also shows that the busyness of directors interferes with their flows in managing the company. This argument proposes that CEOs with directors in other companies are associated with negative corporate performance.

According to the reasons above, we expect the negative effects from CEO busyness can offset the potential positive benefits from CEO reputation, expertise and human resources. So, our first hypothesis is:

H1 : Company managed by busy CEOs have a lower firm performance.

Our research also explores more in-depth evidence in which we predict the negative effect of busy CEOs on firm performance to be more worse in conditions where firms are led by female CEOs. Fischer et al. (1993) find that In feminist liberal theory, men and women have inherently different ways of looking at the same situation, which results in decisions that vary between gender. Barber and Odean, (2001); Watson and Newby (2005); Faccio et al. (2016) think women are more risk averse than men. Khan and Vieito (2013) added that there are differences in risk-taking behavior in women which causes them to tend choose less risky investments and maintain lower leverage. Jادیyappa et al. (2019) argues this risk-averse nature can lead women to make investment decisions that are less than optimal for the company. For example, the decision to avoid debt due to financing risk can reduce the company's ability to finance its growth potential which in return can harm performance.

We believe that this risk-averse behavior will hinder the opportunities that a busy CEO has in building and forging extensive social networks and partnerships for the company to develop in a more profitable direction. We therefore expect that the negative effect of CEO busyness will be even greater in companies led by female CEOs:

H2 : The negative effect between busy CEOs and firm performance is more intense with female CEOs.

RESEARCH METHODOLOGY

Data and Sample

In this study, the research sample that we use consists of companies that are listed in Indonesia Kompas 100 index from the period 2017 to 2020, which was collected through company annual report and Bloomberg website. The information on corporate finance and corporate governance is collected through the company annual report from the IDX website. Data on CEOs who are referred to as president directors in Indonesia consisting of number of positions, gender, education, and tenure were collected from the Bloomberg website. The data sets are then combined and sample selection criteria are applied. In the early stages of the proses, we excluded all companies with industry sector codes 6 and 8 (finance, insurance and property) due to the different nature of their financial statements. In the second stage, we excluded all incomplete data from the observation sample. After going through this process, the final sample includes 284 company year observations.

Variable Definitions

The variable that becomes the main topic in this study is a busy CEO which is measured by using a dummy variable. We categorize CEOs as busy if they have more than one directorships in other companies (Harymawan et al., 2019; Chen & Guay, 2020; Lee & Lok, 2020). The dependent variable in this study is the company's performance as measured by using Tobin's q and Return On Assets (ROA). Tobin's q is measured as the market value of the company divided by the cost of replacing its assets. ROA is measured as net income divided by total assets. These two variables are presented as percentages at the level of 1% to 99%.

Tabel 1. Variable Definitions

VARIABLE	DEFINITION	SOURCE
Dependen:		
ROA	Net income divided by total assets.	Financial Report
TOBINSQ	The ratio of a company's market value to the book value of its assets.	Financial Report
Independent:		
BUSYCEO	Dummy variable, 1 for CEOs who hold two or more other directorships, and 0 for CEOs who hold less than two other directorships.	Bloomberg
Controls:		
CEOGENDER	Dummy variable allocated as 1 if the CEO under study is female and 0 if the CEO under study is male.	Financial Report
CEOEDU	Dummy variable that has a value of 1 if the CEO has a postgraduate degree, to represent Masters and/or PhD and 0 if the CEO's degree is below postgraduate.	Bloomberg
TENURE	Dummy variable, 1 for CEOs who have served their company more than five years, and 0 for CEOs who have served their company less than or equal to five years.	Bloomberg
FIRMAGE	Natural logarithm of the number of years since the company was founded.	Financial Report
FIRMSIZE	Natural logarithm of total assets.	Financial Report
LEVERAGE	Total debt divided by total assets.	Financial Report
GROWTH	The difference between total sales minus lag total sales scaled by lag total sales.	Financial Report
BOARDSIZE	Natural logarithm of the number of members of the board of directors and board of commissioners in the company.	Financial Report

