

The Importance of The Chief Executive Officer (CEO) Characteristics in relation to Firm Value

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ABSTRACT

The purpose of this article is to clarify the relation between CEO characteristics and firm value in the banking industry sector on Indonesia Stock Exchange. This study used 183 data collected from 37 banking companies from 2015 to 2020. The results show that CEO characteristics (gender, MBA degree, tenure) have no effect on firm value as measured using Market to Book Value (MBV). Meanwhile, ROA, Leverage, and financial condition as control variables have an effect on firm value. This result indicates that company policies do not depend on an individual (CEO), but company policies are based on all members board of directors or the top management team. This study has implications for upper echelon theory that CEO is not the only powerful actor who can determine the firm value.

Keywords : Firm Value; CEO Characteristic; Upper Echelon; Market to Book Value; IDX

ABSTRAK

Tujuan dari penelitian ini adalah untuk menguji pengaruh karakteristik CEO terhadap nilai perusahaan pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia. Dengan menggunakan sampel sebanyak 37 perusahaan perbankan dari tahun 2015 sampai dengan tahun 2022 terkumpul data sebanyak 193 observasi. Pengujian dilakukan dengan menggunakan analisis regresi linear berganda. Hasil penelitian menunjukkan bahwa karakteristik CEO (jenis kelamin, gelar MBA, tenur) tidak berpengaruh terhadap Market to Book Value (MBV) sebagai proksi nilai perusahaan. Leverage dan kondisi keuangan sebagai variable control berpengaruh terhadap nilai perusahaan. Hasil penelitian memberikan indikasi bahwa kebijakan perusahaan tidak hanya tergantung pada seorang individu (CEO) saja namun kebijakan perusahaan didasarkan pada seluruh anggota dalam jajaran dewan direksi atau top management team. Penelitian ini memberikan implikasi terhadap teori upper echelon bahwa CEO bukanlah satu-satunya powerful actor yang dapat menentukan nilai perusahaan.

Kata Kunci : Nilai perusahaan; Karakteristik CEO; Eselon Atas; Pasar Nilai Buku; BEI

INTRODUCTION

The company has several goals, namely to get as much profit as possible and increase the value of the company (Novari & Lestari, 2016) in (Faizah & Suryono, 2020). Firm value is an important factor because the greater the value of the stock price, the greater the company value. The value of the company reflects the success of the company and is usually related to its share price.

Before an investor invests, they predict how much income they will get by looking at the stock price of the company they choose. The bigger the stock price, the bigger the profit, and the smaller the stock price, the smaller the profit. The amount of profit that investors get reflects a good increase in company value (Yulianto & Widyasari, 2020) (Darmayanti N. & Anwar S., 2021). One of the proxies that can be used to measure company value is the Market to Book Value (MBV) (Eugenia *et.al*, 2020). MBV can assist an investor in determining his investment plan or portfolio in the capital market.

Many factors affect the size of the value of the company. In addition to aspects of the company's financial performance, another factor that is no less important in influencing the value of the company is the characteristics of the CEO. A CEO (Chief Executive Officer) or in Indonesia is often known as the main director has an important role in influencing the value of the company through the strategic policies it issues. This strategic policy greatly impacts the direction of the company's future development.

Cheng and Lo (2006) in (Nurmayanti, 2020) explain that a CEO or main director has the power to make decisions related to company plans and performance. The Chief Executive Officer (CEO) is a reflection of company policy in various aspects, both financial and non-financial (Fetscherin, 2015) in (Dewi & Damayanti, 2020). Given the very crucial responsibilities and roles for the company, a CEO should have qualified qualities.

The Upper Echelon Theory developed by Hambrick & Mason (1984) in (Nurmayanti, 2020) states that top management's cognition, values, and perceptions have a significant influence on company choices and outcomes. The actions and policy directions of top management are a reflection of the individual characteristics of the CEO (Hambrick and Mason, 1984) in Nurmayanti, 2020).

