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Analysis of CEO Characteristics on the Performance of Indonesian Mining Sector Companies

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Abstract: - National Energy Policy (KEN) and the Paris Agreement are a step in the energy transition in Indonesia towards the use of new and renewable energy. The government is committed to reducing greenhouse gas (GHG) emissions using new and renewable energy. Therefore, research related to the performance of mining sector companies is interesting because the performance of mining companies is one of the keys to the success of the government in implementing KEN. The method used in this research is descriptive quantitative through the application of panel data regression models to be able to analyze the characteristics of company CEOs in the mining sector. The result of the research is that the panel data model can provide an overview which is then analyzed for the relationship between CEO characteristics and company performance in the Indonesian mining sector. This study found that CEO's work experience and CEO's Strength and CEO's level of education did not significantly influence the performance of mining sector companies in Indonesia.

Key-Words: - CEO Characteristics, National Energy Policy, Panel Data, Mining Sector.

1 Introduction

The Chief Executive Officer (CEO) is the highest executive officer in a company who has full responsibility for the running of the company both in theory and practice, [1]. The CEO is believed to be able to influence the running of the company which will affect the company's performance in achieving company goals, namely maximizing company value, [2]. Several previous studies identified several determinants of the CEO on the quality of decision making that affect the company's performance.

The authors in [3] revealed that the CEO who has a fairly high percentage of ownership in the company will become a strong decision maker to influence every step of the company. When the CEO has a significant stake in the company he leads, the CEO can influence the selection of other boards of directors, so that he can make his position higher than other boards of directors [4], including educational background and experience. CEOs who have a high educational background and experience are likely to gain greater managerial skills and may even be able to control the company even in the worst conditions.

A previous study conducted by the authors in [5] showed that CEO education is important for corporate decisions, and the results of these decisions reflect the quality of the CEO. Like education, the experience of a CEO is inevitable because they can change their instincts. Therefore, the authors in [6] argued that education and experience are two inseparable qualities for a good manager with a high entrepreneurial drive. This is because a higher level of education will increase the probability of becoming a successful entrepreneur in generating income in the sector.

It is different with the results of research conducted by the authors in [7] which stated that the experience of the CEO has a negative effect on company performance. This is evidenced by CEOs who have experience tend to have lower performance compared to inexperienced CEOs when placed in the highest executive positions in new companies in the same industry as previous companies. They provided the reason why this happened as CEOs who have experience tend to have responsibility for the decline in company performance before they are appointed CEO.

Meanwhile, the National Energy Policy (KEN) and the Paris Agreement are steps in Indonesia's energy transition towards the use of new and renewable energy. The government is committed to reducing greenhouse gas (GHG) emissions using new and renewable energy. There are five categories of GHG emission sources, namely: energy, industrial processes and product use, agriculture, forestry and other land use changes, and waste management. The application of low-carbon technology or decarbonization in the energy sector is an implementation to achieve this target. Therefore, research related to the performance of mining companies is interesting because the performance of mining companies is one of the keys to the success of the government in implementing KEN.

Therefore, the characteristics of the CEO become crucial in the decision-making process that affects the performance of the company itself. On the other hand, the Indonesian government is currently focusing on increasing the nation's energy independence, so the role of mining sector companies listed on the IDX is an important element for the successful implementation of KEN. So that the formulation of the problem in this study is whether the characteristics of the CEO of mining sector companies listed on the IDX affect the company's performance improvement.

2 Literature Review and Hypothesis Development

CEO is the highest position of a company and has the duty to lead a company and is responsible for the stability of the company, [8]. In addition, according to the article of [9], the CEO who has high power over the company he leads is the one who is able to consistently determine important decisions in the company, even though there are obstacles from other executives.

Furthermore, ownership structure is an important source of strength both theoretically and practically , [10]. CEO ownership in a company has a relationship with various important decisions of directors such as employee selection, determination of remuneration members and so on, [11]. The authors in [12] in their empirical study stated that ownership is an important source of CEO power. CEOs with strong ownership can maintain their positions beyond the point of effectiveness, [13], and in contrast to the study of [14] suggested that CEOs with low ownership can be more easily expelled by insider coalitions. Therefore, one way to

reduce agency costs is to increase management's share ownership, [15]. The proportion of share ownership by managers can influence company policy. Managerial ownership will align the interests of management and shareholders (outsider ownership), so that they will benefit directly from the decisions taken and bear the losses because of the wrong decisions.