Source: Secondary data proceed (2021)

Table 2. Sample Distribution

Panel A: Sample Distribution by Industry Sector						
Industry	Busy CEOs		Non-Busy CEOs		Total	
	N	%	N	%	N	%
(SIC 1) Agriculture	11	45,83	13	54,17	24	100
(SIC 2) Mining	9	17,31	43	82,69	52	100
(SIC 3) Basic and Chemical Industry	16	44,44	20	55,56	36	100
(SIC 4) Various Industries	12	37,50	20	62,50	32	100
(SIC 5) Consumer Goods Industry	14	29,17	34	70,83	48	100
(SIC 7) Infrastructure, utilities & transportation	10	50,00	18	50,00	28	100
(SIC 9) Trade, Services and Investment	36	56,25	28	43,75	64	100
Total	108	39,44	176	60,56	284	100

Panel B: Sample Distribution by Year						
Year	Busy CEOs		Non-Busy CEOs		Total	
	N	%	N	%	N	%
2017	26	38,03	45	61,97	71	100
2018	27	39,44	44	60,56	71	100
2019	28	40,85	43	59,15	71	100
2020	27	39,44	44	60,56	71	100
Total	108	39,44	176	60,56	284	100

Source: Indonesia Kompas 100 Index (2017-2020)

Methodology

The model we used in this study is the OLS regression model which includes fixed year and industry effects, and clustered standard errors (Petersen, 2009). We used the following regression model to verify our first hypothesis in this study. We expect to find a negative coefficient on BUSYCEO.

$$\begin{aligned}
 FP_{i,t} = & \beta_0 + \beta_1 \text{BUSYCEO}_{i,t-1} \\
 & + \beta_2 \text{CEOGENDER}_{i,t-1} + \beta_3 \text{CEOEDU}_{i,t-1} \\
 & + \beta_4 \text{TENURE}_{i,t-1} + \beta_5 \text{FIRMAGE}_{i,t-1} \\
 & + \beta_6 \text{FIRMSIZE}_{i,t-1} + \beta_7 \text{LEVERAGE}_{i,t-1} \\
 & + \beta_8 \text{GROWTH}_{i,t-1} + \beta_9 \text{BOARDSIZE}_{i,t-1} \\
 & + \varepsilon_{i,t}
 \end{aligned}$$

We used model 2 to test our second hypothesis. Based on the second hypothesis, we expect the coefficient to be negative on BUSYCEO*CEOGENDER.

$$\begin{aligned}
 FP_{i,t} = & \beta_0 + \beta_1 \text{BUSYCEO} * \text{CEOGENDER}_{i,t-1} \\
 & + \beta_2 \text{BUSYCEO}_{i,t-1} + \beta_3 \text{CEOGENDER}_{i,t-1} \\
 & + \beta_4 \text{CEOEDU}_{i,t-1} + \beta_5 \text{TENURE}_{i,t-1} \\
 & + \beta_6 \text{FIRMAGE}_{i,t-1} + \beta_7 \text{FIRMSIZE}_{i,t-1} \\
 & + \beta_8 \text{LEVERAGE}_{i,t-1} + \beta_9 \text{GROWTH}_{i,t-1} \\
 & + \beta_{10} \text{BOARDSIZE}_{i,t-1} + \varepsilon_{i,t}
 \end{aligned}$$

Table 3. Descriptive Statistics.

