



CEO Busyness and Earnings Management: Evidence from Non-financial Companies listed in Indonesian Stock Exchange

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<https://dx.doi.org/10.24815/jdab.v11i1.27437>

ARTICLE INFO

Article history:

Received date: 12 August 2022

Received in revised form: 01 October 2023

Accepted: 10 October 2023

Available online: 10 March 2024

Keywords:

CEO's attendance, CEO busyness, CEO duality, earnings management

ABSTRACT

This study examines the impact of CEO's busyness on earnings management. The samples are 595 non-financial companies Indonesian listed in Stock Exchange from 2015 to 2020 (2,757 observations). Using OLS regression, the results of this study revealed that companies with CEO's busyness has a positive significant influence on earnings management. The results also show that companies whose CEOs also serving as a board of commissioners in another company (CEO duality) tend to have smaller level of earnings management. This study also uncovered that CEOs' attendance in board meetings has no moderating effect on the positive influence of CEO busyness on earnings management. The results are robust as propensity score matching and entropy balancing tests have been conducted.

Kesibukan CEO dan Manajemen Laba: Bukti Empiris dari Perusahaan Non-K keuangan yang Terdaftar di Bursa Efek Indonesia

ABSTRAK

Studi ini menguji apakah kesibukan CEO memiliki pengaruh terhadap manajemen laba. Sampel penelitian ini adalah 595 perusahaan publik non-keuangan yang terdaftar di Bursa Efek Indonesia dari tahun 2015 s.d. 2020 (2.757 observasi). Dengan menggunakan OLS regression, hasil penelitian ini menunjukkan adanya pengaruh positif dan signifikan antara tingkat kesibukan CEO terhadap tingkat manajemen laba. Temuan lainnya adalah CEO yang rangkap jabatan sebagai anggota dewan komisaris di perusahaan lain berdampak pada penurunan manajemen laba di perusahaannya. Studi ini juga mengungkapkan bahwa tingkat kehadiran CEO pada rapat dewan tidak memiliki efek moderasi terhadap hubungan positif antara kesibukan CEO dan manajemen laba. Kekuatan hasil penelitian terkonfirmasi setelah serangkaian tes menggunakan propensity score matching dan entropy balancing dilakukan.

Citation:

Zakiya, F., & Arifin, T. (2024). CEO Busyness and Earnings Management: Evidence from Non-financial Companies listed in Indonesian Stock Exchange. *Jurnal Dinamika Akuntansi dan Bisnis*, 11(1), 155 – 174

Kata Kunci:

Kesibukan CEO, kehadiran CEO, manajemen laba, rangkap jabatan CEO

1. Introduction

Profit is one of the indicators that reflects the financial condition and growth prospects of a company. When the profit earned does not meet expectations, it motivates management to manipulate the company's profits to achieve the estimated profit targets. This is facilitated by the presence of an accrual accounting system, as it provides flexibility to management in determining reported revenue. Management has sufficient control

over the recognition of revenue and expenses and can easily delay their recognition (Teoh et al., 1998).

In fact, a series of accounting scandals have occurred in recent decades. CEOs bear responsibility for the company's performance and provide statements that the financial information published on behalf of the company is accurate and complete. This subsequently prompted CEOs to employ accounting methods that lead to the use of earnings management techniques. Besides having greater power, various factors can motivate CEOs to engage

in earnings management practices. Hambrick and Mason (1984) revealed that strategic decisions of a company can be predicted based on the characteristics of managerial individuals. Consequently, CEOs are likely to rely on their own characteristics to implement earnings management practices as strategic decisions to address the current conditions in their companies.

This study applies a similar argument to previous research that CEO busyness is proxied by the multiple positions held by the CEO in other companies. Previous studies argued that directors with multiple positions in other companies tend to have more experience, skills, and expertise; thus, they have a good reputation and are better at monitoring (Fama & Jensen, 1983). Ferris et al. (2003), Ghosh (2007), Field et al. (2013), Ferris et al. (2017), Brown et al. (2018), and Sharma et al. (2020) also reported evidence supporting this reputation.

Director reputation transfers the quality of knowledge, skills, and experience from other companies to the companies they lead. Therefore, these companies have lower levels of earnings management (Tham et al., 2019; Chatterjee, 2020), especially in the same industry (Shu et al., 2015). This is because directors with multiple positions can utilize external resources as information and skills to be applied in the companies they lead (Chee & Tham, 2020). However, directors holding multiple positions in other companies can have negative effects on a company. If a director holds three or more board seats, they become too busy and overloaded with work, often resulting in them rarely attending meetings with other directors (Falato et al., 2014). Ferris and Liao (2019) revealed that companies with a high proportion of busy independent directors tend to engage in greater earnings management.

The influence of director busyness, proxied by multiple directorships, has been extensively researched in several countries such as the United States, Australia, India, Taiwan, Malaysia, and Singapore. However, research with a setting in

Indonesia has not been conducted extensively, especially regarding its impact on earnings management. For example, the study by Harymawan et al. (2022) examined the impact of CEO busyness on financial reporting. The urgency of conducting this research is also driven by the presence of different findings compared to previous settings due to cultural and policy differences between Indonesia and other countries.

In Indonesia, the law regarding director multiple directorships is regulated in the Financial Services Authority Regulation Number 33/POJK.04/2014 concerning Directors and Commissioners of Issuers or Public Companies. This regulation states that directors can hold a maximum of one directorship in another public company and a maximum of three commissioner positions in other public companies, as long as it does not conflict with other regulations. On the other hand, the national association of corporate directors (NACD) in the United States recommends that corporate executives should not hold more than three directorships in other companies (Jiraporn et al., 2009).

The Australian shareholders association (ASA) mentions that any director serving on more than five boards is detrimental to shareholders (Kiel & Nicholson, 2006), and the bursa Malaysia listing requirements allow a director to hold up to twenty-five directorships simultaneously, including ten directorships in public companies and fifteen directorships in closed companies (Hashim & Rahman, 2011). Referring to these various regulations, policymakers implicitly argue that director multiple directorships tend to have a negative impact on the performance of all companies they lead, hence the limitations placed on them.

