



DOI : <https://doi.org/10.24123/jbt.v7i2.5936>

## DO CEO CHARACTERISTICS REALLY MATTER FOR FIRM PERFORMANCE? EVIDENCE FROM INDONESIA

Made Aditya Budastra<sup>1</sup>, Ishiaka Adamu<sup>2</sup>, Fajar Karunia Putra<sup>3</sup>, I Ketut Budastra<sup>4</sup>

Universitas Airlangga; Surabaya, Indonesia<sup>1,2,3</sup>, Universitas Mataram; Mataram, Indonesia<sup>4</sup>

Email: [adityabudastra.ab@gmail.com](mailto:adityabudastra.ab@gmail.com)<sup>1</sup>

In September 18, 2023, Publish December 23, 2023

### Abstract

The Upper Echelon Theory explains that CEOs with certain characteristics are believed to influence firm results because the CEO plays an important role in the firm as the final decision maker. Thus, this raises the question of how important CEO characteristics are in explaining firm performance, or specifically does it matter or not. Addressing these gaps, this study aims to empirically prove the effect of CEO characteristics on firm performance. CEO characteristics in this study are proxied by tenure and gender. The data analysis technique used is Multiple Linear Regression. Based on an analysis of 102 samples of property and real estate sector companies from 2017-2019 on the IDX, we find that CEO tenure positively affects firm performance, and CEO Gender negatively affects firm performance. These results suggest that the Upper Echelon Theory is still a relevant theory for explaining the importance of top management characteristics in understanding organizational outcomes. Furthermore, companies should consider the characteristics of their CEO because it reflects the organizational outcomes.

**Keywords:** CEO Characteristics, Gender, Tenure, Firm Performance

### Introduction

One of the main focuses considered by investors in making investment decisions in a company is firm performance because it is an illustration of how effective the policies and activities carried out by management are for the company (Altarawneh *et al.*, 2020; Budastra *et al.*, 2022). Besides investors, there is the fact that the information related to firm performance is a medium used in making economic decisions by other stakeholders within the scope of financial reporting (Fauzi *et al.*, 2010). Firm performance is a critical indicator that describes the financial and non-financial conditions of the company (Tjahjadi *et al.*, 2020). Based on this, it can be explained that firm performance is a very important indicator for many parties, so companies need policies regarding what should be implemented to achieve good firm performance. The human resource who has the obligation to make policies about how efforts must be implemented to achieve good firm performance is a Chief Executive Officer (CEO) (Kaur & Singh, 2019; Liu & Jiang, 2020), and for Indonesia is often referred to as the main director. Therefore, firm

performance is a very important indicator of the company and a CEO has a big role in achieving good firm performance through the policies he will take.

CEOs with certain backgrounds or characteristics are believed to be able to improve firm performance through making the right strategic decisions for the company. This is in line with Upper Echelon Theory which explains that the way leaders understand situations and make the right decisions is greatly influenced by their values, experiences and characteristics (Hambrick & Mason, 1984). CEO characteristics can be classified into two types, namely demographic characteristics which include nationality, educational level and gender, then professional characteristics which include tenure, duality and share ownership (Kaur & Singh, 2019). CEO characteristics including Tenure (Naseem *et al.*, 2019) and Gender (Kaur & Singh, 2019) are important characteristics, so they need to consider their influence on firm performance. Therefore, this research would proxy CEO characteristics using tenure and gender.

Tenure is one of the characteristics of a CEO. Tenure of office is often related to the experience a CEO has, whereas CEOs who serve longer often has better experience and relationship with employees (Kaur & Singh, 2019). A CEO with a long tenure is seen as having a positive impact on the company, because the longer the CEO serves, the more experience he tends to have (Mbekomize *et al.*, 2021; Peni, 2012). According to Price Waterhouse Cooper (PWC) survey data, 95% of companies in Indonesia are family companies. This indicates that CEO position in an Indonesian company will most likely be overseen by the founding family of the company and is very difficult for an outsider to oversee it. Therefore, CEO tenure is an important characteristic to research in Indonesia because it will provide evidence that the length of time a CEO has served is aimed at improving the company's personal performance, not because it is based on the reason that the CEO is from the founder's family (or even the founder himself). However, previous studies that investigate the influence of CEO tenure on firm performance are still contradictory. Several previous studies found that CEO tenure had a positive influence on a firm performance (Mbekomize *et al.*, 2021; Saleh *et al.*, 2020; Vintila *et al.*, 2015), and some also found a negative effect (Kaur & Singh, 2019; Naseem *et al.*, 2019).

