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The Influence of Overconfidence Status, Gender, and Health Status to CFO's (*Chief Financial Officer*) Investment Decision in Developing Country: An Initial Framework Development for Further Investigation

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Abstract:

CFO (Chief Financial Officer) or financial director has been considered as one of the main strategic keys within organization, due to the responsibility of strategic decision making related to financial investment of the organization. Previous research have shown that there were an influence of CFO's gender on financial report development and operational relation decision making. Additionally, overconfidence status also has an effect on investment decision, in which it may leads to bad performance of individual investor. On the other hand, several research have also shown that health status of individual may influences the investment decision making, based on the risk of each investment made. Drawing from previous studies, this paper aims to propose a conceptual framework development to investigate the influence of overconfidence status, gender, and health status of CFO's mainly to be investigated in developing countries. The paper has developed three propositions which suggest that there are influences of overconfidence status, gender, and health status on CFO's investment financial decision. However, this paper is a conceptual framework paper, thus the empirical study is not done. Furthermore, this paper contributes on theoretically analyzing the effect of several different factors on CFO's financial decision making, thus may help on building better strategy for organization in enhancing each of CFO's performance within the organization in the future.

Keywords: *overconfidence, CFO (Chief Financial Officer), health status, gender, investment decision*

1. Introduction

CFO (*Chief Financial Officer*) or financial director has long been acknowledged as a key vital of strategic decision making within an organization. According to IFAC (2015), financial director needs to be an effective organization leader, specifically in the function of financial and accounting management, responsible as integrator of organization, and also develops a leadership professional quality to the organization. One of the professional quality needs to be acquired is the strategic decision making related with the organizational financial condition, in which to be able to produce highest financial benefits for the organization with the reasonable risk (IFAC, 2015). Study performed by Accenture (2014) has also reported that CFO needs to act as a strategic partner for the CEO (*Chief Executive Officer*), in which the CFO should responsible in managing the funding, debt, and organization capitals for the long-term business continuity and allocation process of human resource management in the competitive markets. The study has also found that there is a high expectation for all the CFO to be able to take more parts for better function and capabilities in the future. For example, in Indonesia as one of the developing countries, the role of CFO has also obtained more attention, with the growing numbers of CFO's forum, both in public organization, private organization, or state-owned enterprises or known as BUMN – *Badan Usaha Milik Negara*. (AAJI, 2016 and BUMNTrack, 2015).

Strategic decision making in determining corporate investment strategy is one of the organization policies closely related to the important role of a CFO. Previous studies have shown that there are several factors that influence investors behaviours in decision making, such as overconfidence status (Barber and Odean, 2011), gender (Wei and Xie, 2015), and health status such as body-weight status and physical characteristics e.g. body height (Addoum, Korniotis, and Kumar, 2015).

Liu, Wei, and Xie (2015) found that female CFOs tend to have "risk averse" condition compared to male CFOs in making financial reports and operational decisions. Another study conducted by Barua et al. (2010) also showed that firms with female CFOs reported total absolute abnormal, current accruals, and accruals were lower than male CFOs. Peni and Vahamaa (2010) also found that female CFOs tend to be more conservative in financial reporting strategies. Personality differences between men and women are suspected to be the cause of leadership differences as reported by Feingold (1994) which mentioned that men tend to have assertiveness and higher prices while women have higher verbal communication, energy, anxiety, and softer thoughts. This ultimately leads men to tend to be

more aggressive in their performance to gain more earnings. Yang and Zhu (2016) also found that male students tend to be more aggressive in trading activities than female students.

Research conducted by Barber and Odean (2011) states there are 2 types of overconfidence status that is miscalibration effect (feel more knowledgeable than the objective accuracy of those knowledge) and better-than-average (BTA) effect (feel better than others). Generally, overconfidence investors have a higher tendency to conduct trading activity because of the overestimate precision of personal information held than rational investors (Benos, 1998; Kyle and Wang 1997; and Scheinkman and Xiong, 2003). Overconfidence sometimes becomes the cause of bad performance from individual investors, therefore it needs to be overcome (Barber and Odean, 2011). Yang and Zhu (2016) also examined the parameters of overconfidence among college students in China and found that better-than-average (BTA) type of overconfidence resulted in higher trading activity under ambiguity conditions and higher in men rather than women.