Therefore, there is a strong need to examine CEO busyness proxied by multiple directorships and its influence on earnings management. Unlike previous studies, this study applies two different proxies, considering a CEO as busy if they hold directorships in three or more companies and if they serve as both commissioners and directors in four or more companies. This is taken into account in

measuring CEO busyness to accommodate the characteristics of companies in Indonesia.

Furthermore, this research also examines the factors contributing to strengthening the relationship between CEO busyness and earnings management practices. The limitation of the study conducted by Shu et al. (2015) is the inability to track the specific time taken by directors outside their directorial roles that could separate the relationship between external board interconnections and corporate earnings management. Thus, to determine when CEOs allocate their time to serve in multiple companies, this study involves the variable of CEO attendance at board of directors meetings. Subsequently, a greater negative effect of CEO busyness will emerge, further reinforcing their commitment to earnings management. This research assumes that it is important to pay attention to these factors because board of directors meetings serve as a means for directors to discuss and set company strategies and monitor performance.

The sample of this research consists of 595 non-financial public companies listed on the Indonesia Stock Exchange from 2015 to 2020, with a total of 2757 observations. This study contributes to the literature in several ways. First, it provides empirical evidence that contradicts most previous studies, which is attributed to various factors such as research settings, culture, and regulations. Second, this research employs various testing methods to mitigate endogeneity issues, resulting in more robust research conclusions compared to previous studies. This is important for the development of research in Indonesia, where there are relatively few studies addressing endogeneity issues.

The research format begins with an introduction that includes the background and research questions. It then discusses the theoretical framework, relevant literature review, and hypothesis formulation. The empirical research methodology section includes details about the sample, empirical methods, and analyses used in this study. The analysis and discussion of test results comprise a discussion and interpretation of the findings obtained. The final

section of this research includes conclusions, implications, limitations, and recommendations for future research.

2. Literature review and hypothesis development

Upper echelon theory

The upper echelon theory suggests that the experiences, values, and personalities of executive management can influence their interpretation of situations and issues they face, which can subsequently affect their decision-making strategies (Hambrick & Mason, 1984; Hambrick, 2007; Mun & Kim, 2021). March and Simon (1958) mention that every decision-maker brings their disposition into a current condition to design a decision. This disposition reflects the cognitive foundation of decision-makers, including knowledge or assumptions about future events and knowledge of consequences. The more complex a decision is, the more it is linked to personal characteristics of the decision-maker, such as tenure, age, and expertise (Ting et al., 2015). In this research, the decision-maker referred to is a company's CEO. To address complex conditions consisting of various phenomena, CEOs will bring their cognitive foundations and values to make decisions as a perception of the situation.

Hambrick and Mason (1984) divided top management characteristics into two aspects: internal and external. Internal aspects include values and cognitive foundations, while external aspects include age, career experience, education, functional background, financial conditions, as well as social and economic backgrounds.

This research examines CEO busyness as a characteristic possessed by CEOs. The study assumes that CEO busyness can be shaped by the career experiences they have. As per the perspective of the upper echelon theory, if the board of directors spends their entire careers in one company, they are considered to have a limited perspective (Hambrick & Mason, 1984). Indirectly, this leads CEOs to position themselves in multiple companies, which

can make CEOs busy because they accumulate a significant amount of career experience simultaneously. This can cause CEOs to lose focus on their responsibilities and create the possibility of the company's performance not meeting targets, leading CEOs to design a strategic decision through the implementation of earnings management.

Earnings management

Earnings management are carried out by managers through the arrangement of transactions to manipulate financial statements in order to mislead stakeholders (Healy & Wahlen, 1999). Scott (2015) reveals that earnings management can be viewed from the perspectives of financial reporting and contracts. From the financial reporting perspective, earnings management serves to avoid reporting losses, ultimately avoiding a bad reputation and negative stock prices. On the other hand, the contract perspective sees earnings management as a way to protect the company from the consequences of unexpected events when contracts are rigid and incomplete. Earnings management practices can be carried out through real and accrual-based methods. Accrual-based earnings management is implemented by changing the accounting methods used when reporting transactions in the company's financial statements. For example, setting aside for uncollectible accounts receivable expenses, deferring asset write-offs, changing the depreciation method for fixed assets, and estimating doubtful accounts allowances (Zang, 2012). Unlike the real basis, accrual-based earnings management is easily detected as accounting standards evolve. This research suggests that accrual-based earnings management is carried out by CEOs to avoid a bad reputation as a result of their busyness.

CEO busyness

CEOs play a crucial role in driving the success of their companies. CEOs are responsible for the company's performance and provide assurance that the financial information published on behalf of the company is accurate and complete. CEO busyness occurs when they also hold positions in three or more

other companies during the same period (Ferris et al., 2003; Field et al., 2013).

Ferris et al. (2003) revealed that busy directors excessively limit themselves, resulting in reduced time and effort that should be allocated to the company. Busy directors do not have enough time to fulfill their responsibilities, often leading them to miss board meetings (Jiraporn et al., 2008). Other research also provides evidence that director busyness can have a negative impact on their effectiveness in managing the company (Cashman et al., 2012; Falato et al., 2014). This argument suggests that CEOs with external directorships are associated with negative company performance.

Hypothesis development

Previous literature has examined director busyness using proxies for their multiple board positions. CEOs are considered busy when they serve as directors on three or more companies (Ferris et al., 2003; Fich & Shivdasani, 2006; Field et al., 2013). However, holding directorships in multiple companies not only implies busyness but also contributes to their reputation. For example, Fama and Jensen (1983) argued that directorships can signal reputation, quality, and skills. Ferris et al. (2003), Ghosh (2007), Field et al. (2013), Ferris et al. (2017), Brown et al. (2018), and Sharma et al. (2021) also suggest that directorships can enhance their reputation. These findings support the idea that directors with multiple directorships have better reputations and broader connections, which can help companies build networks in the external environment.