Gender is one of the characteristics possessed by CEOs. The issue of gender gaps often causes women to be assessed as having low social capital, as well as poor performance in negotiations when compared to men (Jadiyahappa *et al.*, 2019). In Indonesia, the government has attempted to eliminate gender gaps through implementing gender equality, for example through *Undang-Undang No. 7 Tahun 1984* which contains the elimination of all kinds of discrimination against women. On the other hand, female directors are seen as having a better ability to clearly understand costumers' needs, so the companies they lead are expected to have a high competitive advantage (Kaur & Singh, 2019). Therefore, gender is one of the CEO characteristics that are interesting to study. As with tenure, numerous previous studies investigating the influence of CEO gender on firm performance are still contradictory. Several previous studies found that CEO gender has a positive influence on firm performance (Naseem *et al.*, 2019; Setiawan & Gestanti, 2022), while others found a negative influence (Faccio *et al.*, 2016; Kaur & Singh, 2019; Mbekomize *et al.*, 2021) and also has no effect (Vintila *et al.*, 2015).

Based on the theory gap and research gap, this research aims to empirically prove the influence of CEO characteristics as proxied by tenure and gender on firm performance. We believe that the results of this research will update the findings from a handful of previous studies which are still contradictory. Apart from that, the results of this research are expected to contribute to several aspects. First, academically, the results of this research are expected to prove Upper Echelon Theory through empirical testing in

Indonesia. Second, in practice, the results of this research are expected to provide an idea to companies that if they want to improve their company's performance, they must consider certain characteristics of their CEO, so that they can work effectively within the company. Third, in terms of policy, the results of this research are expected to be a consideration for regulators in making policies regarding CEO criteria for publicly traded companies in Indonesia.

Upper Echelon Theory explains that leaders with certain characteristics will determine company results. This indicates that tenure, which is one of the important CEO characteristics, is predicted to be able to influence firm performance, namely; through making the right strategic decisions. Tenure of office is related to the experience the CEO has in managing the company, so the length of time the CEO serve is often considered to have a positive impact on the company (Mbekomize *et al.*, 2021; Peni, 2012). Boling *et al.* (2015) argue that longer tenure will help CEOs acquire the abilities and knowledge to manage the company more effectively. Based on these arguments, we formulate the following hypothesis:

H<sub>1</sub>: CEO tenure has a positive effect on firm performance

Upper Echelon Theory explains that leaders with certain characteristics will determine company results. This indicates that gender, which is one of the important CEO characteristics, is predicted to be able to influence firm performance, namely; through making the right strategic decisions. This is because gender is an attribute used to determine the level of CEO confidence (Naseem *et al.*, 2019), where women tend to be more risk averse (Faccio *et al.*, 2016; Kaur & Singh, 2019; Singhathep & Pholphirul, 2015). Currently, the gender gap that occurs in Indonesia has begun to be eliminated through efforts made by the government regarding the implementation of gender equality. This argument is also supported by findings of various previous studies which found that CEO gender has a positive influence on firm performance (Naseem *et al.*, 2019; Setiawan & Gestanti, 2022). Based on these arguments, we formulate the following hypothesis:

