ATLANTIS PRESS

Advances in Economics, Business and Management Research, volume 101

1st International Conference on Islamic Economics and Business (ICONIES 2018)

CEO Characteristics and Firm Performance; Empirical Studies from ASEAN Countries

1st Indira Emmelina Ernestine
Universitas Indonesia
Depok, Indonesia
emmelina.ernestine@gmail.com

2rd Dyah Setyaningrum
Universitas Indonesia
Depok, Indonesia
dsetyani@uin.ac.id

***Abstract*— The purpose of this study is to examine the association between Chief Executive Officer (CEO) characteristics on firm performance. Tobin's Q measures firm performance; while CEO's characteristics are measured by tenure, age, professional certification in finance or accounting, advanced education in finance or accounting, status (insiders or outsiders) and gender. The hypotheses are tested using regression analysis using 235 firm-year observation from six ASEAN countries (Singapore, Malaysia, Indonesia, Thailand, Philippines, and Vietnam) in the year 2015. The results show that CEO age and tenure have a positive association with firm performance. This study is critical because it delivers evidence on the link between the characteristics of the CEO and firm performance. CEO characteristic will give a positive impact on companies' firm performance. Overall, investors need to pay attention to the essence of a CEO that is proved can affect better firm performance when making an investment decision.**

Keywords—CEO, Characteristic, Firm Performance, ASEAN Countries

I. INTRODUCTION

Every firm needs professional directors whose expert in their fields, they must have a specific formal education background and have experience in working according to their expertise because the skills required to make managerial decisions are not always formed only from formal education qualifications [9]. In Indonesia, education levels and specialization have been shown to have a positive influence on performance and are used as the company's primary consideration in selecting CEOs [11].

The company also needs directors who have entrepreneurial and leadership skills, which also play an essential role. Has proven in fast-growing companies and high-performance firms that they are established and managed by management who do not have a high-level formal education [9]. This finding has been demonstrated in a study that evaluates the leadership style used by CEOs at Ciputra University's start-up business in 2013. Based on the research sample, it can be concluded that authentic leadership and self-leadership style are two leadership styles used. A company having a CEO with an authentic leadership style achieved better start-up business performance [20].

The decision-making power of the board of directors, notably Chief Executive Officer (CEO), affects the performance of the company because they have the absolute power in the company's operational decision making and substantial influence in strategic decision making [22]. [1] divided the CEO into two categories, a founder and non-founder, non-founder CEO positively affects the company's performance, but surprisingly, the founder CEO negatively affects the company's performance.

Although needed in performing its role to improve the company's performance, not all CEOs come from an accounting or finance background. To help companies find the right CEO, this study also examines whether it is better to choose a CEO from accounting experience, financial knowledge, or others. The criteria of financial expertise used in this study which has been used to measure characteristics of the CEO [8], accounting or financial knowledge of the audit committee [13] and business expertise of the directors [2], is a recommendation from the Blue Ribbon Committee (1999).

The purpose of this study is to examine the association between chief executive officer (CEO) characteristics on firm performance in ASEAN countries. This study examines CEO characteristics using tenure, age, advanced education, professional certification, CEO status (insider or outsider), and gender. The firm performance is measured by Tobin's Q to proxy the market performance, because the CEO's role is to focus on increasing investor's interest to invest in the company, creating economic value-added to increase shareholder's wealth by improving market performance. Tobin's Q measurements use accounting and market indicators, which involved the circulation of assets, liabilities, and shares of the company.

II. METHOD

The population in this research is ASEAN companies that registered for the year 2015. Sample selection is made by purposive sampling method, sample selection technique use limit of research. This study sample is 280 companies from 6 ASEAN countries (Thailand, Singapore, Malaysia, Philippines, Indonesia, and Vietnam) listed as participants of the ASEAN Corporate Governance Scorecard Award

(ACGS) 2015. This research chooses sample companies with the following criteria; companies in ASEAN member countries, become a participant of ASEAN Corporate Governance Scorecard Awards 2015, provide Annual Report and Financial Report for 2015 in English, and provide information related to the characteristics of the company's CEO also in English.