On the other hand, Jiraporn et al. (2008) showed that busier boards tend to miss more board meetings. Other research also indicates that director busyness disrupts their effectiveness in managing companies (Cashman et al., 2012; Falato et al., 2014). These arguments suggest that CEOs with directorships outside their own company are associated with negative company performance. This is also confirmed by Harymawan et al. (2019), who found that busy CEOs are related to lower firm

performance in high-growth firms, especially when these busy CEOs have shorter tenures.

Currently, the connection between CEO busyness and earnings management has not been extensively studied, and most of the literature provides evidence that multiple directorships can have positive effects on CEOs, such as enhancing their reputation. Hashim and Rahman (2011) demonstrated that the external board interconnection is negatively correlated with the level of earnings management, and this negative relationship is more pronounced for same-industry interconnections. Other studies also argue that having more directorships can reduce earnings management practices (Shu et al., 2015; Tham et al., 2019; Chatterjee, 2020). This is because directors with multiple positions have the ability to leverage external resources for information, skills, and financial resources through their board interconnections (Chee & Tham, 2020). However, Ferris and Liao (2019) revealed that companies with a higher proportion of busy independent directors tend to use more earnings management. This finding suggests that director busyness can increase the workload and limit the time and attention that directors can devote to a particular company.

Considering the high level of accounting scandals among CEOs in Indonesia, CEOs with multiple directorships have not been able to fully realize the positive aspects of this practice. Therefore, this research expects that multiple directorships will make CEOs busier, directing them to engage in earnings management practices. The hypotheses proposed in this study are as follows:

H₁: CEO busyness has a positive impact on earnings management practices

This research also examines specific conditions that predict a strengthening relationship between CEO busyness and earnings management practices. This condition occurs when CEOs frequently miss board of director meetings. The study holds the belief that if CEOs do not regularly attend board meetings, a greater negative effect of CEO busyness

will emerge, subsequently leading CEOs to engage in earnings management practices. Board of director meetings have several advantages, including providing more time for directors to discuss, set strategies, and monitor management. However, when companies hold board meetings, various factors need to be considered, such as managerial time, travel costs, and director meeting expenses. Nonetheless, the frequency of board meetings is one cost-effective alternative for companies to enhance their value (Vafeas, 1999).

Previous research has shown that directors who hold many positions as directors in other companies tend to have lower attendance at board of directors meetings, resulting in fewer meeting attendance (Jiraporn et al., 2008; Lin et al., 2013). Meanwhile, higher attendance at board meetings can lead to better company performance (Vafeas, 1999; Ntim & Osei, 2011; Chou et al., 2013; Lin et al., 2013; Al-Daoud et al., 2016; Eluyela et al., 2018). This indicates that board meetings serve as a platform for solving operational issues through discussion and engagement with each other, thereby assisting in decision-making processes to improve company performance. If busy CEOs, due to their numerous commitments outside the company, frequently miss board of director meetings, they will miss the opportunity to monitor the overall performance of the company. Therefore, we formulate the following hypothesis:

H₂: The positive relationship between CEO busyness and earnings management practices is stronger when CEOs rarely attend board of directors meetings.

3. Research method

This research employs a quantitative approach aimed at determining the influence of independent variables on the dependent variable. The data type used in this study is secondary data, collected from the company's annual reports for CEO's multiple directorships and board meeting attendance data, as well as financial reports for the company's financial data. The study utilizes a sample of 595 non-financial companies listed on the Indonesia stock

exchange for the years 2015-2020, resulting in a total of 2757 observations. The sample was obtained through purposive sampling technique, considering specific criteria to eliminate companies with incomplete data as required by this research. Financial sector companies were excluded from this study to account for specific variables, such as revenue and receivables in the dependent variable and pre-tax profit, net profit, and ROA in the control variable, which could potentially lead to differences in interpretation.

Variable definition and measurement

This research employs the dependent variable, which is earnings management. Earnings management is proxied by discretionary accruals

(DACC), which is the difference between total accruals (TACC) and non-discretionary accruals (NDACC). DACC is assumed to be the consequence of accounting manipulation because it represents accruals that do not arise from normal operational conditions or the business environment but from managerial choices and directives in selecting various accounting methods and operational decisions (Chatterjee, 2019). There are various models for measuring earnings management, and this study uses the performance-adjusted model by Kothari et al. (2005). This model is a modified Jones model with ROA as an additional variable (Shu et al., 2015). Thus, the addition of this new variable is expected to enhance the detection of earnings management practices. The equation is as follows:

$$TACC_{it} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta SALES_{it} - \Delta ACCR_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \beta_4 ROA_{it-1} + \varepsilon_{it}$$

Note:

TACC_{it} : Total accruals for firm i in year t are measured as the difference between net income before extraordinary items and cash flows from operating activities.

TA_{it-1} : Total assets firm i in year t-1

SALES_{it} : Change in net sales revenue for firm i between year t and t-1.

ACCR_{it} : Changes in net account receivable for firm i between period t and t-1

PPE_{it} : Total fixed assets of firm i in year t

ROA_{it} : Return on assets of firm i in year t-1

ε_{it} : error

Next, we calculate non-discretionary accruals for each firm in industry i using the following equation:

$$NDACC_{it} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta SALES_{it} - \Delta ACCR_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \beta_4 ROA_{it-1} + \varepsilon_{it}$$

Note:

NDACC_{it} : Non-discretionary accruals of firm i in year t

Finally, discretionary accruals are calculated by subtracting non-discretionary accruals from total accruals, as shown in the following equation:

$$DACC_{it} = TACC_{it} - NDACC_{it}$$

Note:

DACC_{it} : Discretionary accrual of firm i in year t

The independent variable in this study is CEO busyness. CEOs are considered busy when they serve as directors on three or more companies (Ferris et al., 2003; Fich & Shivdasani, 2006; Field et al., 2013). However, this study also considers holding positions as a commissioner in other companies to

align with the financial services authority regulation No. 33/POJK.04/2014 regarding the board of directors and board of commissioners of issuers or public companies. It states that members of the board of directors are allowed to serve as members of the board of directors in a maximum of one company, commissioners in a maximum of three, and committee members in a maximum of five in other

companies. Thus, the second proxy for CEO busyness is when CEOs serve as both board members and commissioners in four or more companies.