Panel A: Companies with Busy CEOs (N = 108)				
Variable	Mean	Median	Minimum	Maximum
TOBINQ	1,5680	1,0140	0,5050	6,9620
ROA	0,0330	0,0290	-0,3750	0,3510
CEOGENDER	0,0370	0,0000	0,0000	1,0000
CEOEDU	0,4440	0,0000	0,0000	1,0000
TENURE	0.6760	1.0000	0.0000	1.0000
FIRMAGE	33.8859	38,0000	7,0000	103,0000
FIRMSIZE	16,329,591,380,977	14,628,605,374,523	2,097,988,196,889	352,122,414,663,694
LEVERAGE	0,5540	0,5420	0,1260	1,8980
GROWTH	0,6870	0,0530	-0,4380	67,4290
BOARDSIZE	10,8265	11,0000	6,0000	23,0000
Panel B: Companies with Non-Busy CEOs (N = 176)				
Variable	Mean	Median	Minimum	Maximum
TOBINQ	2,2490	1,1910	0,4350	23,2860
ROA	0,0580	0,0450	-2,6410	0,6070
CEOGENDER	0,0057	0,0000	0,0000	1,0000
CEOEDU	0,5057	1,0000	0,0000	1,0000
TENURE	0.5680	1.0000	0.0000	1.0000
FIRMAGE	35.7303	39,0000	5,0000	113,0000
FIRMSIZE	10,967,966,457,839	12,871,027,870,948	432,133,324,887	115,005,377,032,145
LEVERAGE	0,4880	0,4720	0,0770	2,9000
GROWTH	0,1460	0,0850	-0,7680	7,8870
BOARDSIZE	10,0142	10,0000	3,0000	20,0000

Source: Secondary data proceed (2021)

RESULTS AND DISCUSSION

Descriptive Statistics and Univariate Comparisons

Table 2 shows the results of the distribution sample based on industry sector (Panel A) and year (Panel B). Sample are grouped into seven industry sectors, with the largest number of observations coming from Trade, Services and Investment (64), Mining (52) and Consumer Goods Industry (48). There are total of 284 sample observations from 2017-2020 and 108 (38%) are from firms with busy CEO.

Descriptive statistics of firms with and without CEOs are shown in Table 3. In Panel A we can see that firms with Busy CEOs have an average Tobins'q and ROA of 156.8% and 3.3%. The average percentage of female CEOs is 3.7%, and 44.4% of companies have a CEO atleast postgraduate (Masters and/or PhD). The

average of firm age is 33.89 years old. The total assets owned by most companies are IDR 16,329,591,380,977, growth of 68.7%, and leverage of 55.4%. The average number of board directors and commissioners is 10.83 and 67.6% of companies have CEOs with more than 5 years of service.

In Panel B shows that firms without Busy CEOs have an average Tobins'q and ROA of 224.9% and 5.8%. The average percentage of female CEOs is 0.6%, and 50.6% of companies have a CEO atleast postgraduate (Masters and/or PhD). The average of firm age is 35.73 years old. The total assets owned by most companies are IDR 10.967.966.457.839, growth of 14.6%, and leverage of 48.8%. The average number of board directors and commissioners is 10.01 and 56.8% of companies have CEOs with more than 5 years of service.

Pearson correlation which is displayed in Table 4 shows that the results of correlation between BUSYCEO and company performance in the form of Tobins'q and ROA are significantly towards the expected direction. Other correlation results between the independent variable and control variables show that it is generally low and does not cause multicollinearity problem for our next analysis. Other information in the form of Variance Inflation Factor (VIF) has an average value of 1.82. The results of the t-test between companies with and without BUSYCEO are shown in Table 5. This test shows that the company performance (Tobins'q and ROA)

with busy CEOs is statistically significant lower than companies without busy CEOs. The other results also show that company with busy CEOs tend to have longer tenured CEO, bigger firm, higher leverage, and bigger boards.

Table 5 shows the t-tests results between firms with and without a busy CEO. The tests show statistically significant result that in general, companies with busy CEOs have lower company performance (Tobins'q and ROA). Other results show that companies with busy CEOs tend to have longer tenured CEO, bigger firms, higher leverage, bigger boards and less female CEO.

