CEO Characteristics and Performance of Indonesian State-Owned Enterprise in Indonesia Period Year 2013-2015

Yuni Kusuma Mentari and Chorry Sulistyowati
Department Management, Faculty of Economy and Business, Airlangga University, Surabaya, East Java, Indonesia
chorry_040318214@yahoo.com

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Abstract: This paper examines the effect of CEO characteristics on State Owned Enterprise's performance measured by ROA (Return on Asset). Previous paper mostly focused on private firm rather than state owned enterprise (SOEs). We apply panel data regression on 168 SOEs in Indonesia within the period of 2013-2015. We only find, that age of the CEO has a positive significant effect on the performance of SOEs. This result suggests that having an older CEO can mitigate risk in the company.

1 INTRODUCTION

Chief Executive Officer (CEO) has a lot of influence on the way the company. A CEO is regarded as the mastermind of the business. This is because any action taken by the CEO or imposed on the CEO will have an impact on the company's future strategy, policy and performance (Ishak et al., 2012). In practice, CEO positions are often used to designate the highest managerial positions in a company, such as the president or director. Companies in Indonesia adopt two board systems of boards of directors and commissioners, both system have authority and responsibility in accordance with legislation. Both have a responsibility to maintain the company's long-term sustainability (NCCG, 2006). Based on excerpts from the online media about SOEs, especially 2013, was the year of SOE exemption from political interference. This is due to the courage of Dahlan Iskan (Minister of SOEs in 2009 - 2014) in exposing the bad practices of political interference that occurred in SOEs. From then on SOEs become the important spotlight of the community asking about the performance of SOEs so far. Parimana et al. (2015) states that SOEs are viewed as inefficient business entities because of wasteful in resource use, loaded with corruption, and have low profitability.

Currently, gender equality has been so well recognized that the leader or owner of the company does not have to be always male. Everyone is more open-minded because any goal or ideal of a person should not be limited by gender. One of the results of previous research conducted in America on the influence of gender, that is, Women lack experiences in the industry and they concentrate on the less favorable sectors and thus create a barrier for business (Khan et al, 2013) From the results of the study, the authors want to know the results if the research is addressed to state-owned companies in Indonesia.

This study discusses the influence of CEO characteristics on company performance, where company performance is measured using ROA (Return on Assets). Return on Assets shows the company's ability to use all of its assets to generate profit after tax. This ratio is important for the management of the company to evaluate the effectiveness and efficiency of the company's management in managing all the assets of the company. The greater the ROA means the more efficient use of company assets or in other words with the same amount of assets can generate greater profits, and vice versa (Sudana, 2011: 22).

2 DATA AND METHOD

In this study, company performance is measured using ROA (Return on Assets). The use of ROA as a performance meter is better than other accounting measurements (ROE, EPS) because the operating profit used to calculate ROA is not affected by the special costs and is not easily susceptible to

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manipulation by managers (Bushman and Smith, 2001). ROA demonstrates a company's ability to use all of its assets to generate profit after tax. ROA is important for management to evaluate the effectiveness and efficiency of a company's management in managing all its assets (Sudana, 2011: 22).

2.1 Model Analysis

ROAit = b0 + b1EDUCit + b2AGEit + b3GENDERit + b4LEVit + b5F_AGEit + b6F_SIZEit + eit

2.2 Research Approach

Based on predetermined variables to conduct research and research models that have been prepared, this research can be called as research using quantitative model.

2.3 Independent Variables

- The education level of the CEO (EDUC) is the level of education measured on an ordinal scale, 0 for CEOs with high school graduates and equivalent, 1 for Graduate Strata 1, 2 for Graduate 2 and 3 Graduate CEOs for Graduate Strata 3 CEOs.
- Age CEO (AGE) is the age of CEO expressed in nominal according to CEO age figure.
- Gender CEO (GENDER) is the CEO's gender measured using dummy variables, 0 for female gender and 1 for the male gender.

2.4 Dependent Variables

Company performance (ROA) is company performance measured through ROA (Return on Asset) company with the formula of earnings after tax divided by total assets.