Furthermore, the moderation variable is the CEO's attendance at board meetings. This variable aims to examine whether the CEO has a high or low attendance rate. If the CEO's absence is frequent, holding multiple positions in other companies indicates that they are busier and do not have enough time to fulfill their obligations, potentially driving the CEO's commitment to manage their earnings. The proxy for the moderation variable in this study is the proportion of the CEO's attendance at the total number of board meetings held each year.

This research also includes control variables related to firm's characteristics. Variables related to

governance characteristics include the size of the board of commissioners and the board of directors. This is anticipated because larger companies tend to have larger boards, which, in turn, will have directors with diverse skills and experiences accumulated from serving on boards in different companies (Tham et al., 2019).

In addition, the study controls for company age and the proportion of independent commissioners, which are corporate governance aspects from the company's perspective, as well as CEO's tenure and CEO's stock ownership from the CEO's individual perspective. Furthermore, variables related to financial performance include company size, leverage, ROA, and revenue growth. The detailed definitions and measurements of these variables are presented in Table 1.

Table 1. Variable definition and measurement

Variable	Definition and measurement	Data source
Earnings management (KOTHARI)	The absolute value of discretionary accrual of firm <i>i</i> and year <i>t</i> , calculated using performance-adjusted model (Kothari et al., 2005)	Financial report
CEO busyness (CEOBUSY1)	Dummy variable equal to one if the CEO serves on the board of directors on three or more companies and zero otherwise	Annual report
CEO busyness (CEOBUSY2)	Dummy variable equal to one if the CEO serves on the board of commissioner and director on four or more companies and zero otherwise	Annual report
Firm age (FAGE)	Years since initial public offering	Annual report
Firm size (FSIZE)	Natural logarithm of total assets	Annual report
Independent commissioner (INDCOM)	The number of independent commissioners divided by the total number of board commissioner	Annual report
Board size (BSIZE)	The number of board members	Annual report
CEO tenure (TENURE)	Years since assignments of CEO	Annual report
CEO ownership (OWN)	Dummy variable equal to one if CEO own company shares and zero otherwise	Annual report
CEO meeting (MEETING)	The attendance rate of the CEO at meetings divided by the total number of boards of director's meetings	Annual report
Leverage (LEV)	Total debt divided by total assets	Financial report
Return on assets (ROA)	Earnings before interest and tax divided by total assets	Annual report
Sales growth (SGROWTH)	Current year sales minus prior period sales divided by prior period sales	Financial report

Before testing the hypotheses, descriptive statistical analysis is conducted to obtain an initial analysis of the data used and clarify data characteristics, including mean values, standard

deviations, as well as minimum and maximum values. The regression equation model used to test the hypotheses in this study is as follows:

Model 1 (H1):

$$KOTHARI_{it} = \alpha + \beta_1 CEOBUSY1_{it} + \beta_2 FAGE_{it} + \beta_3 FSIZE_{it} + \beta_4 INDCOM_{it} + \beta_5 BSIZE_{it} + \beta_6 TENURE_{it} + \beta_7 OWN_{it} + \beta_8 MEETING_{it} + \beta_9 LEV_{it} + \beta_{10} ROA_{it} + \beta_{11} SGROWTH_{it} + \varepsilon$$

Model 2 (H2):

$$KOTHARI_{it} = \alpha + \beta_1 CEOBUSY1 \times MEETING_{it} + \beta_2 CEOBUSY1_{it} + \beta_3 MEETING_{it} + \beta_4 FAGE_{it} + \beta_5 FSIZE_{it} + \beta_6 INDCOM_{it} + \beta_7 BSIZE_{it} + \beta_8 TENURE_{it} + \beta_9 OWN_{it} + \beta_{10} LEV_{it} + \beta_{11} ROA_{it} + \beta_{12} SGROWTH_{it} + \varepsilon$$

4. Results and discussion

Univariate analysis

This study selected 595 non-financial companies listed on the Indonesia stock exchange from 2015 to 2020 as the research sample. As shown in Table 2, the total number of observations in this

study is 2757. The lowest number of observations is 386 in the year 2015, while the highest is 522 in the year 2019. The number of observations consistently increases each year, reflecting the growing number of companies making stock offerings on the Indonesia stock exchange.

Table 2. Research samples

	Year						Total
	2015	2016	2017	2018	2019	2020	
Non-financial listed firms	397	416	452	508	569	603	2,945
Companies with uncomplete data	(11)	(10)	(22)	(26)	(38)	(81)	(188)
Total observation	386	406	430	482	531	522	2,757

Descriptive statistics in this study are presented in Table 3. The mean value of the KOTHARI variable indicates that, on average, companies have a low absolute value of discretionary accruals, suggesting that, on average, companies are not interested in earnings management. The smaller standard deviation value of the KOTHARI variable compared to its mean depicts that the data distribution is homogeneous. Variables CEOBUSY1

and CEOBUSY2 have heterogeneous data distributions because they are measured using dummy variables. The CEOMEETING variable has a homogeneous data distribution, and a minimum value of 0 indicates that there are companies that did not hold board of directors meetings and/or CEOs who did not attend all board of directors meetings during that year.

Table 3. Descriptive statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
KOTHARI	0.097	0.088	0.006	0.319
CEOBUSY1	0.082	0.274	0.000	1.000
CEOBUSY2	0.208	0.406	0.000	1.000
FAGE	14.947	9.905	1.000	30.000
FSIZE	21.635	1.541	18.890	24.456
INDCOM	0.397	0.093	0.250	0.600
BSIZE	8.471	2.943	4.000	15.000
TENURE	6.054	6.473	1.000	24.000
OWN	0.318	0.466	0.000	1.000
MEETING	0.844	0.341	0.000	1.000
LEV	0.151	0.249	-0.319	0.589
ROA	1.765	6.752	-13.440	14.900
SGROWTH	2.628	27.531	-50.370	68.009

Correlation matrix

The Pearson correlation test is useful for assessing the strength and direction of the linear relationship between two variables. Table 5 reports the results of the Pearson correlation test between variables in this study. The results indicate that there is no correlation between CEO busyness (CEOBUSY1) and earnings management (KOTHARI). However, CEO busyness (CEOBUSY2) is negatively and significantly correlated at the 1% level with earnings management (KOTHARI). Both of these findings can be considered as preliminary evidence of the interesting research outcomes in this study.