The formal educational background of members of the board of commissioners and directors is a cognitive characteristic that can affect the ability of the board to make business decisions and manage the business, [16]. The authors in [4] stated that the level of education is a tool for consideration of promotions and remuneration. A good level of education has significance in increasing the prestige of managers in terms of providing optimum decisions, [17]. The higher the education taken, both formal education according to the field of work, the higher the intellectual experience possessed, [18]. Someone who has this intellectual experience tends to be easy to carry out the work done. With a person's educational experience, that person will participate more in decision making and be able to manage the company. With the education that has been taken by the CEO, the CEO in making decisions or policies is based on education that is appropriate to his field. In this case, the CEO's educational background can affect the knowledge and skills possessed, so that it can indirectly affect the results of the company's performance [4].

There are differences of opinion regarding the appointment of a CEO whether it comes from the company itself or from professionals outside the company, [4]. He also explained that when an employee of a company is promoted to CEO, it is because of his special qualities and advantages over other managers. The authors in [9] in their empirical study stated that if a CEO who comes from a company promotion is on the board of directors, he will have more experience related to the company so that he will be able to make more effective and efficient decisions.

The company's performance is a description of the company's financial condition, which is analyzed with financial analysis tools, so that it can be known the good and bad financial condition of a company that reflects work performance in a certain period, [8]. According to the study of [16] company performance can be interpreted as a work performance produced by a company based on certain standards within a certain period. Company performance usually describes the real conditions of a company. Company performance is influenced by good or bad corporate governance. The better

corporate governance will produce good performance, otherwise the worse corporate governance will result in poor performance. Company performance is an important thing because performance is the company's ability to manage corporate governance. Furthermore, according to the study of [19] the profitability ratio is a ratio used to measure the company's ability to generate profits at a certain level of sales, assets, and share capital which can be measured through the ratio of profit margin, return on total assets (ROA), and return. on equity (ROE).

The authors in [20] suggested that net margin is one of the ratios used to measure profit margin on sales, which is calculated by comparing net profit after tax with net sales. This ratio can also be interpreted as the company's ability to reduce costs in the company in a certain period, [19]. The higher the net margin ratio indicates the company's ability to generate high profits at a certain level of sales, and conversely, the lower this ratio means that sales are too low for a certain level of costs or costs are too high for a certain level of sales [21].

The next profitability ratio is Return on Assets (ROA). ROA is a ratio used to measure the company's management ability to earn profits by utilizing the total assets owned, [22]. ROA measures how effectively a company can convert its return on investment into assets. The higher the ROA of the company, the better.

ROA is one of the profitability ratios that measures the effectiveness of the company in generating profits by utilizing its assets. By knowing this ratio, we can assess whether the company is efficient in utilizing its assets in the company's operational activities. This ratio also provides a better measure of the company's profitability because it shows the effectiveness of management in using assets to earn income, [23].

Companies that have CEOs with high share ownership tend to have higher stock market values, which proves that agency conflict can be overcome by including CEOs in the share ownership structure, [24]. This is also evidenced by the empirical research of [9] which stated that there is a positive relationship between the power of the CEO on company performance. This is indicated by the company's performance will be more optimal when the power in the company's decision making is centered on the CEO's decision. Based on the description above, the following hypothesis is made:

H1: CEO power has a positive effect on company performance

CEOs in each company have different educational backgrounds because there are no

definite rules about educational requirements to become a CEO. However, CEOs who have a graduate education background in management, economics or business are expected to improve managerial functions and can easily make the right decisions to improve company performance.

Various empirical studies related to the CEO background that can increase positive performance have been carried out and stated that there is a significant positive relationship between CEO educational background and company performance, [4] in his empirical research found that there is a positive relationship between CEO educational background and company performance. This is because education is an important element that must be contained in the CEO in making and implementing decisions for the company. While the authors in [16] stated that the educational background of the CEO has an important role in improving company performance, because the education level of a CEO can prove the CEO's connections and abilities which will ultimately have an impact on company performance. Based on this description, the following hypothesis is obtained:

H2: CEO educational background has a positive effect on company performance

An employee who has special talents and good performance for the company and has more advantages compared to his colleagues in a company can be promoted as CEO, [9]. CEOs who come from the company's own employees when compared to recruiting CEOs from non-companies tend to further improve the company's performance well, because it is believed that the CEO already has more experience and knowledge about the company.

Furthermore, the authors in [3] stated that the promotion of employees to become CEOs indicates that the CEO has more power when compared to other executives. From the description above, the following hypothesis is obtained:

H3: CEO tenure has a positive effect on company performance

3 Research Methods

The data used in this study is secondary data with a data collection period of 2017-2021. The population in this study are all Mining Sector companies that are officially listed on the Indonesia Stock Exchange (IDX) in the study period, namely 2017-2021, while the sample of this study is Mining Sector BUMN companies that are consistently listed on the IDX in 2017-2021.