The upper echelon theory states that in an organization it is top management who makes strategic decisions, so that strategic decisions made by top management will have an impact on the success of an organization. The CEO is the most important actor in determining the direction of company policy which can have an impact on company value in the future. The capabilities, beliefs and characteristics and behavior of the CEO have a major impact on the organization.

In this study, researchers examined whether the influence of CEO characteristics (gender, educational background and length of tenure) on firm value.

Gender is used as a measure of CEO characteristics because gender is one of the factors that can influence leadership style which will have an impact on company success. However, empirical evidence of the effect of CEO gender on firm value still has mixed results. Ramdhania, *et.al* ((2020) proves that Female CEOs have an influence on company value while Pripamuji *et.al*. (2021) states that the gender of a CEO does not affect company performance. Roika *et.al* (2019) also states that the gender diversity of board directors do not affect the company's financial performance.

Researchers also use a business education background (MBA) as a proxy to measure a CEO's business acumen. The business skills of a leader have an important role in improving company performance (Putri W. E, 2020), but Pripamuji *et.al*. (2021) proves that the educational background of the CEO has no effect on company performance.

CEO tenure can be considered as the background experience of a leader. The longer the term of office should show the more experienced and competent in managing the company. Sudana & Elka (2018) stated that CEO tenure affects company performance. The opposite was expressed by Putri W. E (2020) who proved that tenure did not affect company value.

Unlike previous research (Darmayanti & Anwar, 2021; Pripamuji, 2021; Erlim & Juliana, 2017; Ramdhania *et.al.*, 2020; Sudana & Dwiputri, 2018) which used a sample of non-financial companies, this study used a sample of registered banking companies on the Indonesian stock exchange. This research on the banking sector is interesting because directors must take part in a fit and proper test in accordance with the provisions of the Financial Services Authority (OJK). Based on the upper echelon theory and the various results of research that prove the effect of CEO characteristics on company performance, this study wants to prove again whether the characteristics of the main director affect the value of banking companies on the Indonesia Stock Exchange. The results of this study are expected to provide additional empirical evidence of the influence of CEO characteristics on firm value so that they can contribute to the development of upper-echelon theory.

Differences in the gender of top management will be able to produce differences in dealing with problems and solving problems as a result, new thinking grows creatively and innovatively which is an advantage of the company (Kiran *et.al* 2014) in (Limbago & Sulistiawan, 2019). Gender differences will also affect in terms of supervision and lead to greater accountability for the performance of company management. This will increase the quality of earnings by reducing opportunistic earnings management behavior because women are less tolerant of opportunistic behavior. This lack of tolerance for women assesses independent action and a high level of moral maturity (Asri, 2007) in (Limbago & Sulistiawan, 2019). (Ullah, *et.al* 2019) shows that the presence of a female CEO can increase corporate value in companies in Pakistan. Tullah, (2017) states that Gender affects financial performance Based on the description, the first hypothesis is [H1] Gender has an effect on Firm Value.

A CEO with a high educational background will be able to process information better and be able to accept significant changes in a company (Bantel & Jackson, 1989) in (Erlim & Juliana, (2017) .In Upper Echelon theory, CEOs with a Master of Business degree Administration (MBA) and business knowledge are expected to have a broader mindset than CEOs who do not have an MBA equivalent to knowledge of the business environment (Nurmayanti P, 2020) provides empirical evidence that his research indicates CEOs who have business knowledge experience are more inclined to use their managerial skills. Putri, W. E. (2020) board of directors' background has a significant negative effect on firm value. Tullah, (2017) states that CEO background affects firm value. From the explanation above the second hypothesis is [H2] Business Skills affect Firm Value.

Tenure is the term of office of a CEO in leading the company. In leading a company, a CEO, the longer he is in office, the more experience and expertise he has. (Raymond *et.al*, 2010) in (Putri, W. E. 2020) proves that the average tenure of directors has a significant effect on company value. (Cook & Burrest, 2010) in (Putri, W. E. 2020) states that tenure has a significant positive effect on company value, but the results of the regression analysis show that members of the board of directors who have long tenure and those who have new positions have an equivalent positions in relation to company performance level. Pripamuji Prasetyo, M. R. (2021) explains that CEO tenure does not affect the company's performance. (Vafeas, 2015) in (Putri, W. E. 2020) states that they have more experience, knowledge, and commitment as tenure increases because the longer the tenure, the more knowledge about company conditions and the business environment. Sudana & Dwiputri

(2018) point out that tenure has a significant effect on financial performance. From the explanation above, the third hypothesis can be obtained, namely [H3] tenure has an effect on firm value.