Furthermore, a significant positive relationship at the 1% level is observed between KOTHARI and leverage (LEV). On the other hand, KOTHARI is significantly and negatively correlated at the 1% level with several control variables, namely company size (FSIZE), CEO stock ownership (OWN), Return on Assets (ROA), and revenue growth (SGROWTH). Additionally, among all the control variables in this study, only the proportion of independent commissioners (INDCOM) and the size of the board of commissioners and the board of directors (BSIZE) do not exhibit a correlation with KOTHARI.

Univariate analysis

Table 6 shows that the average absolute value of discretionary accruals (KOTHARI) is higher for companies with busy CEOs. However, there is no significant difference between the two groups. This suggests that the study does not have sufficient preliminary evidence of earnings management resulting from CEO busyness.

Furthermore, companies that have been listed on the Indonesia Stock Exchange for a longer period (FAGE) on average do not have busy CEOs. Companies with busy CEOs, on average, have CEOs with longer tenure (TENURE) and higher stock ownership (OWN). This implies that the decision of CEOs to serve in other companies is based on these two variables, as when CEOs have served for a longer period and own shares in the company, they may feel capable of controlling the company's operational activities. Consequently, this can motivate CEOs to dedicate themselves to other companies to gain new knowledge and experience. Busy CEOs, on average, are able to achieve high Return on Assets (ROA) and significant revenue growth (SGROWTH) for the company.

Table 6. Independent T-Test

Variable	Mean		t-value
	Firms with busy CEO (N=422)	Firms without busy CEO (N = 2,335)	
KOTHARI	0.098	0.097	-0.220
FAGE	11.969	15.486	6.766***
FSIZE	21.570	21.647	0.950
INDCOM	0.381	0.400	3.850***
BSIZE	8.519	8.463	-0.363
TENURE	6.524	5.970	-1.619
OWN	0.429	0.299	-5.317***
MEETING	0.905	0.833	-4.010***
LEV	0.176	0.146	-2.284**
ROA	2.039	1.715	-0.906
SGROWTH	3.065	2.550	-0.354

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

The impact of CEO busyness on earnings management

Table 7 reports that CEO busyness (CEOBUSY1) is significant at a 5% level. This

finding supports the first hypothesis (H1) because the relationship between CEO busyness and earnings management practices shows a positive direction. In other words, the busier the CEO, the more interested

Table 5. Correlation matrix

	KOTHARI	CEOBUSY1	CEOBUSY2	FAGE	FSIZE	INDCOM	BSIZE	TENURE	OWN	MEETING	LEV	ROA	SGROWTH
KOTHARI	1.0000												
CEOBUSY1	0.0042 (0.8260)	1.0000											
CEOBUSY2	-0.0585*** (0.0021)	0.5685*** (0.0000)	1.0000										
FAGE	0.0096 (0.6155)	-0.1279*** (0.0000)	-0.1079*** (0.0000)	1.0000									
FSIZE	-0.0915*** (0.0000)	-0.0181 (0.3422)	0.0694*** (0.0003)	0.1663*** (0.0000)	1.0000								
INDCOM	-0.0049 (0.7965)	-0.0732*** (0.0001)	-0.0887*** (0.0000)	-0.0462** (0.0153)	-0.0374** (0.0494)	1.0000							
BSIZE	-0.0166 (0.3825)	0.0069 (0.7170)	0.0858*** (0.0000)	0.2022*** (0.0000)	0.6438*** (0.0000)	-0.1122*** (0.0000)	1.0000						
TENURE	-0.0389** (0.0413)	0.0308 (0.1056)	0.0287 (0.1322)	0.1521*** (0.0000)	-0.0664*** (0.0005)	-0.0313 (0.1003)	0.0104 (0.5836)	1.0000					
OWN	-0.0828*** (0.0000)	0.1008*** (0.0000)	0.1231*** (0.0000)	-0.1594*** (0.0000)	-0.0018 (0.9264)	-0.0333* (0.0809)	-0.0079 (0.6802)	0.1557*** (0.0000)	1.0000				
MEETING	-0.0338* (0.0759)	0.0762*** (0.0001)	0.0999*** (0.0000)	-0.0209 (0.2718)	0.1156*** (0.0000)	-0.0367* (0.0540)	0.0984*** (0.0000)	-0.0742*** (0.0001)	0.0482** (0.0114)	1.0000			
LEV	0.0555*** (0.0035)	0.0435** (0.0225)	0.0012 (0.9510)	-0.0472** (0.0132)	0.1441*** (0.0000)	0.0563*** (0.0031)	-0.0294 (0.1226)	0.0345* (0.0703)	0.0218 (0.2527)	-0.0334* (0.0799)	1.0000		
ROA	-0.2984*** (0.0000)	0.0173 (0.3651)	0.0425** (0.0257)	0.0091 (0.6325)	0.1896*** (0.0000)	-0.0216 (0.2577)	0.1966*** (0.0000)	0.0252 (0.1863)	0.0434** (0.0227)	0.0365* (0.0552)	-0.3834*** (0.0000)	1.0000	
SGROWTH	-0.0834*** (0.0000)	0.0067 (0.7237)	-0.0016 (0.9337)	-0.0771*** (0.0001)	0.0687*** (0.0003)	0.0008 (0.9659)	0.0176 (0.3566)	-0.0067 (0.7233)	0.0006 (0.9733)	0.0092 (0.6277)	-0.0578*** (0.0024)	0.2874*** (0.0000)	1.0000

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

they are in managing the company's earnings. Busy CEOs, caused by holding multiple positions in other companies, apparently need to divide their focus among the companies they lead. This can disrupt their effectiveness in managing the company (Cashman et al., 2012; Falato et al., 2014). Thus, the limitations of time and energy they have can prompt CEOs to implement earnings management practices. The results of this study are consistent with Ferris and Liao (2019), who conducted research in 46 countries and found that companies with a proportion of busy independent directors tend to use greater earnings management. This study also confirms the Upper Echelon Theory (Hambrick & Mason, 1984; Hambrick, 2007).