The analysis technique that will be used in this research is panel data regression analysis technique,

which is a combination of cross-sectional data and time series data. In panel data, observations were made on several subjects which were analyzed from time to time. To test the hypothesis (1), hypothesis (2), and hypothesis (3) will be carried out using the following Equation (1) model:

Equation (1):

$$FP_{it} = \beta_0 + \beta_1 OWN_{it} + \beta_2 EDUC_{it} + \beta_3 TEN_{it} + e_{it}$$

Where FP_{it} is Firm performance ratio through ROA in firm i and year t; OWN_{it} is power ratio in firm i and year t; $EDUC_{it}$ is CEO education background in firm i and year t; TEN_{it} is CEO work experience in firm i and year t; and ε_t = Error term.

Next is to test using panel data regression. In panel data regression there are four models that can be used. These models include the pooled OLS model, the fixed effects least square dummy variable (LSDV) model, the within-group fixed effects model and the random effects model (Gujarati and Dawn, 2013). The selection of the model to be used is through a selection with a model specification test. There are two specification tests, namely fixed effects, or random effects.

The specification test is to determine the panel data analysis model to be used through the Chow Test, Hausmann Test, and Lagrange Multiplier (LM) Test, [25]. Meanwhile, to test the linear regression model, this study will apply the classical assumption test so that the model becomes valid as an estimator. Furthermore, the model built will also be tested for feasibility or in this case will test each hypothesis that has been built through simultaneous

significance tests (F-test) and individual parameter significance tests (t-test), [25].

4 Results and Discussion

The analysis in this study begins with a description of some basic statistical values for all tested variables which are presented in Table 1. The statistical descriptions that will be described are the average, minimum, maximum and other values. The average value for ROA in mining sector companies in Indonesia is 7.22% during the research period. This ROA percentage indicates that Mining Sector companies are on average able to generate a positive return to assets ratio amid unstable economic conditions due to the Covid-19 Pandemic.

Furthermore, the average value of CEO power is very low, which is only 0.6%, which means that most CEOs do not have share ownership in the companies they lead as a proxy for CEO power. The average CEO education variable has a statistical average of more than 50%, which indicates that more than half of the COEs in the sample have a postgraduate education level. The variable tenure of CEOs in Indonesian Mining Sector companies is an average of 6 years, which means that many companies retain CEO leadership for more than 1 period. Meanwhile, the minimum ROA value is negative 0.035100 and the maximum is 0.204. This negative ROA value is believed to have occurred at the peak of the Covid-19 case that occurred in 2020, so that some companies were unable to generate profits on their assets.

Table 1. Statistical Descriptive

	ROA	CEO Power	CEO Education	CEO Tenure
Mean	0.072274	0.006348	0.560000	6.395667
Median	0.062000	0.000000	1.000000	3.433333
Maximum	0.204000	0.061800	1.000000	28.00000
Minimum	-0.035100	0.000000	0.000000	0.083333
Std. Dev.	0.064980	0.018326	0.501427	7.448445
Skewness	0.660296	2.659305	-0.241747	1.761149
Kurtosis	2.513455	8.092677	1.058442	5.291622
Jarque-Bera	4.126434	112.9645	8.340449	36.78774
Probability	0.127045	0.000000	0.015449	0.000000
Sum	3.613700	0.317400	28.00000	319.7833
Sum Sq. Dev.	0.206900	0.016457	12.32000	2718.488
Observations	50	50	50	50

Source: EViews 10 (data analysed)

Table 2. Correlation between Variables

Covariance Analysis: Ordinary
Date: 09/13/22   Time: 22:58
Sample: 2016 2020
Included observations: 50

Correlation	ROA	CEO Power	CEO Education	CEO Tenure
ROA	1.000000			
CEO Power	-0.076625	1.000000		
CEO Education	-0.160452	0.307938	1.000000	
CEO Tenure	-0.170972	0.199815	0.503192	1.000000

4.1 Chow Test

The Chow test is used to determine the best panel data regression model among the models obtained based on the common effect model (CEM) approach with the model obtained using the fixed effect model (FEM) approach, with the formulation of the hypothesis:

H_0: Common effect model
H_1: Fixed effect model

The following are the results of the Chow test to determine the best model between CEM and FEM.