On the other hand, Addoum, Korniotis, and Kumar (2015) in their research conducted in United States and Europe found that individual physical characteristic was associated with a portfolio investment decision. Individual who is relatively tall and with a normal weight may have a tendency to take greater financial risks and are more likely to participate in the stock market, while overweight individuals tend to be less risky. This difference might be due to the past experience formed when teens who have normal weight and tall body weight might considerably more popular than their counterparts, thus, it leads to the tendency of taking higher risks when they got older. In addition, other studies have found that obese and hypertensive men tend to have lower cognitive abilities than non-obese and normal blood pressure (Elias *et al.*, 2003) in which may contribute to the different investment strategic decisions making.

To the present time, there have been no studies that investigated together the influence of these three factors on the decision of the CFOs in developing countries, such as in Indonesia. Existing studies are still limited to students as the population, and only examined the effect of overconfidence and gender (Yang and Zhu, 2016). In addition, existing research are still conducted in developed countries such as United States and Europe (Addoum, Korniotis, and Kumar, 2015) whereas there are a cultural difference as shown by Pyles *et al* (2016) in which may affect investment decision and portfolio creation. Therefore, further research is needed to analyze the relationship between overconfidence, health status, and gender to the CFO's financial investment decision making as a strategy to increase and optimize the company's financial performance, through an initial development of conceptual framework, which will be proposed in the paper.

The remainder of the paper is structured as follows: the following section discusses the problem statement for the conceptual framework development. Subsequently, the development of three different propositions will also be discussed based on existing and previous research on CFO's strategic financial investment decision making and be translated to the conceptual framework. At the end of the paper, the conclusion and research implications will also be presented in the paper.

2. Problem Statement

CFO (*Chief Financial Officer*) or financial director is one of the key strategic in the company. According to IFAC (2015), a financial director is expected to be an effective organizational leader in financial management and accounting functions, responsible as an integrator and organizer of the organization, and bringing professional quality into the organization. In Indonesia, the increasing role of CFO is also increasingly visible. One of them is by growing numbers of CFO forums both in State Owned Enterprise (BUMN) and private (AAJI, 2016 and BUMNTrack, 2015). Furthermore, one of the crucial skills closely related to the important role of a CFO within organization is the process of making investment decisions as a corporate financial strategy. Overconfidence, gender, and health status turned out to influence investment decision making. Overconfidence tends to increase risk taker behavior (Barber and Odean, 2011), women tend to be more risk averse and less aggressive towards trading activity (Yang and Zhu, 2016), and individuals with high BMI (*Body Mass Index*) will be more risk averse to investment decisions (Addoum, Korniotis, and Kumar, 2015).

To the author's knowledge, there have been no studies that experimentally studied these three variables on investment decisions taken by financial directors, specifically in developing countries, such as in Indonesian firms, while this is important given the role of CFOs as policy makers of the organization. Therefore, the conceptual framework developed in this study will be built based on the intriguing questions on the relationship of these three variables experimentally to the CFOs investment decisions in developing countries, such as in Indonesia. The questions that will be discussed within the conceptual framework, are as follows:

- Are there any influence of overconfidence status on CFO investment decision?
- Are there any gender influences on CFO investment decisions?
- Are there any effects of health status (BMI and blood pressure conditions) on CFO investment decisions?

3. Proposition and Conceptual Framework Development

Strategic investment decision making by CFOs is a professional capability that is considered crucial in an organization and this is influenced by several factors, such as overconfidence, gender, and health status. Overconfidence tends to increase risk taker behavior (Barber and Odean, 2011), women tend to be more risk averse and less aggressive towards trading activity (Yang and Zhu, 2016), and individuals with high BMI will be more risk averse to investment decisions (Addoum, Korniotis, and Kumar, 2015). Therefore, the conceptual framework will examine the relationship of these three factors to CFOs investment decision making. The conceptual framework is proposed to be quantitatively using a questionnaire survey based on variables from previous studies (Yang and Zhu, 2016; WHO, 2004; Muhammad and Abdullah, 2009) as outlined in the conceptual framework of the study and shown in Figure 1 below.