However, CEO busyness, proxied by the number of director and commissioner positions held (CEOBUSY2), is negatively and significantly related at a 5% level. This implies that the busier the CEO, the less interested they are in engaging in earnings management practices. This finding provides interesting evidence that experience in serving as a commissioner can help CEOs mitigate earnings management beyond regulatory limits. When serving as commissioners in other companies, CEOs position themselves as supervisors who

oversee the performance of directors. These abilities are then applied by CEOs when carrying out their duties in the company they lead. Nevertheless, the results of this study are consistent with previous research reporting that CEO busyness has a negative impact on earnings management practices (Hashim & Rahman, 2011; Shu et al., 2015; Brown et al., 2018; Tham et al., 2019; Chatterjee, 2020).

The results of this study imply that it is better for CEOs to hold positions as commissioners in other companies to develop characteristics of CEOs capable of achieving genuine profitability for their company. However, Ferris and Liao (2019) found that when the median number of director and independent director positions reaches a certain point, the costs of excessive commitments and inadequate time become greater than the benefits of networks and experience. In other words, the reputation, experience, and connections for directors serving on many boards become negative at higher levels of board busyness because their ability to monitor and advise deteriorates. Nevertheless, the positive effects of busyness for corporate boards remain useful in addressing knowledge gaps in younger companies (Ferris et al., 2017).

Table 7. OLS regression

Variable	KOTHARI	KOTHARI
CEOBUSY1	0.010** (0.014)	
CEOBUSY2		-0.008** (0.029)
FAGE	0.001*** (0.000)	0.000*** (0.002)
FSIZE	-0.005*** (0.000)	-0.005*** (0.000)
INDCOM	0.014 (0.363)	0.008 (0.591)
BSIZE	0.002*** (0.003)	0.002*** (0.001)
TENURE	-0.001*** (0.000)	-0.001*** (0.001)
OWN	-0.006* (0.070)	-0.005 (0.145)
MEETING	-0.002 (0.692)	0.000 (0.953)
LEV	-0.024*** (0.000)	-0.023*** (0.001)
ROA	-0.005***	-0.004***

	(0.000)	(0.000)
SGROWTH	0.000	0.000
	(0.386)	(0.398)
Constant	0.172***	0.178***
	(0.000)	(0.000)
Industry	Yes	Yes
Year	Yes	Yes
R ²	0.335	0.335
N	2,757	2,757

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

In addition, we also re-estimate our baseline models using OLS with robust standard errors to mitigate heteroscedasticity concern. Table 7 shows that CEO busyness (CEOBUSY1) has a positive and significant impact on earnings management. This finding is consistent with the earlier testing results presented in Table 8. It suggests that CEOs who are busy due to holding multiple director positions in other companies are more likely to engage in earnings management practices. Moreover, there are no significant differences in the control variables,

reinforcing the accuracy of the findings. Additionally, CEO busyness, represented by holding both director and commissioner positions in other companies (CEOBUSY2), has a significant negative impact at the 5% level. This indicates that busy CEOs are more likely to reduce earnings management practices. This finding aligns with the previous test results, further strengthening the evidence that experience in serving as a commissioner can enhance CEOs' supervisory abilities.

Table 8. OLS regression with robust standard errors

Variable	KOTHARI	KOTHARI
CEOBUSY1	0.010** (0.014)	
CEOBUSY2		-0.008** (0.016)
FAGE	0.001*** (0.000)	0.000*** (0.001)
FSIZE	-0.005*** (0.000)	-0.005*** (0.000)
INDCOM	0.014 (0.377)	0.008 (0.603)
BSIZE	0.002*** (0.003)	0.002*** (0.001)
TENURE	-0.001*** (0.000)	-0.001*** (0.000)
OWN	-0.006* (0.056)	-0.005 (0.125)
MEETING	-0.002 (0.689)	0.000 (0.952)
LEV	-0.024*** (0.001)	-0.023*** (0.001)
ROA	-0.005*** (0.000)	-0.004*** (0.000)
SGROWTH	0.000 (0.454)	0.000 (0.465)
Constant	0.172*** (0.000)	0.178*** (0.000)
Industry	Yes	Yes
Year	Yes	Yes

R ²	0.335	0.335
N	2,757	2,757

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

Influence of CEO busyness on earnings management: CEO's board meeting attendance as moderating variable

This study also examined the interaction between CEO busyness and CEO's presence in board of director meetings, with the expectation that when the CEO rarely attends board meetings, it indicates poor time management and vice versa. Consequently, a stronger commitment to implementing earnings management practices is expected. Therefore, in the second hypothesis (H2), a negative coefficient is anticipated for the variables CEOBUSY1xMEETING and CEOBUSY2xMEETING. Table 9 reports that the CEOBUSY1xMEETING variable is negatively related and not significant, leading to the rejection of

the second hypothesis (H2) in this study. The same results are observed for the CEOBUSY2xMEETING variable. However, this study's results indicate that board of director meetings do not have a measurable impact on the positive influence of a busy CEO on earnings management practices. These findings contradict the study by Chatterjee (2019), which found that regular board meetings and fulfilling professional responsibilities lead to better earnings reporting quality. Furthermore, assuming that board meetings represent a form of corporate governance, Jiraporn et al. (2009) also revealed that stronger corporate governance practices help mitigate the negative effects of a busy CEO on firm performance.