This study uses multiple linear regression to examine the relationship between CEO expertise on firm performance, using the robust command to control the heteroscedasticity. This study has one dependent variable (Tobin's Q) and six independent variables (CEO Age, CEO Tenure, CEO Advanced Education, CEO Professional Certification, CEO Status and CEO Gender) to test CEO characteristics and three control variables (Asset Age, Leverage and Market Capitalization) to be tested for its effect on Tobin's Q.

III. RESULT AND DISCUSSION

A The relationship between CEO Tenure and Firm Performance.

CEO tenure positively affects the company's performance. Observational data indicate that the longer CEO's term runs in tandem with better firm performance. The longer the period of office that has been undertaken in the company today, the better firm performance achieved by the company, because the CEO's understanding of the business process of the company is better, so he can make more precise supervision of targets and provide better recommendations for the company's operations.

This finding is in line with studies that prove that firms with longer tenure CEOs produce better firm performance compared to firms with shorter tenure CEOs [8]. This is supposed to happen because the longer the CEO tenure, the longer the experience he has to help him manage the company at the moment he is on duty.

This finding does not agree with the results of a study that proves that CEO tenure over 9 years of service is positively correlated with firm performance improvements [16] and empirical studies showing that CEO tenure declines after entering the 10-15 year [12] because the results of this study prove that the longest tenure of market performance increased slowly to 7 years, then began to decline since CEO tenure entered the 8th year. This study found that founding CEOs lead the majority of companies, but family companies tend to regenerate only with lineages that are considered capable so that their ability to lead the company decreases. These findings support an empirical study that proves that longer tenure CEOs produce better firm performance [3] and empirical studies that show the home grown-insider CEO achieve better market performance because of his deeper business processes knowledge and work culture of the company.

B. Relationship between CEO Age and Firm Performance.

The results of the statistical research show that CEO Age positively affects firm performance. Firm performance achieved by the company is higher when the age of the CEO is older, since former CEOs have more extensive work experience, convincing investors that the CEO can lead the company better. This finding is in line with a study that proves that CEO age has a significant positive impact on firm performance [15], and empirical studies that show that the increasing age of CEO proved to improve financial performance [17].

This finding is in contrast to empirical studies that prove that CEO age negatively affects firm performance [3]. This is supposed to happen because the company samples used in the empirical research are companies that are trying to internationalize, not all CEOs have had experience leading companies that are in that stage, especially CEOs with a further age that has been for years leading a company with a business process that is not currently internationalizing, cannot pursue the material and adapt quickly to conduct a business process that is transformed into the internationalization stage. In this case, younger CEOs can achieve better firm performance because of the more inexperienced CEO's ability to adapt faster to lead the business process toward internationalization.

This finding is inconsistent with some of the empirical studies that found that CEO age earned better firm performance at age 55, compared to generations before or after 55 years [16]. This study proves that as the CEO ages, market performance increases steadily, although little by little until reaching the age of 55 years, then grow more rapidly after the age of 55 years. This is supposed to happen because after learning step by step in improving market performance, CEOs who become shrewd in determining business strategies more targeted for the company, far more astute than when younger when newly promoted to occupy the CEO position.

C. Relationship between CEO Advanced Education and Firm Performance.

The results of statistical tests show that CEO advanced education does not affect firm performance. CEOs can achieve higher and lower firm performance with and without advanced knowledge. This happens because the CEOs of the observed sample companies come from various educational backgrounds following the industry sectors of their respective companies, such as the CEO for the hospital coming from a medical background.

CEOs with and without advanced education have the same opportunity to achieve better firm performance. The lowest performance firms of the sample companies are performed by companies that do not have CEOs with advanced education, and the highest firm performance is also achieved by companies that do not have CEOs with superior knowledge. This happens because the needs of each company differ according to the industry sector, so it can

not be said that the CEO dg master degree in accounting/finance is better in serving as CEO. These findings are in line with the results of research proving that the CEO's technical education does not show a strong relationship with the financial performance [21].