H<sub>2</sub>: CEO gender has a positive effect on firm performance

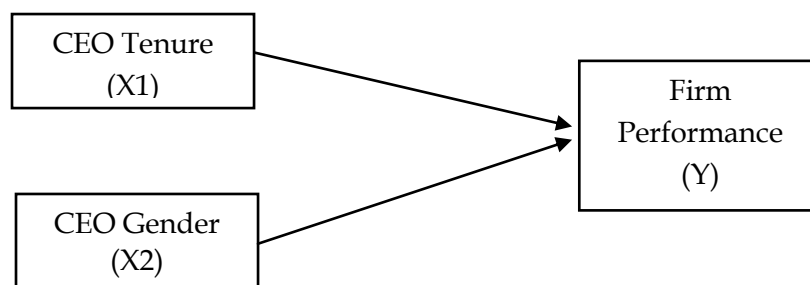


Chart 1. Research Framework

### Research Method

This research uses quantitative methods with an archival approach. The archival approach is a research approach whose data collection method uses historical documents produced by the company (Ventresca & Mohr, 2017). The population of this research contains all publicly traded companies listed in the property and real estate sector on the IDX in 2017-2019. We determine the property and real estate sector as the research object based on the reason that companies registered in this sector have good performance and promising prospects, because various property and real estate prices tend to always increase (Jamil & Utami, 2016), and also tends to increase investor attractiveness (Geno

*et al.*, 2020). Thus, the selection of the property and real estate sector as the research object is expected to provide representative results. The sample in this study was selected using a purposive sampling technique, and the criteria were as follows; (1) Companies listed in the IDX property and real estate sector from 2017-2019, and (2) The research data obtained from the companies for the period 2017- 2019 are completed and available. The final sample size obtained was 102. The data in this research was obtained through the ESG Intelligence database, OSIRIS database, and annual report. The data will be analyzed using multiple linear regression.

Firm performance in this research is proxied by Return on Assets (ROA). ROA is a profitability ratio that proxies the company's ability to invest equity in the company's total assets in order to generate profits (Llorens *et al.*, 2017). ROA was chosen as a proxy for firm performance in this research because ROA is a proxy that is generally used to measure firm performance (Mbekomize *et al.*, 2021; Saidu, 2019; Saleh *et al.*, 2020). ROA in this study is measured by dividing Net Income by Total Assets.

Tenure of office is related to the experience the CEO has in managing the company, so the length of time the CEO serve is often considered to have a positive impact on the company (Mbekomize *et al.*, 2021; Peni, 2012). The CEOs term of office in this study is the period of time the CEO served, starting from appointment onto the research period. Based on Hazarika *et al.* (2012) and Zhang & Wiersema (2009), CEO tenure in this study was measured by the years the CEO served in the company.

Male and female gender in decision-making, in relation to finance, is an attribute used to determine the level of CEO confidence (Faccio *et al.*, 2016; Naseem *et al.*, 2019), or in other words reflects risk preferences. CEO gender consists of men and women, but we focus on the female gender. Gender is measured using a dummy variable, which is given a value of 1 if the company CEO is a woman, and given a value of 0 otherwise (Faccio *et al.*, 2016; Kaur & Singh, 2019). The reason for using this measurement is that previous literature has seen that women perform better than men.

The regression equation used to test the hypothesis in this research is as follows:

$$Performance_{i,t} = \alpha + \beta_1 CEO\_TEN_{i,t} + \beta_2 CEO\_GEN_{i,t} + \varepsilon_{i,t}$$

Descriptions:

- $\alpha$  = Constanta
- $\beta$  = Regression coefficient
- i = Sample of firm
- t = Firm years
- $\varepsilon$  = Error
- Performance = Firm Performance
- CEO\_TEN = CEO Tenure
- CEO\_GEN = CEO Gender

## Results and Discussion

**Table 1.** Descriptive Statistics

Variable	N	Min.	Max.	Mean	Std.Dev
Performance	102	-0,11	0,25	0,02	0,05
CEO_TEN	102	1	43	7,92	10,1
CEO_GEN	102	0	1	0,08	0,27

In Table 1, it can be seen that the performance of the sample companies has a minimum value of -0.11, a maximum value of 0.25, and a mean value of 0.02 and a standard deviation of 0.05. This shows that the average performance for all sample companies is 0.02, while the company that showed the lowest performance was MTSM in 2019 and the company that showed the highest performance, namely INPP in 2019.

Furthermore, the CEO\_TEN variable has a minimum value of 1, a maximum value of 43, and a mean value of 7.92 and a standard deviation of 10.1. This shows that the average CEO tenure in the sample companies is 7.92 years, while the shortest CEO tenure is 1 year and the longest CEO tenure is 43 years. Next, the CEO\_GEN variable has a minimum value of 0, a maximum value of 1, a mean value of 0.08 and a standard deviation of 0.27. This shows that the average number of female CEOs from the sample companies is 0.08.