2.5 Control Variables

- Corporate debt (LEV) is a company-owned debt that can be calculated by long-term debt divided by the total assets of the company.
- Age of company (F_AGE) is the length of time since the company was established according to the Ministry of SOEs decisions.
- Company size (F_SIZE) is a natural log of the total assets of the company.

2.6 Types and Data Sources

Data needed for this research is secondary data obtained from indirect sources. The data include all information’s concerning government-related companies or SOEs in Indonesia, including the level of education of the CEO, CEO age, CEO's gender, corporate ROA, total assets, long-term debt, and company life can be obtained from the company's annual report.

2.7 Sample Determination Procedure

Sampling of this research is done by purposive sampling technique. The sample of SOE companies is taken from companies that have been in accordance with the criteria, namely SOEs that have been registered in the ministry of SOEs in 2013-2015 and have detailed information about the level of education of CEO, CEO age, Gender CEO, ROA, total assets and debt company long term contained in the company's annual report.

2.8 Analysis Technique

Collect data required in this research. Covers data relating to the variables required in the study include information on the characteristics of the CEOs of each of the Indonesian State-Owned Enterprise companies listed in the Ministry of State-Owned Enterprises based on the specified criteria i.e. information that includes the level of education of the CEO, CEO age, Gender CEO, ROA, long-term debt and company life.

Calculate the variables - research variables contained in the analysis model that includes the dependent variable, independent variables, and control variables.

2.8.1 Test Classical Assumptions

Before testing the hypothesis, a classical assumption test is performed first. The research model is said to be good enough and can be used to predict if it passes from a series of classical assumption test. The classical assumption test consists of: normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

3 RESULTS AND DISCUSSION

From the results of regression testing for the age variable CEO has a significance level of less than

0.05 about 0.030 which means CEO age affects ROA. Judging the unstandardized value of regression coefficients, the CEO's age variable is positive, meaning that CEO age has a positive effect on ROA. In the education and gender variables the CEO has a significance level greater than 0.05 which means the two variables have no influence on ROA. For control variables that include company debt, company age, and company size have significance level less than 0.05 which means control variables covering company debt, company age, and firm size have influence to ROA, and seen from beta regression coefficient value for all control variables are negative, which means control variables have a negative influence on ROA.

In this study, the test results show that the education level of CEO has no impact on the performance of SOEs. This result is supported by research conducted by Amran et al. (2014) stating that the education level of the CEO has no impact on the performance of SOEs. Ayaba (2012) stated that the educational background does not affect the company's performance due to the length of time between the CEO completing his education by the time of his appointment as CEO. Before becoming CEO, they learn a lot through their work and improve their skills. In the CEO election, the ability to handle environmental and business challenges is a highly considered factor. Gottesman et al. (2010) adds that low-educated CEOs face some limitations but they perform very well to achieve CEO position

Table 1: Results.

Dependent Variable	Independent Variable	Regression Coef. Beta	Error Std.	T-statistic	Sig. T
ROA	EDUC	0,405	0,644	0,628	0,531
	AGE	0,179	0,082	2,184	0,030*
	GENDER	-0,198	2,200	-0,090	0,928
	LEV	-0,053	0,024	-2,225	0,027*
	F_AGE	-0,045	0,021	-2,093	0,038*
	F_SIZE	-0,757	0,185	-4,086	0,000*
	R^2	0,167			
	F-statistic	6,575			
	Prob(F-stat)	0,000			

In executing its role as a strategic decision maker, the CEO can also apply informal methods of making decisions by using tacit knowledge. Tacit knowledge is defined as practice in the work of knowing how work is learned informally during work. Ishak et al. (2012) found that the CEO's education which indicated the CEO's degree qualification had no impact on the CEO turnover.

The results of testing the influence of CEO age on the company's ROA as measured by ROA shows the result of positive influence. The level of significance is less than 0.05 and the value of the positive regression coefficient, so it can be concluded that the older age CEO will generate higher ROA for the company supported by research Amran et al. (2014) where the results of his research indicate that older chairmen have more experience and more risk aversion in every decision taken will result in better company performance. Older CEOs will tend to avoid risks and are less aggressive than younger CEOs (Gottesman and Morrey, 2010). The CEO's age reflects the amount of experience gained, both in terms of age, industry experience, and experience throughout the organization. According to Dagsson and Larsson (2011) the senior generation has a lot of direct field work experience in his career.

