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The Influence of CEO Characteristic on Banking Performance

Suwinto Johan*
Sekolah Tinggi Manajemen PPM
Jakarta, Indonesia
*wahyuni.rusliyana@trisakti.ac.id

Wahyuni Rusliyana Sari
Universitas Trisakti
Jakarta, Indonesia

***Abstract*—The paper aims to study the influence of a chief executive officer (CEO) characteristic on banking financial performance. CEO is the leader who will lead the company to achieve the vision, mission, and short-term target. Shareholders will determine the CEO to run the company for a specific term. Financial institution, especially banking, is a service company. That heavily depends on human resources. Therefore, the research will focus on the characteristic of the person of a CEO. Analyzed seven characteristics of a CEO that are age, education, the term of appointment, experience, any position of vice CEO, professional hire or promote internally, and affiliated to the major shareholders. The dependent variables are the return on equity (ROE) of banks. Panel data used in this research consist of 28 banks in period 2014-2018. The finding showed that the CEO age has a significant and positive impact on the profitability of banks, especially the return on equity (ROE). The implications of this research are to give information the impact of a CEO characteristic on banking financial performance.**

Keywords—banking, characteristic, chief executive officer, performance

I. Introduction

The board of director plays an essential role in growing of a company. Directors determine the vision, mission, and direction of the company. The Directors lead the company in dealing with crises and also in developing the company for the long term.

The Board of Directors is the Company's has the authority and is fully responsible to manage the company [1]. Directors are required to take fit and proper tests for the financial industry. Fit and Proper Tests are conducted by the Financial Services Authority. Fit and proper tests the ability and compliance of the candidate. A candidate for directors cannot become a director of a financial institution if the financial services authority refuses the fit and proper test [2].

CEO leadership is crucial for any organization. Leadership provides psychological and motivational resources lacking in the organization's culture [3]. Banks' performance during the financial crisis is a function of their board characteristic [4].

Shareholders appoint directors in a general meeting of shareholders for a specified period. Shareholders often have difficulty in determining the appropriate CEOs and directors in running the company. Sometimes, shareholders have different interests from directors in running a company. This is known in several theories, such as agency theory. Agency theory explains that there are differences in interests between the two parties [5].

The character of a CEO influences company performance. CEO humility has important implications for firm processes and outcomes [6]. The effect of board seats depends on the task environment in which the company operates [7]. The share price of a company tended to increase with an increase in integrated reporting rating, age, and year of experience of the CEO [8]. The longer CEO tenure has linier relationship on bank outcomes [9].

CEOs who have a business education background perform significantly better; financially and socially than Microfinance Institutions (MFIs) managed by CEOs with other types of educational backgrounds [10].

II. Literature Review

A CEO who has competent experience will improve company performance. Moreover, CEO education improves profitability [11]. However, report that a positive but insignificant relationship between CEO education and bank performance and a significant positive association between gender diversity and bank performance. It further denotes a negative and significant impact of national diversity on bank performance [12].

Some of research find that the presence of foreign chairman has a positive effect on the profitability of the foreign acquired banks [13]. The board member size, CEO tenure, and board member tenure, enhance bank performance. During the crisis, the non-performing asset ratio decreases with board independence [14].

Another study present a negative relationship between real earnings management and some CEO characteristic, including CEO tenure, the directorship on the audit committee, and the level of diligence [15]. CEO experience turns out to have a positive effect on earning management [16]. stated that CEO characteristics (age, tenure, formal education, and prior career experience) are positively related to future firm performance. There are an exciting and vital relationships between specific measures of CEO characteristic and firm outcomes.

Finally, the research that partially the size of the board and gender beliefs had a significant effect on the financial performance of banks [17]. Banks with more independent and busy board experienced worse stock returns during the crisis [4]. Gender and age diversity improved banks' performance during the crisis; hence, diversity matters [18]. shows that the frequency of board of directors meeting has a negative and significant effect on firm performance measured with return on assets.

III. Methods

This research tested the influence of CEO characteristic variable against banks' financial performance in Indonesia. The characteristic of CEO are age, education, tenure of appointment, previous experience, vice CEO, internal or professional hired, related, or independent to major shareholders. The CEO characteristic data is obtained from the annual report published by the bank from 2014-2018. The financial performance is return on equity.

This research is performed using regression model which is stated as the following:

$$Y_{1it} = a + b_1Age_{it} + b_2Edc_{it} + b_3Ter_{it} + b_4Exp_{it} + b_5Vic_{it} + b_6Int_{it} + b_7Aff_{it} + \varepsilon$$

Where:

Y_{1it} = return on equity
Age = age
Edc = education
Ter = tenure
Exp = experience
Vic = vice CEO
Int = internal or external
Aff = affiliate or non-affiliate

Table 1 below is the research hypotheses:

TABLE I. RESEARCH HYPOTHESES

Hypothesis	Variables	Influence on Bank Financial Performance
H1	Age	Significant & Positive
H2	Education	Significant & Positive
H3	Term of Assignment	Significant & Positive
H4	Experience	Significant & Positive
H5	Vice CEO's position	Significant & Positive
H6	Internal or External	Significant & Positive
H7	Affiliate or Non Affiliate	Significant & Positive

A. Data

This research used panel data consisted of 28 banks listed in Indonesian Stock Exchange period 2014-2018. The formulation of the variables is described in Table 2.