**Table 2. Goodness of Fit Test**

	<b>Sum of Squares</b>	<b>df</b>	<b>F</b>
Regression	0,19	2	3,864**
Residual	0,241	99	
Total	0,260	101	

Notes: \*, \*\*, \*\*\* significance at level 10%, 5%, and 1%, respectively.

Based on Table 2, it can be seen that the F-test result has a value of 3.864 and is significant at the 5% level. This result indicates that the model used in this research is fit and appropriate. Furthermore, this result also indicates that the variables CEO Tenure (CEO\_TEN) and CEO Gender (CEO\_GEN) in this research have simultaneously influenced Firm performance (Performance). Thus, testing will continue with regression testing.

**Table 3. Regression Results**

<b>Variable</b>	<b>Predicted Sign</b>	<b>Performance</b>
CEO_TEN	(+)	0,01* (1,72)
CEO_GEN	(+)	-0,05*** (-2,66)
<i>Adj.R-Squared</i>		0,054

Notes: \*, \*\*, \*\*\* significance at level 10%, 5%, and 1%, respectively.

Based on Table 3, the result of testing the CEO\_TEN variable on Performance shows that there is a significant positive influence at the 10% level ( $t = 1.72$ ,  $\beta = 0.01$ ). Thus, we accept the first hypothesis, so it can be concluded that CEO tenure positively influences firm performance. These results are in line with Upper Echelon Theory which states that the way a leader understands a situation and makes the right decision is greatly influenced by the values, experiences, and characteristics within himself, wherein one of the predicted characteristics that can influence the company's results is the CEO's tenure. The regression coefficient shows a positive direction, which indicates that the longer a CEO is in office, the more likely it will have a positive impact on the company, so the company's performance would be improved. This result is consistent with previous literature which states that CEOs with a long tenure tend to have better experience and relationships with company employees, so that their presence can have a positive impact on the company (Kaur & Singh, 2019; Mbekomize *et al.*, 2021; Peni, 2012). Furthermore, Naseem *et al.* (2019) argue that CEOs with longer tenure are more capable of

disseminating and communicating information about the company in the best way, because longer tenure helps CEO shape their expertise whether in normal or depression periods. In line with this, Boling *et al.* (2015) argue that longer tenure will help CEOs acquire the abilities and knowledge to manage the company more effectively. Thus, we can conclude that the presence of a CEO with a longer tenure will give a lot of good impact on a company (including performance), because he/she has better experience, abilities, and expertise, along with a strong relationship with employees. As a result, they are more capable of effectively managing the overall company and making decisions that contribute to improved firm performance compared to a CEO with a shorter tenure. These results support the findings of numerous previous studies which state that CEO tenure has a positive effect on firm performance (Mbekomize *et al.*, 2021; Saleh *et al.*, 2020; Vintila *et al.*, 2015).

Again, based on Table 3, the result of testing the CEO\_GEN variable on Performance shows that there is a significant negative influence at the 1% level ( $t = -2.66$ ,  $\beta = -0.05$ ). In view of that, we reject the second hypothesis, so it can be concluded that CEO gender negatively influence the firm performance. These results are also in line with Upper Echelon Theory which states that the way a leader understands a situation and makes the right decisions is greatly influenced by the values, experiences and characteristics contained within him, where gender is one of the characteristics that can influence it. However, the most surprising thing is that the regression coefficient shows a negative direction, so that the presence of a female CEO in the company tends to have a negative impact on firm performance. This indicates that conservative behavior does not always have a good impact on the company in normal operating situations. Singhathep & Pholphirul (2015) explained the fact that there is a detrimental impact when the CEO of a company is a woman on firm performance, because women tend to have less experience than men. Furthermore, Naseem *et al.* (2019) also stated that in a developing country, a male CEO is probably more inclined to use more debt to achieve good firm performance compared to a woman, as women tend to be more conservative in making risky decisions. In addition, the study of Faccio *et al.* (2016) also stated that in reality, female CEOs tend not to allocate company capital as efficiently as male CEOs, causing the company they manage not to run efficiently. Thus, we can conclude that the presence of female CEO may bring a company to a worst performance, because they are too conservative and probably avoiding all the risky decision even if it has a lot of good impacts (than bad impacts) on company, and so they tend to be poor decision maker. The result of this research support several previous research results which state that CEO gender (in this case women) has a negative effect on firm performance (Faccio *et al.*, 2016; Kaur & Singh, 2019; Mbekomize *et al.*, 2021).