RESEARCH METHOD

The research sample is a banking company registered on the IDX that publishes annual reports from 2015 to 2020. This study uses secondary data using a purposive sampling method to maintain the same number of observations throughout the years of research. Therefore, the researchers used certain criteria that were used in determining the sample in Table 1., while the criteria included: Banking companies listed on the IDX that issued annual reports for the period 2015 – 2020 so that they fulfilled the completeness of the data.

Table 1. Research Sample

No	Description	Total
1.	All Banking Companies listed on the IDX from 2015 to 2020	45
2.	Banking companies newly registered in the sample year	(8)
Total Perusahaan yang dijadikan sampel		37
The total companies that were sampled were (37 X 6)		222
Data not available in research		(29)
Data used as samples in research		193

Source: Data processing results, 2022

This study uses a regression model to investigate the effect of CEO characteristics on firm value.

$$MBV = \alpha + \beta_1 JK + \beta_2 KB + \beta_3 DT + \beta_4 UKPER + \beta_5 ROA + \beta_6 Leverage + \beta_7 LOSS + e \quad [1]$$

MBV or Market to Book Value is the company's value as measured by comparing the market value of the stock with the book value). The variable JK or sex is measured using a dummy variable. If the CEO is male then it is denoted by 0 (zero) and scored 1 (one) if the CEO is female. The KB variable is the CEO's business skills variable. If the CEO has an MBA, then it is counted as 1 and 0 otherwise. If the CEO position is less than 5 years, the DT (tenure) variable is scored 0 and if it is more than 5 years, it is assessed 1. UKPER is a company size calculated based on the natural logarithm of total assets. ROA is calculated using the ratio of net income divided by total assets. The leverage variable is proxied by the Debt to Asset Ratio, which is the ratio between total debt and total assets. Meanwhile, LOSS as an indicator of a company's financial condition is measured using a dummy variable. LOSS is rated 0 if it has a positive profit and is rated 1 if the company earns a negative profit.

RESULTS AND DISCUSSIONS

The results in table 2. show that N or the number of valid data is 193, out of 193 MBV sample data it is known that the mean is 1.5195, and the deviation value is 1.10993 so it can be concluded that the value of the company has data deviations that are relatively unfavorable. In banking companies led by CEO men as much as 91.2% and women 8.8%.

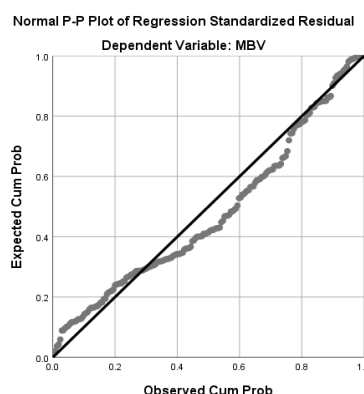
A CEO who has an MBA degree 25.4% who does not have an MBA degree 74.6%. With a total length of service of less than 5 years amounted to 66.8% while those with more than 5 years were 32.2%. And the company's financial condition at the end of the year which has a positive value of 87% has a negative value of 13%.