TABLE II. VARIABLES AND MEASUREMENT

Variables	Measurements
Age	Age of CEO
Education	Education background of CEO
Tenure of assignment	The term of CEO appointed in the CEO position
Experience	Years of experience as director
Vice CEO's position	Any Vice CEO in the organisation
Internal or external promotion	Professional hired from external or promote from internal organisation
Affiliate or Non Affiliate	Any affiliate relationship to the main shareholders.

IV. Results and Discussion

A. Result

Of the total 140 data, the age of CEO is ranging from 41 years to 65 years. On average, the CEO is 54 years old. The education background, CEO graduate minimum a bachelor degree. On average, more than 50%, the CEO has a master's degree.

On the tenure of assignment as a board member, there is a CEO who has a maximum of 12 years' experience before appointment as CEO. On average, the CEO is a member of the board for three years. Most of the CEO has five years' previous experience before appointment as CEO. Moreover, there is a CEO who has ten years' previous experience before appointment as CEO. From 28 CEO, 45% of the CEO has a vice CEO to assist them as a board member.

Table 3 below is the statistic descriptive:

TABLE III. STATISTIC DESCRIPTIVE

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	140	-65,7600	36,5000	8,0978	15,2487
Return on assets	140	-49,0000	12,40000	1,2775	4,8678
Age	140	41,0000	65,0000	54,4857	5,5794
Education	140	1,0000	3,0000	1,6357	0,5393
Tenure	140	0,0000	12,0000	2,9357	2,8769
Previous experience	140	0,0000	10,0000	5,2643	3,8189
Vice CEO	140	0,0000	1,0000	0,4571	0,4999
Internal or professional hire	140	0,0000	1,0000	0,4714	0,5010
Affiliate or independent	140	0,0000	1,0000	0,2000	0,4014
Valid N (listwise)					

Source: Data process

From 28 banks, 47% of the appointed CEO is from the bank internal resources. And, 20% is related or affiliate to the main shareholders.

On the Return on Equity, based on Chow test, FEM is better than Pooled Least Square model. Furthermore, based on Hausman test shows that FEM model is better than REM. Therefore, it can be concluded that FEM is the best model to measure the influence of CEO characteristic to return on equity of banks.

Table 4 below is the statistic result:

TABLE IV. STATISTIC RESULTS

	Return on Equity		
	Pooled Least Square	***Fixed Effect Model***	***Random Effect Model***
Age	0,5217** (0,2299)	-0,6918*** (0,2576)	-0,3228 (0,2260)
Education	-0,7163 (2,3657)	-1,8725 (2,7429)	-1,1712 (2,3657)
Tenure	-0,1521 (0,4499)	-0,0856 (0,6195)	-0,3476 (0,5061)
Previous experience	-0,3720 (0,3471)	0,3527 (0,5028)	0,2576 (0,3994)
Vice CEO	6,6114** (2,5930)	-0,9133 (4,4894)	3,0947 (3,2559)
Internal or professional hired	4,5605* (2,5805)	-2,9701 (3,2559)	0,0291 (2,7423)
Affiliate or independent	-8,2987*** (3,1386)	-0,0371 (7,2429)	-4,5639 (4,6668)
R^2	0,1184	0,6505	0,0377
Chow test	0,0000		
Hausman	0,0368		

Source: data processed

Note: Numbers in ( ) states the estimated standard error
*) Significant at α = 10%, **) Significant at α = 5%, ***) Significant at α = 1%

B. *Discussion*

The test results show that age of the CEO is the significant and positive influence the return on equity of bank. The older, the CEO, will be better result of the bank. The older CEO will have more exposure and experience in managing the institution. The age variable results is supported by the research of [4,8,16,17]. The results show that education level of the CEO is not the significant variable which influence the return on equity. The education variable showed that it has an negative insignificant impact to the performance. Education background is not the variable determine the bank performance, but the experience is more important. The education background results is differed from the research of [10,11,16].

The tenure of appointment of the CEO is not the significant variable which influence the return on equity. The tenure of appointment results is differed from the research of [9,14-16].

The test results show that previous experience of the CEO is not the significant variable which influence the return on equity. The previous experience results is differed from the research of Rambe and Mangara [8]. The previous experience for all CEO is from banking industry. Therefore, it has no different on the CEOs' experience. The test results show that a vice CEO is not the significant variable which influence the return on equity and return on assets of bank. However, the vice CEO has no direct influence to the banks' performance in Indonesia. Usually, Vice CEO will be appear when the CEO is on leave or inactive due some circumstances.

The test results show that source of hiring of the CEO is not the significant variable which influence the return on equity and return on assets of bank. The results is differed from the research of [11,13]. There is no different between professional hired or promote from internal. Based on results show that related or independent of the CEO is not the significant variable which influence the return on equity and return on assets of bank. The affiliate or independent to main shareholders' results is differed from the research of [4,14]. Most of the banks appoint Indonesian local as their CEO, however for Chairman will be represented the main shareholders.

V. CONCLUSION

The research focuses on the characteristic of the person of a CEO and analyzed seven characteristics of a CEO that are age, education, the term of appointment, experience, any position of vice CEO, professional hire, or promote internally and affiliated to the major shareholders. The empirical results showed that the age of the CEO have an impact on the profitability of banks, especially the return on equity (ROE).

The research has few limitations, such as the characteristic of the CEO. Further research to extending the number of financial performance variables i.e. asset growth, firm size, and risk factor. Furthermore, the other CEO characteristics such as gender of CEO, stock option owned by the CEO, and related industry experience.

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