### **Conclusion and Recommendation**

This research aims to empirically prove the influence of CEO characteristics as proxied by tenure and gender on firm performance. Based on the tests that have been carried out, we conclude several things; first, the CEO's tenure positively affects firm performance. Second, CEO gender negatively affects firm performance. Theoretically, the implications that have been given from these findings are that Upper Echelon Theory is still relevant to be used up to date to explain the relationship between top management characteristics and various companies' outputs, which in this case is Firm performance. Practically, the implication that has been given from these findings is that when a company wants to achieve better performance, the important thing to consider is the characteristics of the CEO as the final decision maker, because these characteristics will show his tendency in behaving and making decisions. Again, in terms of policy, the implication that has been given from these findings is that regulators must give more

consideration in making regulations that are relevant to the characteristics of CEOs in companies, because this will have a very important impact in organizational output, which in this case is firm performance.

Based on the results provided, this research also has several limitations, it is hoped that it can provide improvisation for future research. First, this research only consider two CEO characteristics, namely Tenure and Gender, so the results provided are insufficient. Thus, future research should consider other CEO characteristics that could be economically beneficial, such as educational level and age. Secondly, gender data in this study is very minimal, because the number of female CEOs in Indonesian companies is very small. Thus, future research should also consider testing CEO gender in the context of men, to compare it with the results of this study.

## References

- Altarawneh, M., Shafie, R., & Ishak, R. (2020). CEO characteristics: A literature review and future directions. *Academy of Strategic Management Journal*, 19(1), 1–10.
- Boling, J. R., Pieper, T. ., & and Covin, J. . (2015). CEO tenure and entrepreneurial orientation within family and nonfamily firms. *Entrepreneurship: Theory and Practice*, 40(4), 891–913. <https://doi.org/https://doi.org/10.1111/etap.12150>
- Budastra, M. A., Lukman Effendy, Robith Hudaya, & I Ketut Budastra. (2022). Reaksi Pasar Modal Indonesia Terhadap Pengumuman Reshuffle Kabinet Indonesia Maju Jilid I Dan Ii. *Jurnal Bisnis Terapan*, 6(1), 43–52. <https://doi.org/10.24123/jbt.v6i1.4792>
- Faccio, M., Marchica, M. T., & Mura, R. (2016). CEO gender, corporate risk-taking, and the efficiency of capital allocation. *Journal of Corporate Finance*, 39, 193–209. <https://doi.org/10.1016/j.jcorpfin.2016.02.008>
- Fauzi, H., Svensson, G., & Rahman, A. A. (2010). “Triple bottom line” as “sustainable corporate performance”: A proposition for the future. *Sustainability*, 2(5), 1345–1360. <https://doi.org/10.3390/su2051345>
- Geno, M. R. P., Nuradmanta, R. W., & Firmansyah, A. (2020). Return Saham Perusahaan Subsektor Properti Dan Real Estate Di Indonesia: Rasio Likuiditas, Rasio Solvabilitas, Degree of Leverage. *Moneter: Jurnal Keuangan Dan Perbankan*, 8(2), 65. <https://doi.org/10.32832/moneter.v8i2.4057>
- Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Manager. *Management*, 9(2), 193–206. <http://www.jstor.org/stable/258434>
- Hazarika, S., Karpoff, J. M., & Nahata, R. (2012). Internal corporate governance, CEO turnover, and earnings management. *Journal of Financial Economics*, 104(1), 44–69. <https://doi.org/10.1016/j.jfineco.2011.10.011>
- Jadiyappa, N., Jyothi, P., Sireesha, B., & Hickman, L. E. E. (2019). CEO Gender, Firm Performance, and Agency Costs: Evidence from India. *Journal of Economic Studies*, 46(2), 482–495.