Table 2. Data Description

		N		Min	Max	Mean	Std. Dev
JK	Man	91.2 %	193	.00	1.00	0.881	.28415
	Woman	8.8 %					
KB	No MBA Degree	74.6%	193	.00	1.00	.2539	.43637
	MBA degree	25.4%					
DT	Tenur < 5 years	66.8%	193	.00	1.00	.3316	.47201
	Tenur > 5 years	32.2%					
LOSS	Positive year-end profit	87%	193	.00	1.00	.1295	.33666
	Negative year-end profit	13%					
Company Size (UKPER)		193		11.45	22.56	17.6353	1.90366
ROA		193		-11.15	6.50	1.0128	2.38051
LEVERAGE		193		.14	.97	.13095	.13095
MBV		193		.00	5.83	1.5165	.1.10993

Source: Data processing results, 2022

Firm size (UKPER) shows a mean of 17.6353 with a standard deviation of 1.90366, so it can be stated that UKPER has data deviations that are said to be relatively unfavorable. Return On Assets (ROA) shows a mean of 1.0128 at a standard deviation of 2.38051. Leverage shows a mean of 0.8116 at a standard deviation of 0.13095. Company Financial Condition (LOSS) shows an average of 0.1295 with a standard deviation of 0.33666. In this way, it can be seen that ROA, leverage, and the Company's Financial Condition (LOSS) have relatively good data deviations.

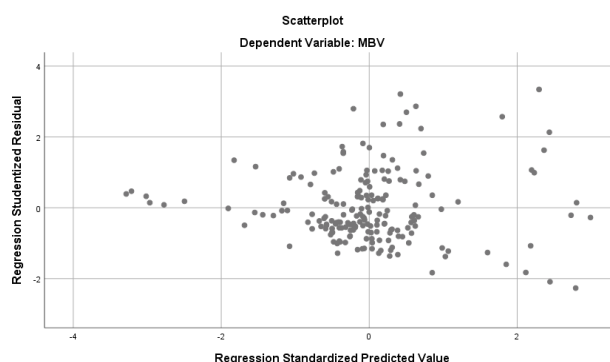


Source: Data processing results SPSS, 2022

Figure 1. Normality Test

Figure 1. shows the points following and approaching the diagonal line. It can be said that the regression model with the Firm Value (MBV) table fulfills the assumption of normality. This shows that the data is normally distributed. The research results can be seen using the Durbin-Watson Test. Based on the calculation of, the result of Autocorrelation Test shows that the DW value of 2,097. The value of dU = 1.8360 is

obtained. The value of $dU < dw < 4-dU$, it can be concluded that the Durbin Watson value lies between $1.8360 < 2.097 < 2.164$, these results do not contain autocorrelation.



Source: Data processing results SPSS, 2022

Figure 2. Heteroscedasticity

Figure 2. shows the dots spread below and above 0 on the Y axis. Based on this figure, the test does not have any symptoms of heteroscedasticity. The result of the Multicollinearity Test is displayed in table 3.

Table 3. Multicollinearity Test

Model	Coefficients ^a		Collinearity Statistics				
	Unstandardized Coefficients	Standardized Coefficients					
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	.379	.940		.423	.673		
JK	-.475	.320	-.122	-1.484	.140	.718	1.393
KB	.113	.183	.044	.616	.538	.927	1.079
DT	.192	.171	.081	1.121	.264	.913	1.096
UKPER	-.025	.044	-.043	-.572	.568	.851	1.175
ROA	.106	.049	.227	2.147	.033	.432	2.314
Leverage	1.548	.747	.183	2.073	.040	.620	1.613
LOSS	1.141	.313	.346	3.649	.000	.535	1.868

Dependent Variable: MBV

Source: Data processing results SPSS

Based on table 3., the Multicollinearity Test shows that the results of the calculation of the Variance Inflator factor (VIF) of the independent variables (JK, KB, DT) and the control variables (UKPER, ROA, LEVERAGE, LOSS) have a Variance Inflator factor (VIF) value, namely Gender (JK) of 1,393, Business Skills (KB) of 1,079, Tenure (DT) of 1,096, Company Size (UKPER) of 1,175, ROA of 2,314, LEVERAGE of 1,613 and Company Financial Condition (LOSS) of 1,868. This is the Variance Inflator factor of less than 10, so the regression model in this study does not have symptoms of multicollinearity.

$$\text{MBV} = 397 + (-0.475\text{JK}) + 0.113\text{KB} + 0.192\text{DT} + (-0.025\text{UKPER}) + 0.106\text{ROA} + 1.548\text{LEVERAGE} + 1.141\text{LOSS} + e \quad [2]$$