This finding is not in line with empirical studies that prove that CEO advanced education is negatively related to firm performance [15]. The possibility of this happening is that the survey is conducted on a sharia bank only, where not all CEOs who are sampled from those already experienced in sharia bank work are too familiar with conventional banks, so it takes time to adjust their knowledge in accepting new material and applying it to a company, whereas those not from the master degree in finance/accounting are more receptive to new content because they are not mixed with material that has been the subject of many years of work.

This study yields empirical evidence in line with studies that prove that the master degree in finance/accounting improve market performance [19]. This is supposed to happen because both of these scholars teach that the role of the CEO is very big to investor confidence, so in charge more to understand the priority of market performance compared with accounting.

D. Relationship between CEO Professional Certification and Firm Performance.

CEO professional certification does not affect the company's performance. The highest and lowest firm performance can be achieved by the CEO without professional certification since the CEOs of the observed sample companies come from various educational backgrounds; not every educational experience has a certification program. This happens because companies with CEOs who do not have a professional certification can find alternatives by recruiting the right hand in the form of a Chief Financial Officer (CFO) with sufficient financial expertise so that better firm performance can still be achieved. It can be concluded that CEOs with and without professional certification have equal opportunity to make better firm performance. Evident from the firm performance of the lowest of the sample companies are achieved by companies that do not have CEO with advanced education, but the highest performance firm is also performed by companies that do not have CEO with superior knowledge.

These findings contradict previous research showing that CEOs without accounting / financial expertise cannot maintain the quality of financial statements that could jeopardize firm performance in the future [4] because it is not proven in this study that CEOs with professional certification reduce the quality of financial reporting but determine that either have a professional certification or not, the CEO can improve market performance, because it can listen to feedback on strategy finance by recruiting CFOs that are certified professionals, equipped by strategic managers or operations managers who can also provide input, not necessarily the CEO himself who has the certification.

The literature on CEOs with professional certification in finance or accounting is still rare, also indicates that the certification is less suitable to serve as a benchmark of CEO's expertise in leadership, which is more suited to leadership-related certification as researchers have found from observational data that CEOs companies looking for CEOs prioritize candidates who have leadership certification or other specialized training for the CEO.

E. Relationship between Gender CEO and Firm Performance.

The results of statistical tests show that CEO Gender does not affect firm performance. Observational data show that 10% of CEOs of sample companies are female CEOs. There is better firm performance produced by both female and male CEOs, but both genders can also generate lower performance firm. Thus it can be concluded that both female and male CEOs have the same opportunity to produce better firm performance.

Investors and companies are not advised to give priority to male CEOs, but it is not recommended to discredit female CEOs. These findings contradict empirical studies that prove that female executive can produce better firm performance than male CEOs, and other empirical studies showing that CEOs can provide better firm performance than male CEOs (Khan and Vieito, 2013).

This finding does not support an empirical study that proves that male CEOs can produce higher performance firms compared to female CEOs (Li and Singal, 2017). This is assumed to be the result of bias sample that all the sample companies have excellent market performance, only four companies can be an example as a company with lower market performance compared to the book value, so there can not be a significant difference between having CEO with a different gender. Thus, these findings also do not support an empirical study, which proves that if the female director brings the company to a better firm performance [18].

This finding opposes an empirical study which proves that female directors produce a lower firm performance when tested by market performance measurement and only shown to improve accounting performance using ROA and ROE [5] because this study proves otherwise, i.e., not valid when tested with ROA and ROE, but also not proven to improve market performance. This is because both female and male CEOs of sample companies have the same ability to enhance market performance by maintaining corporate risk by which investors are willing to accept.