- Jamil, H. H., & Utami, E. D. (2016). Analisis Investasi Saham Subsektor Properti Dan Real Estate Di Indonesia. *Cices*, 2(1), 32–41. <https://doi.org/10.33050/cices.v2i1.195>
- Kaur, R., & Singh, B. (2019). Do CEO characteristics explain firm performance in India? *Journal of Strategy and Management*, 12(3), 409–426. <https://doi.org/10.1108/JSMA-02-2019-0027>
- Liu, C., & Jiang, H. (2020). Impact of CEO characteristics on firm performance: evidence from China listed firms. *Applied Economics Letters*, 27(14), 1–5. <https://doi.org/10.1080/13504851.2019.1607965>
- Llorens, M. C. R., García-Meca, E., & Duréndez, A. (2017). Influence of CEO characteristics in family firms internationalization. *International Business Review*, 26(4), 786–799. <https://doi.org/10.1016/j.ibusrev.2017.01.007>
- Mbekomize, C. J., Chatibura, D. M., & Baliyan, P. S. (2021). CEO Characteristics and Firm Performance: Evidence from Tourism and Financial Firms Listed on Botswana Stock Exchange. *International Journal of Business, Economics and Management*, 8(6), 419–430. <https://doi.org/10.18488/journal.62.2021.86.419.430>
- Naseem, M. A., Lin, J., Rehman, R. ur, Ahmad, M. I., & Ali, R. (2019). Does capital structure mediate the link between CEO characteristics and firm performance? *Management Decision*, 58(1), 164–181. <https://doi.org/10.1108/MD-05-2018-0594>
- Peni, E. (2012). CEO and Chairperson characteristics and firm performance. *Journal of Management and Governance*, 18(1), 185–205. <https://doi.org/10.1007/s10997-012-9224-7>
- Saidu, S. (2019). CEO characteristics and firm performance: focus on origin, education and ownership. *Journal of Global Entrepreneurship Research*, 9(1), 1–15. <https://doi.org/10.1186/s40497-019-0153-7>
- Saleh, M. W. A., Shurafa, R., Shukeri, S. N., Nour, A. I., & Maigosh, Z. S. (2020). The effect of board multiple directorships and CEO characteristics on firm performance: evidence from Palestine. *Journal of Accounting in Emerging Economies*, 10(4), 637–654. <https://doi.org/10.1108/JAEE-12-2019-0231>
- Setiawan, R., & Gestanti, L. (2022). Ceo Characteristics, Firm Policy, and Firm Performance. *International Journal of Business and Society*, 23(1), 371–389. <https://doi.org/10.33736/ijbs.4620.2022>
- Singhathep, T., & Pholphirul, P. (2015). Female CEOs, Firm Performance, and Firm Development: Evidence from Thai Manufacturers. *Gender, Technology and Development*, 19(3), 320–345. <https://doi.org/10.1177/0971852415596865>



- Tjahjadi, B., Soewarno, N., Nadyaningrum, V., & Aminy, A. (2020). Human capital readiness and global market orientation in Indonesian Micro-, Small- and-Medium-sized Enterprises business performance. *International Journal of Productivity and Performance Management*, 71(1), 79–99. <https://doi.org/10.1108/IJPPM-04-2020-0181>
- Ventresca, M. J., & Mohr, J. W. (2017). *Archival Research Methods*. The Blackwell Companion to Organizations. <https://doi.org/10.1111/b.9780631216940.2005.00044.x>
- Vintila, G., Onofrei, M., & Gherghina, S. C. (2015). The Effects of Corporate Board and CEO Characteristics on Firm Value: Empirical Evidence from Listed Companies on the Bucharest Stock Exchange. *Emerging Markets Finance and Trade*, 51(6), 1244–1260. <https://doi.org/10.1080/1540496X.2015.1073518>
- Zhang, Y., & Wiersema, M. F. (2009). The Effect of Firm Compensation Structures on the Mobility and Entrepreneurship of Extreme Performers. *Strategic Management Journal*, 30, 693–710. <https://doi.org/10.1002/smj>