Table 9. CEO busyness on earnings management, moderated by CEO's board meeting attendance

Variable	KOTHARI	KOTHARI
CEOBUSY1xMEETING	-0.021 (0.123)	
CEOBUSY2xMEETING		-0.020 (0.117)
CEOBUSY	0.029** (0.027)	0.010 (0.390)
MEETING	0.000 (0.925)	0.002 (0.635)
FAGE	0.001*** (0.000)	0.000*** (0.002)
FSIZE	-0.005*** (0.000)	-0.005*** (0.000)
INDCOM	0.013 (0.379)	0.008 (0.597)
BSIZE	0.002*** (0.003)	0.002*** (0.001)
TENURE	-0.001*** (0.001)	-0.001*** (0.001)
OWN	-0.006* (0.072)	-0.004 (0.147)
LEV	-0.024*** (0.000)	-0.023*** (0.001)
ROA	-0.005*** (0.000)	-0.004*** (0.000)
SGROWTH	0.000 (0.360)	0.000 (0.361)
Constant	0.170 (0.118)	0.175*** (0.000)
Industry	Yes	Yes

Year	Yes	Yes
R ²	0.336	0.335
N	2,757	2,757

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

Robustness tests: Alternative measurement

Alternative measurement of earnings management (Model Jones and modified Jones)

This study conducts additional analysis to examine the empirical results' robustness obtained through the performance-adjusted model (Kothari et al., 2005). Alternative measurements of earnings

management, specifically the Jones model (Jones, 1991) and the modified Jones model (Dechow et al., 1995), are used. Table 10 shows that CEO busyness (CEOBUSY1 and CEOBUSY2) has a positive but statistically insignificant impact on earnings management (JONES).

Table 10. Alternative measure of earnings management

Variable	JONES	JONES	DECHOW	DECHOW
CEOBUSY1	0.001 (0.416)		-0.001 (0.698)	
CEOBUSY2		0.000 (0.758)		-0.002 (0.271)
FAGE	0.000 (0.247)	0.000 (0.220)	0.000 (0.701)	0.000 (0.758)
FSIZE	0.002*** (0.003)	0.002*** (0.003)	-0.003*** (0.000)	-0.003*** (0.000)
INDCOM	-0.003 (0.562)	-0.004 (0.539)	-0.015* (0.096)	-0.015* (0.084)
BSIZE	-0.001*** (0.007)	-0.001*** (0.008)	0.000 (0.453)	0.000 (0.488)
TENURE	0.000 (0.435)	0.000 (0.445)	0.000** (0.015)	0.000** (0.017)
OWN	0.001 (0.626)	0.001 (0.610)	0.001 (0.452)	0.002 (0.410)
MEETING	-0.003* (0.095)	-0.003 (0.102)	-0.002 (0.388)	-0.002 (0.419)
LEV	-0.001 (0.726)	-0.001 (0.756)	0.003 (0.417)	0.003 (0.423)
ROA	0.000 (0.371)	0.000 (0.361)	0.000 (0.336)	0.000 (0.341)
SGROWTH	0.000*** (0.000)	0.000 (0.000)	0.000*** (0.000)	0.000*** (0.000)
Constant	0.032*** (0.003)	0.032*** (0.003)	0.135*** (0.000)	0.135*** (0.000)
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
R ²	0.822	0.822	0.278	0.279
N	2,757	2,757	2,757	2,757

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

Furthermore, CEO busyness (CEOBUSY1 and CEOBUSY2) has a negative and statistically insignificant impact on earnings management (DECHOW). Therefore, when using the Jones and modified Jones models, this study does not support the first hypothesis (H1).

Analysis of income increasing and decreasing in the Jones model, modified Jones model, and performance-adjusted model

To provide a broader empirical insight, this study analyzes various types of earnings management levels, namely earnings increase and

Table 11. Sub-sample analysis

Panel A						
Variable	JONES (Income-Increasing)	JONES (Income-Decreasing)	DECHOW (Income-Increasing)	DECHOW (Income-Decreasing)	KOTHARI (Income-Increasing)	KOTHARI (Income-Decreasing)
CEOBUSY1	0.003 (0.535)	-0.001 (0.603)	-0.003 (0.363)	-0.002 (0.531)	-0.002 (0.394)	0.000 (0.988)
FAGE	0.000 (0.964)	0.000 (0.268)	0.000** (0.021)	0.000* (0.076)	0.000*** (0.007)	0.000** (0.015)
FSIZE	-0.003* (0.094)	-0.003*** (0.000)	0.000 (0.953)	0.008*** (0.000)	-0.004*** (0.000)	-0.002*** (0.000)
INDCOM	-0.024 (0.264)	0.004 (0.335)	-0.036*** (0.003)	0.010 (0.350)	-0.032*** (0.003)	0.004 (0.531)
BSIZE	-0.001 (0.145)	0.001*** (0.004)	-0.001 (0.288)	0.000 (0.770)	0.000 (0.769)	0.000 (0.177)
TENURE	-0.001** (0.027)	0.000** (0.029)	-0.001*** (0.002)	0.000* (0.080)	-0.001*** (0.000)	0.000*** (0.007)
OWN	-0.003 (0.432)	0.000 (0.957)	-0.001 (0.673)	-0.004* (0.082)	-0.003 (0.122)	-0.001 (0.457)
MEETING	-0.007 (0.273)	0.002 (0.207)	0.001 (0.823)	0.004 (0.132)	0.000 (0.897)	-0.002 (0.189)
LEV	-0.013 (0.131)	-0.002 (0.316)	-0.006 (0.245)	-0.016*** (0.001)	-0.003 (0.584)	-0.003 (0.344)
ROA	-0.000 (0.278)	0.000** (0.022)	0.000 (0.390)	0.000 (0.455)	0.011*** (0.000)	0.013*** (0.000)
SGROWTH	0.000*** (0.000)	0.000** (0.010)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000 (0.505)
Constant	0.149*** (0.000)	0.004 (0.610)	0.016 (0.465)	-0.267*** (0.000)	0.000** (0.027)	0.004** (0.031)
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.435	0.914	0.320	0.497	0.778	0.937
N	491	2,266	1,206	1,551	1,069	1,688

*, **, *** denote statistical significance at 10%, 5%, and 1% levels, respectively