This finding also does not support an empirical study that argues that female CEOs can communicate better with investors and successfully prove that female CEOs produce better firm performance compared to male CEOs [10]. This is presumably because the observed sample companies have CEOs who have been given various training courses to lead the company, which includes how to maintain good

relations with investors, therefore both female and male CEOs can maintain good relationships with investors, not only in communicating , but also by keeping the company's level of risk rising beyond the level of risk that investors are willing to bear, keeping the size of the company more significant, and keeping the company's capital in the form of fixed assets to be maintained and renewed in order to maintain the quality of business operations.

It can thus be concluded that the investor shouldn't choose a CEO candidate by using gender considerations since both have the same opportunity and ability to create a better firm performance.

F. Relationship between CEO Status and Firm Performance.

The results show that CEO status does not affect firm performance. According to observational data, there are 37% of CEOs of sample companies with insider status. However, it is not proven that this CEO insider produces better firm performance than CEO outsider. These findings contradict empirical research that demonstrates that CEO insiders can provide better firm performance compared to CEO outsiders [23]. This is supposed to happen because based on observational data, CEO outsider also comes from the same industry sector so although not originating from the equal company, still can contribute as well as insider CEO.

This finding is against an empirical study that proves that the insider CEO produces better firm performance [3], since the CEO company's outsider in this study also knows how to retain investor interest and loyalty, evident from the availability of the owned directorship certification, The CEO has been trained to maintain good relations with investors, for example by keeping the company's risk in line with what the investor is willing to accept and returning as high as investors would expect from his investment.

This study examines the age of the asset by expecting to produce evidence of positive influence, so it can be stated that firms that have longer holdings because it is always renewing assets will result in better firm performance compared to companies whose age of assets is approaching obsolescence, and successful research results show empirical evidence that says so. The age of the company's assets has been shown to affect the company's performance. This is likely because investors are attracted to firms that have higher total asset value but still pay attention to the age of the asset because the optimal company operation also needs to be supported by the prime condition of its assets. As long as the company has high asset value, the company has more ability to renew the assets that will be obsolete when needed.

Leverage positively affects firm performance. The lower the company's risk of the leverage ratio, the better firm performance the company achieves. This is because investors in the sample company are investors who are more interested in minimal risk, thereby entrusting their investment to a company with lower risk, although the yield will be lower than investing in a company with higher risk. This decision is reasonable for investors who do not like risk, are more comfortable with low yields but are stable, compared to higher returns but fluctuate, and risk-bearing significant losses when the company is in trouble.

Market capitalization does not affect firm performance. Companies with high mark cap cannot promise higher firm return for investors. Both more upper and lower mark cap can result in top firm performance. This is supposed to happen because the observed sample company is the 280 companies with the best ACGS score, so having a lower mark cap can result in better firm performance. It can be concluded that for investors, it is not advisable to select an investment target based on the high or low mark cap of the company.

IV. CONCLUSION

1. The results show that CEO tenure positively affects firm performance. Mandate describes how many years of tenure have been passed as CEO. Longer tenure CEOs convince investors that the company has the opportunity to achieve higher firm performance because the CEO who leads the company has recognized the company's business processes more deeply, to supervise and establish a more appropriate strategy for the company.

2. The results also show that the CEO age has a positive relationship with firm performance. Therefore, in recruiting CEOs, experience measured by age is a significant factor. This suggests that firms achieve higher firm performance when old CEOs are older, as older CEOs have more extensive work experience, both from within and outside the company, assuring investors that the CEO can lead the company better.

3. CEO of advanced education does not affect firm performance since CEOs come from diverse educational backgrounds, tailored to the needs of the company by the industry sector and business processes.

4. CEO professional certification does not affect firm performance. This result came from data observed that handled corporate needs related to corporate reporting by looking for CFOs that have financial expertise.

5. CEO gender does not affect firm performance because female CEOs in the sample company have competencies that are not less good than male CEOs, although the numbers are still fewer than male CEOs. Based on observational data, female CEOs in sample companies have proven that gender does not prevent companies from progressing and achieving better firm performance. Both male and female new CEOs need a longer-term to explore the company's business processes before making the best decisions for the company to be able to achieve better firm performance.