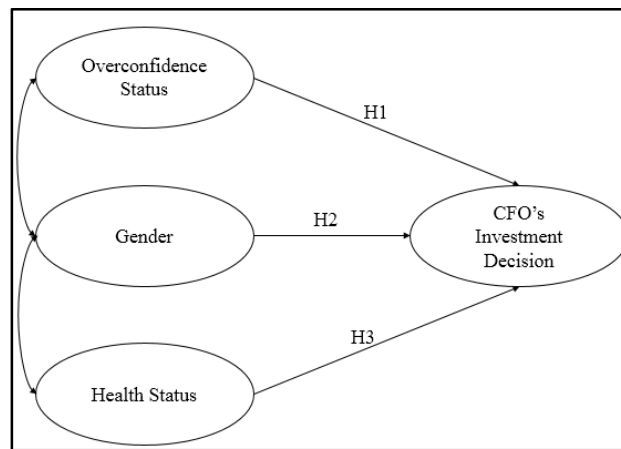


Figure 1: Proposed Conceptual Framework

Overconfidence can increase trading activity with the effect to encourage investment decision making. Overconfidence investors have a higher propensity for trading activity due to overestimate precision of personal information held than rational investors (Benos, 1998; Kyle and Wang 1997; and Scheinkman and Xiong, 2003). Therefore, the proposition developed, is as follows:

➤ H1 = There is an effect of over confidence status to the CFO investment decision

Men have more aggressive traits than women in relation to income seeking (Feingold, 1994). Yang and Zhu (2016) also found that male students tend to be more aggressive in trading activities than female students. Peni and Vahamaa (2010) also reported that female CFOs tend to be more conservative in financial reporting strategies. Based on previous studies, the proposition taken in this paper was formed as follows:

➤ H2 = There is an effect of gender differences on CFO investment decision making.

Addum, Korniotis, and Kumar (2015) reported that there was an influence of a person's physical character status with a portfolio investment decision. Relatively high and normal weight individuals have a tendency to take greater financial risks and are more likely to participate in stock markets, while overweight individuals tend to be less risky. Therefore, the hypothesis taken, is:

➤ H3 = There is an effect of health status on CFO investment decision making.

Variable	Definition	Dimension and Indicators	References										
Overconfidence status	<ol style="list-style-type: none"> BTA (Better than Average) – feels better than others Miss-calibration effect – feels more knowledgeable than the objective judgment on that knowledge 	Miss calibration effect is measured with pre and post survey questionnaire with 20 questions with 90% confidence interval while BTA effect only with post survey with below question: <i>Of the 10 participants involved in the study, how many people would raise more money compare to you, based on investment decisions made?</i>	Deaves et al. (2009) Yang and Zhu (2016)										
Health status	<ol style="list-style-type: none"> BMI (Body Mass Index – kg/m²) Blood pressure (mmHg) 	For BMI, <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Category</th> <th>BMI (kg/m²)</th> </tr> </thead> <tbody> <tr> <td>Underweight</td> <td><18.5</td> </tr> <tr> <td>Normal</td> <td>18.5-22.9</td> </tr> <tr> <td>Overweight</td> <td>≥23.0</td> </tr> <tr> <td>Obesitas</td> <td>≥25.0</td> </tr> </tbody> </table> For blood pressure, 120/80 is normal. >120-140/>80-90 is pre-hypertension >140/>90 is hypertension	Category	BMI (kg/m ²)	Underweight	<18.5	Normal	18.5-22.9	Overweight	≥23.0	Obesitas	≥25.0	WHO (2014) CDC (2014)
Category	BMI (kg/m ²)												
Underweight	<18.5												
Normal	18.5-22.9												
Overweight	≥23.0												
Obesitas	≥25.0												
Gender		<ol style="list-style-type: none"> Male Female 											
CFO's Investment Decision	Successful investment decisions which are measured by the level of risk and returns that are tolerated and earned by investors	Q1. Investment expected return Q2. Investment holding period Q3. Investment objectives Q4. Investor's risk tolerance Q5. Investor reaction towards losses	Muhammad and Abdullah (2009)										

Table 1: shows the summary of variables used within the conceptual framework

4. Implications, Contributions, and Conclusion

This paper contribution is as follows:

a. **Managerial contribution**

This conceptual framework is expected to provide the relevant information based on overconfidence status, health status, and gender to the organization for the CFO's election, in which to be considered based on the needs of organization itself. For example, for a family based company with family culture, it would be better to choose a female CFO because it would be more in line with the vision of the company's mission with a softer character and if the company wants to expand aggressively in terms of financial development, it is better to choose a male CFO with good health status. This propositions are interesting to be investigated in the further empirical study.

b. **Theoretical contribution**

This paper aims to enrich the literature related to investor behavior that is still very limited, specifically in developing country such as in Indonesia related to investment behavior owned by the CFO. This conceptual framework will aid to build an initial mapping process of the characteristics of CFO with regards to the parameters of overconfidence status, health status, and gender.

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