Table 4. Pearson Correlations

Variables	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
[1] TOBINSQ	1.000										
[2] ROA	0.594*** (0.000)	1.000									
[3] BUSYCEO	-0.132** (0.027)	-0.171*** (0.004)	1.000								
[4] CEOGENDER	0.039 (0.508)	0.004 (0.940)	0.116* (0.051)	1.000							
[5] CEOEDU	0.072 (0.226)	0.022 (0.718)	-0.059 (0.318)	-0.076 (0.204)	1.000						
[6] TENURE	-0.140** (0.018)	-0.169*** (0.004)	0.107* (0.071)	0.052 (0.379)	-0.238*** (0.000)	1.000					
[7] FIRMAGE	-0.012 (0.842)	0.186*** (0.002)	-0.048 (0.418)	-0.069 (0.249)	0.180*** (0.002)	-0.122** (0.040)	1.000				
[8] FIRMSIZE	-0.090 (0.129)	-0.004 (0.950)	0.164*** (0.006)	-0.101* (0.088)	0.070 (0.242)	0.036 (0.541)	0.246*** (0.000)	1.000			
[9] LEVERAGE	-0.128** (0.031)	-0.145** (0.014)	0.141** (0.018)	-0.080 (0.177)	-0.059 (0.325)	0.013 (0.829)	-0.144** (0.015)	0.038 (0.524)	1.000		
[10] GROWTH	-0.025 (0.678)	-0.002 (0.969)	-0.063 (0.293)	0.004 (0.948)	-0.068 (0.251)	-0.124** (0.036)	-0.061 (0.302)	0.103* (0.084)	-0.038 (0.527)	1.000	
[11] BOARDSIZE	0.030 (0.616)	0.023 (0.702)	0.121** (0.041)	-0.078 (0.192)	0.263*** (0.000)	-0.006 (0.922)	0.334*** (0.000)	0.550*** (0.000)	-0.104* (0.080)	-0.081 (0.171)	1.000

Source: Secondary data proceed (2021)

Table 5. T-test

Variables	BUSYCEO	BUSYCEO	t-value
	=1	=0	
	N=108	N=176	
TOBINSQ	1,568544	2,201843	-2,2298**
ROA	0,0342666	0,0687534	-2,9099***
CEOGENDER	0,0056818	0,037037	1,9568*
CEOEDU	0,4444444	0,5056818	-1,0008
TENURE	0,6759259	0,5681818	1,8106*
FIRMAGE	1,530055	1,554053	-0,8114
FIRMSIZE	13,21159	13,04099	2,7964***
LEVERAGE	0,5543571	0,4779393	2,3888**
GROWTH	0,0797813	0,1148949	-1,054
BOARDSIZE	1,033994	1,001506	2,0483**

Source: Secondary data proceed (2021)

CEO Busyness and Firm Performance

Through the test results of model 1 shown in Table 6, we expect the results to be consistent with the previous hypothesis about the negative impact of busy CEOs on corporate performance. From first specification shows that there is a significant negative effect on Tobins'q resulting from the presence of a busy CEO with the coefficient value at -0.4815 (t = -2.13) with significant level at 5%. In the second specification, we also see that there is a significant negative relationship between ROA and busy CEOs with the coefficient being at -0.0216 (t = -2.08) with significant level at 5%. The results of Tobins'q and ROA are inline with the first hypothesis and shows that there is lower corporate performance in companies with CEO who has two or more directorships from outside the company.

Through our research have shown that there are consistent results with busy director literature (Harymawan et al., 2019; Chen & Guay, 2020; Lee & Lok, 2020). Specifically, our research indicates that the negative effects of CEO busyness have outweigh the human capital and networking benefits which is obtained from having outside directorship positions from different companies. in order to build relationships with other executives, regulators, and government officials well as gain additional expertise and experience from

outside sources, CEO should not neglect their focus on their primary job (Pandey et al., 2015; Chen & Guay, 2020). As CEOs of listed companies, they should put all their focus and efforts on their company performance. Our findings agree that CEOs who have more than one other directorship are disoriented, overwhelmed, and do not devote sufficient time and effort on their own firm's performance.