6. CEO (insider/outsider) status does not affect firm performance. Observation data and research results show that both the insider and outsider CEO can produce better firm performance, because although the new outsider CEO's experience in this current company is less than the insider.

7. CEO, he still has experience from the previous company to lead the company. While the insider CEO was having a deeper understanding of the company's business processes, it always takes time to adjust to his new tasks as CEO. Both insider and outsider CEO takes time to produce better company performance.

REFERENCES

[1] Abebe M and Alvarado D A 2013. Founder-CEO Status and Firm Performance: An Explanatory Study of Alternative Perspective. *Journal of Strategy and Management*.

[2] Anugerah N and Irianto D 2018. The Effect Of Financial Expertise On Compensation And Board Of Directors Turnover. *Journal of Applied Managerial Accounting.*

[3] Appadu N 2018. The Best Bet: Should the new CEO Acquire or Divest?

[4] Baatwah S R, Salleh Z and Ahmad N 2015. CEO Characteristics and Audit Report Timeliness: Do CEO Tenure and Financial Expertise Matter? *Managerial Auditing Journal Vol. 30 No. 8/0*, 998-1022.

[5] Bennouria M., Chtiouib T, Nagatic H and Nekhili M 2017. Female board directorship and firm performance: What matters?

[6] Bi G 2017. CEO Decision Horizon and Firm Performance.

[7] Blue Ribbon Committee 1999. Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. New York: The NYSE and the NASD.

[8] Chou Y Y and Chan M L 2018. The Impact of CEO Characteristics on Real Earnings Management: Evidence from the US Banking Industry.

[9] Darmadi S 2013. Board members' education and firm performance: evidence from a developing economy. *International Journal of Commerce and Management*, 113-136.

[10] Dezsö C L and Ross D G 2012. Does female representation in top management improve firm performance?

[11] Erlim K W and Juliana R 2017. Pengaruh Tingkat Edukasi dan Spesialisasi Pendidikan CEO terhadap Performa Perusahaan di Indonesia. *Jurnal Manajemen Maranatha*.

[12] Henderson A D, Miller D, and Hambrick D C 2006. How quickly do CEOs become obsolete? Industry dynamism, CEO tenure, and company performance. *Strategic Management Journal*, 447-460.

[13] Hsu W Y, Huang Y R, and Lai G 2018. Reserve Management and Audit Committee Characteristics: Evidence from US Property-Liability Insurance Companies.

[14] Hu N, Huang R, Li X, and Liu L 2017. The Impact of CEO's Accounting Background on Earnings Management and Conservatism. *The Business and Economics Research Journal*, Vol. 10 No. 1, 2017 pp. 4-24.

[15] Kartikaningrum S D 2016. Pengaruh Karakteristik Dewan Direksi terhadap Kinerja Keuangan Bank Syariah di Indonesia.

[16] Khan W A and Vieito J P 2013. CEO Gender and Firm Performance.

[17] Mentari Y K 2017. Karakteristik CEO dan Kinerja BUMN di Indonesia .

[18] P.Greena C and Homroy S 2018. Female directors, board committees and firm performance.

[19] Pamungkas K C 2017. Pendidikan Master CEO, Pendidikan MM/MBA CEO, dan Kinerja Bank.

[20] Sugianto M 2017. Evaluasi Gaya Kepemimpinan CEO dalam Mencapai Kesuksesan *Start-Up Business* Mahasiswa di Universitas Ciputra. *Performa: Jurnal Manajemen dan Start-Up Bisnis*, Vol 1, No 6.

[21] Trofimova A 2017. Top Management Characteristics and Company Financial Performance .

[22] Wu S, Quan X, and Xu L 2011. CEO power, disclosure quality and the variability of firm performance: Evidence from China.

[23] Zhoua H, Owusu S, and Maggina A A 2018. Board of directors, audit committee, and firm performance: Evidence from Greece.