The result of regression test of CEO's gender influence on the company's ROA shows that CEO's gender has no effect on ROA. This result is reinforced by Amran et al. (2014) which also stated that Gender CEO has no significant influence on the company's ROA. The results are insignificant due to the unbalanced sample gender data of the Indonesian State-Owned Enterprise CEO. Of the 168-sample data of SOE CEOs from 2013 - 2015 there are only 6 Indonesian State-Owned Enterprise CEOs who are female gender and the remaining 162 are CEOs of state-owned enterprises with the male gender. In other words, in this research, female CEOs do not show results because the numbers are not equal to the number of male CEOs. This imbalance of sample data resulted in the insignificant results of the influence between the SOEs CEO's genders on the performance of the Indonesian State-Owned Enterprises. In Gottesman and Morrey (2010) study of the comparative performance of firms run by women and men, it states that gender has no significant effect on ROA and corporate risk. These results indicate that businesses owned by women do not have a poor performance compared to businesses owned by men.

3.1 Other Factors Affecting Company Performance

The regression result of the influence of debt, age, and firm size shows that the three control variables have significant influence because the level of significance is less than 0.05 and all three have negative effects because unstandardized coefficient of regression is negative.

Corporate debt has a negative effect which means that the greater the long-term debt used to fund the total assets of the company will result in a smaller ROA. These results are reinforced by the results of Gottesman and Morrey (2010) which states that the company's debt has a negative effect on ROA. In bad economic conditions, the use of debt will lower profits because in times of bad economy, loan rates are generally higher, while sales and corporate profits will decline. During 2013 - 2015 stated that the Indonesian economy is slowing down, the growth rate of Indonesian economy has decreased from 5.8% in 2013, 5% in 2014, and 4.8% in 2015.

The age of the company has a negative effect which means that the older the company's age, the smaller the company's ROA. The results of this negative influence are supported by research by Perryman et al. (2015) and Amran et al (2014). The structural inertia theory believes that as organizations become larger, both in size and age of the organization, the volume of bureaucracy increases and this can lead to resistance to change that will ultimately lower the rate of return (Orens and Reheul, 2013.).

The size of the company negatively affects ROA, which means the larger the size of the company, the smaller the company's ROA. This result is supported by research by Amran et al. (2014), Perryman et al. (2015) .The structural inertia theory believes that as organizations become larger, both in size and organizational age, the volume of bureaucracy increases and this can lead to resistance to change that will ultimately lower the rate of return (Hilman and Cannella, 2007).

4 CONCLUSIONS

The level of education of the CEO has no significant effect on company performance (ROA). In CEO election, the ability to handle environmental and business challenges is a highly considered factor. Low-educated CEOs face some limitations, but they perform very well to achieve CEO position. The experience and tacit knowledge of the CEO is the informal knowledge that can be used in managing the company, including when making strategic decisions for the sustainability of the company Indonesian State-Owned Enterprise in the future.

CEO age has a significant positive effect on the company's performance (ROA), which means the older the CEO, the greater the ROA generated by the company. Older CEOs will tend to avoid risks and be less hasty. The CEO age also reflects the amount of experience gained, both in terms of age, industry experience, and experience throughout the organization. The senior generation has a lot of hands-on fieldwork experience in a career that will have an impact on the company's performance.

Gender CEO no significant effect on company performance (ROA), both men and women at the highest peak of company management does not affect company performance (ROA). The results are not significant because the gender sample data of the Indonesian State-Owned Enterprise is unbalanced. Of the 168-sample data of CEO Indonesian State-Owned Enterprise from 2013 - 2015 there are only 6 CEO Indonesian State-Owned Enterprise which is female gender and the remaining 162 are CEO Indonesian State-Owned Enterprise with the male gender. In other words, in this research, female CEOs do not show results because the numbers are not equal to the number of male CEOs.

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