From both specifications, there are several results for the control variables which provide evidence that CEOs with higher education and older firms produce better company performance. While on the other side, this study also reveals some evidence that female CEOs and CEOs with longer tenures result in lower company performance.

Table 6. CEO Busyness and Firm Performance

Variables	TOBINSQ	ROA
BUSYCEO	-0.4815** (-2.13)	-0.0216** (-2.08)
CEOGENDER	-1.4344** (-2.32)	-0.0672*** (-3.02)
CEOEDU	0.5468* (1.90)	0.0070 (0.63)
TENURE	-0.6188** (-2.18)	-0.0266** (-2.25)
FIRMAGE	-0.4197 (-0.81)	0.0680*** (3.05)

FIRMSIZE	-0.1644 (-0.60)	0.0119 (0.89)	LEVERAGE	-0.4075 (-0.72)	(-0.64) (0.86)
LEVERAGE	-0.4095 (-0.73)	-0.0240 (-0.64)	GROWTH	0.3094 (0.94)	-0.0239 (-0.63)
GROWTH	0.3103 (0.94)	-0.0004 (-0.03)	BOARDSIZE	-0.1808 (-0.12)	-0.1064 (-1.61)
BOARDSIZE	-0.1683 (-0.11)	-0.1060 (-1.61)	Constant	4.9635 (1.39)	-0.0929 (-0.71)
Constant	4.8220 (1.36)	-0.0970 (-0.75)	Year Dummies	Included	Included
Year Dummies	Included	Included	Industry Dummies	Included	Included
Industry Dummies	Included	Included	Adj. R-squared	0.2331	0.2075
Adj. R-squared	0.2351	0.2101	Obs.	284	284
Obs.	284	284			

Source: Secondary data proceed (2021)

CEO Busyness and Female CEO

Through the test results of model 2 shown in Table 7 which hypothesizes a negative coefficient on BUSYCEO*CEOGENDER, both specifications examine the second hypothesis. The results show that the coefficients on BUSYCEO*CEOGENDER are -1.2797 (t = -1.87) and -0.0372 (t = -1.78), with the significant level at the 10%. These finding on Tobins'q and ROA provide some support for the second hypothesis by showing that there is a more pronounced negative effect between busy CEOs and corporate performance in company with female CEOs.

Table 7. CEO Busyness and Female CEO

Variables	TOBINSQ	ROA
BUSYCEO*	-1.2797*	-0.0372*
CEOGENDER	(-1.87)	(-1.78)
BUSYCEO	-0.4638**	-0.0211**
	(-2.01)	(-2.02)
CEOGENDER	-0.4280	-0.0379
	(-0.46)	(-1.48)
CEOEDU	0.5384*	0.0068
	(1.85)	(0.60)
TENURE	-0.6064**	-0.0263**
	(-2.11)	(-2.21)
FIRMAGE	-0.4307	0.0677***
	(-0.83)	(3.04)
FIRMSIZE	-0.1747	0.0116

CONCLUSION

Using data from companies listed in Indonesia Kompas 100 index from 2017 to 2020, this study explores the fact that CEOs who hold more than one outside directorship are busy and lead to lower corporate performance. This topic is important as our clarification shows that from 284 companies, we found that there are 38% of the CEOs of have multiple appointments in other firms.

Our findings suggest that in Indonesia busy CEOs are linked with lower corporate performance. Our findings have proven that busy CEOs do not effectively devote a fair share of time and effort to their companies. CEO that have their focus being divided across different positions from other company might causing a damaging effect to their firm operations. Another piece of evidence we found in this study suggests that the negative effect on company performance is more worse if the busy CEO is a female. When a busy female CEO becomes too risk-averse, their chances of building growth in the company's performance are significantly reduced and therefore company cannot perform to their highest ability.

Through the results of this study, we can conclude that CEO busyness should be restricted in Indonesia. Our findings generally explain that limiting the involvement of the CEO from outside the director will have a positive effect on company performance.

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