Panel B

Variable	JONES (Income-Increasing)	JONES (Income-Decreasing)	DECHOW (Income-Increasing)	DECHOW (Income-Decreasing)	KOTHARI (Income-Increasing)	KOTHARI (Income-Decreasing)
CEOBUSY2	-0.009* (0.086)	-0.002 (0.115)	-0.004 (0.102)	0.001 (0.592)	-0.007*** (0.004)	-0.002 (0.294)
FAGE	0.000 (0.746)	0.000 (0.315)	0.000** (0.025)	0.000* (0.053)	0.000** (0.018)	0.000** (0.019)
FSIZE	-0.003* (0.065)	-0.003 (0.000)	0.000 (0.979)	0.008*** (0.000)	-0.004*** (0.000)	-0.002*** (0.000)
INDCOM	-0.030 (0.159)	0.004 (0.376)	-0.037*** (0.002)	0.011 (0.308)	-0.034*** (0.001)	0.003 (0.585)
BSIZE	-0.001 (0.235)	0.001*** (0.003)	0.000 (0.318)	0.000 (0.725)	0.000 (0.830)	0.000 (0.154)
TENURE	-0.001* (0.051)	0.000** (0.030)	-0.001*** (0.003)	0.000* (0.084)	-0.001*** (0.001)	0.000*** (0.008)
OWN	-0.002 (0.649)	0.000 (0.971)	-0.001 (0.732)	-0.004* (0.070)	-0.003 (0.158)	-0.001 (0.528)
MEETING	-0.005 (0.378)	0.002 (0.181)	0.001 (0.767)	0.004 (0.155)	0.000 (0.977)	-0.002 (0.218)
LEV	-0.012 (0.145)	-0.002 (0.308)	-0.006 (0.228)	-0.016*** (0.001)	-0.003 (0.554)	-0.002 (0.351)
ROA	0.000 (0.270)	0.000** (0.024)	0.000 (0.364)	0.000 (0.477)	0.011*** (0.000)	0.013*** (0.000)
SGROWTH	0.000*** (0.000)	0.000** (0.011)	0.000*** (0.000)	0.000 (0.000)	0.000*** (0.000)	0.000 (0.499)
Constant	0.157*** (0.000)	0.004 (0.638)	0.014 (0.521)	-0.268*** (0.000)	0.043** (0.040)	-0.024** (0.034)
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.438	0.914	0.321	0.497	0.779	0.937
N	491	2,266	1,206	1,551	1,069	1,688

*, **, *** denote statistical significance at 10%, 5%, and 1% levels, respectively

decreases. Table 11 shows the insignificant influence of CEO busyness (CEOBUSY1) on earnings management (JONES, DECHOW, and KOTHARI) with both earnings increases and decreases. Conversely, Table 12 reports that CEO busyness (CEOBUSY2) has a negative and significant impact at 10% and 1% levels on earnings management (JONES and KOTHARI) through earnings increases. The results of this study reveal that CEOs holding positions as both board members and executives in other companies are not committed to manipulating earnings by increasing their company's profits. This finding suggests that these busy CEOs are not primarily motivated by increased bonuses and remuneration in fulfilling their executive responsibilities. This occurs because executives tend to pursue non-economic goals in the companies they lead when they have sufficient alternative income sources (Hambrick & Mason, 1984). The research results argue that CEOs who are busy due to holding positions as both board members and executives in four or more other companies consider themselves financially stable and are therefore not interested in manipulating company earnings through profit increases to obtain higher

bonuses. This finding is consistent with the research conducted by Chee and Tham (2020), which uses the modified Jones and adjusted-performance models.

Robustness tests: Endogeneity

When analyzing the influence of CEO characteristics, there is a possibility of endogeneity issues that can lead to bias in drawing conclusions. In this study, sample selection bias is the source of endogeneity issues, where CEO characteristics and company characteristics potentially influence each other and collectively affect the dependent variables. To address this issue, the Propensity Score and Entropy Matching methods are employed (Arifin et al., 2022). For Propensity Score Matching (PSM), this research uses company characteristics as determinants of the treatment group and the Nearest-Neighbor method to determine a matched sample between the treatment and control groups. Table 13 indicates that the busier the CEO, the more inclined they are to engage in earnings management. However, CEOs who hold positions as both board members and executives tend to have lower incentives for earnings management. The results of the testing using the Entropy Balancing method also strengthen the previous analysis and conclusions.

Table 13. Endogeneity tests: Matching method

Propensity score matching	CEOBUSY1	CEOBUSY2
Difference in AbsAcc	0.018*** (2.89)	-0.011* (-1.92)

Entropy balancing	Coef.	t-stat	Coef.	t-stat
CEOBUSY1	0.436*	1.86		
CEOBUSY2			-0.008**	-2.09
Control variables	Yes		Yes	
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Observations	2,757		2,757	

5. Conclusions

Using non-financial firms from emerging economies such as Indonesia, we seek to examine the influence of CEO busyness on earnings management practices. We find that CEO busyness has a positive and significant influence on earnings

management practices, in line with the findings of Ferris and Liao (2019). However, when CEOs have experience as board members, it can actually shape characteristics that help reduce earnings management practices, consistent with previous literature (Hashim & Rahman, 2011; Shu et al.,

2015; Brown et al., 2018; Tham et al., 2019; Chatterjee, 2020). The presence of CEOs at board of directors meetings failed to moderate the impact of CEO busyness on earnings management practices. This finding suggests that board meetings cannot provide a measurable impact on the positive relationship between busy CEOs and earnings management practices, contrary to previous research (Jiraporn et al., 2009; Chatterjee, 2019).

This study contributes to the literature in several ways. First, it provides empirical evidence that contradicts most of the previous studies, which may be due to various factors such as research settings, culture, and regulations. Second, this study employs various testing methods to mitigate endogeneity-related issues, resulting in more robust research conclusions compared to previous studies. This is essential for the development of research in Indonesia, where there are limited studies addressing endogeneity issues.

The research findings have implications for company strategies in CEO selection. Companies should carefully consider CEO busyness to avoid opportunistic behavior that could harm the company. However, this study has limitations, such as the inability to trace the industry sector and relationships between companies led by the same CEO. Knowledge in these areas could yield broader findings, such as the impact of a busy CEO in the same industry sector or if the busy CEO holds positions in companies under the same beneficial ownership. Future research is encouraged to test for such differences to demonstrate their impact on earnings management practices. Different proxies can also be used to measure CEO busyness and earnings management.

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