Testing The t test shows the tcount and ttable values. Gender (JK) is -1,484 < 1,973 with a significant 0,140 > 0.05, which means that gender (JK) has no effect on firm value. Business Proficiency (KB) is 0.616 < 1.973 with a significant 0.538 > 0.05, this is Business

Proficiency (KB) has no effect on Company Value. The tenure variable (DT) is $1,121 < 1,973$ with a significance of $0,264 < 0.05$, which means it has no effect on firm value. The variable company size (UKPER) is $-0.572 < 1.973$ with a significant value of $0.568 < 0.05$, so company size has no effect on firm value. However, the ROA variable is $2.147 > 1.973$ with a significance of $0.033 < 0.05$. leverage of $2.073 > 1.973$ with a significant $0.040 < 0.05$. Company Financial Condition (LOSS) of $3,649 > 1,973$ with a significance of $0,000 < 0.05$. Therefore, it can be concluded that the variables ROA, leverage, and the company's financial condition have an influence on firm value.

The results of the first study, gender does not affect firm value. This is because the number of female CEOs in this study is very small, which means that female CEOs do not affect firm value. CEOs of women and men do not necessarily affect the value of the company. Based on these results it can be said that gender has no significant effect on firm value. These results are in line with research (Diedra & Agustina, 2021) Gender diversity has no effect on company value. But not in line with (Tullah, 2017) Gender affects financial performance. Ullah *et.al*, 2019 show that the presence of a female CEO can increase company value in companies in Pakistan.

The results of the second hypothesis, business skills have no significant effect. This is because many CEOs in banking companies do not have an educational background with an MBA degree, so many CEOs do not have business knowledge. Based on this, it can be said that business prowess does not have a significant effect on firm value. This research is not in line with (Nurmayanti P, 2020) provided empirical evidence that her research indicates CEOs who have business knowledge and experience are more inclined to use their managerial abilities. Putri, W. E. (2020) proves that the background of the board of directors affects company value, but is negatively significant. Tullah, (2017) proves that the CEO's background has an influence on company value.

The results of the third hypothesis research, tenure does not have a significant effect. This is because a CEO who has a longer tenure may be in a comfort zone. Situations, conditions and company changes that cannot be avoided cause the company to need a CEO with new and broad thoughts to create a better company. Based on this it can be said that the tenure does not affect the value of the company. This is not in line with research conducted (Vafeas, 2015) stating that they have more experience, knowledge, and commitment as their tenure increases, because the longer the tenure, the more knowledge about company conditions and the business environment. But in line with (Sudana & Dwiputri, 2018) that tenure affects financial performance.

The results of testing the control variable, firm size has no significant effect. And ROA, leverage, and the company's financial condition have a significant effect. This is because the characteristics of the company have a major influence in determining a CEO.

CONCLUSION

This article examines the influence of the relationship between CEO characteristics and the value of banking companies listed on the Indonesia Stock Exchange. This study proves that the gender of the CEO has no effect on firm value. This study also proves that the MBA degree held by a CEO has no effect on firm value. Many CEOs of banking companies in Indonesia do not have an MBA title. It could be that a leader's business prowess is not based on an MBA alone. The length of the office term of a CEO also does not guarantee that it will increase the value of the company. The experience of a CEO based on length of tenure is not a factor that determines the value of a banking company in

Indonesia. Company size as measured by natural log total assets has no effect on firm value but DAR, ROA, and LOSS (company financial condition) have a significant influence. The characteristics of the CEO are not the only powerful actor as a determinant of company policy which ultimately influences the value of the company.

RECOMMENDATION

Although CEO characteristics such as gender, MBA background and tenure do not affect the value of banking sector companies on the Indonesia Stock Exchange, this does not mean that the abilities and capabilities of a CEO are not important in determining the success of a company. The CEO or the main director is not the only company policymaker because the CEO is also assisted by other board of directors. Further research is suggested to use the characteristics of all members of the board of directors as a reflection of top management to explain the upper echelon theory.

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