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Table 3. Results (Output) of the Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.946138	(9,37)	0.0000
Cross-section Chi-square	49.469645	9	0.0000

Cross-section fixed effects test equation:
Dependent Variable: ROA
Method: Panel Least Squares
Date: 09/13/22   Time: 23:05
Sample: 2016 2020
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.086224	0.014397	5.988797	0.0000
CEO Power	-0.085632	0.539991	-0.158580	0.8747
CEO Education	-0.012045	0.022377	-0.538275	0.5930
CEO Tenure	-0.001041	0.001463	-0.711995	0.4801

R-squared	0.037174	Mean dependent var	0.072274
Adjusted R-squared	-0.025619	S.D. dependent var	0.064980
S.E. of regression	0.065808	Akaike info criterion	-2.527546
Sum squared resid	0.199209	Schwarz criterion	-2.374584
Log likelihood	67.18865	Hannan-Quinn criter.	-2.469297
F-statistic	0.592007	Durbin-Watson stat	0.611545
Prob(F-statistic)	0.623391		

Source: Processed data (EViews 10)

From the output of the Chow test above, it can be concluded that the probability value of cross-section F and Chi-square is less than 0.05, or in other words, H0 is rejected. Thus, from this Chow test the FEM model is the chosen model. Therefore, we continue to test the best model between FEM and REM using the Hausman test.

4.2 Hausman Test

Hausman test is used to determine the best panel data regression model among the models obtained based on the random effects model (REM) approach and the model obtained using the fixed effect model (FEM) approach. The initial hypothesis was that there was no relationship between the model error and one or more explanatory variables, with the formulation of the hypothesis as follows:

H0: Random effect model

H1: Fixed effect model

The following are the results of the Hausman test to determine the best model between REM and FEM.

Table 4. Hausman Test Output

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.485377	3	0.4779

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CEO Power	13.079092	-0.312782	538.928299	0.5640
CEO Education	0.028540	0.006136	0.000317	0.2081
CEO Tenure	0.005150	0.000048	0.000013	0.1505

Cross-section random effects test equation:
Dependent Variable: ROA
Method: Panel Least Squares
Date: 09/13/22   Time: 23:19
Sample: 2016 2020
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.059672	0.158392	-0.376737	0.7085
CEO Power	13.07909	23.24199	0.562735	0.5770
CEO Education	0.028540	0.032009	0.891621	0.3784
CEO Tenure	0.005150	0.004260	1.208851	0.2344

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.642019	Mean dependent var	0.072274
Adjusted R-squared	0.525917	S.D. dependent var	0.064980
S.E. of regression	0.044741	Akaike info criterion	-3.156939
Sum squared resid	0.074066	Schwarz criterion	-2.659813
Log likelihood	91.92348	Hannan-Quinn criter.	-2.967631
F-statistic	5.529787	Durbin-Watson stat	1.612625
Prob(F-statistic)	0.000027		

Source: Processed data (EViews 10)

From the Hausman Test output above, it can be concluded that the random cross-section probability value is greater than 0.05, or in other words H0 is accepted. Thus, from this Hausman test the REM model is the chosen model.

From the results of the Chow test and Hausman test on panel data regression, the statistically recommended model is the Fixed Effect Model (FEM). The FEM output is presented in more detail as follows.

Table 5. Output FEM Model

Dependent Variable: ROA
Method: Panel Least Squares
Date: 09/13/22   Time: 23:35
Sample: 2016 2020
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.059672	0.158392	-0.376737	0.7085
CEO Power	13.07909	23.24199	0.562735	0.5770
CEO Education	0.028540	0.032009	0.891621	0.3784
CEO Tenure	0.005150	0.004260	1.208851	0.2344

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.642019	Mean dependent var		0.072274
Adjusted R-squared	0.525917	S.D. dependent var		0.064980
S.E. of regression	0.044741	Akaike info criterion		-3.156939
Sum squared resid	0.074066	Schwarz criterion		-2.659813
Log likelihood	91.92348	Hannan-Quinn criter.		-2.967631
F-statistic	5.529787	Durbin-Watson stat		1.612625
Prob(F-statistic)	0.000027			

Source: Processed data (EViews 10)

From the output above, the econometric model formed is as follows:

$$FP_{it} = -0.059672 + 13.07909 \cdot OWN_{it} + 0.028540 \cdot EDUC_{it} + 0.005150 \cdot TEN_{it}$$

The model formed above statistically has an R-Squared of 64.2 percent, which identifies the three independent variables tested have a relatively large effect on the dependent variable ROA (company performance) and has an F-statistical probability of less than 0.05 which makes the FEM model a significant model fit.

CEO's share ownership in mining sector companies in Indonesia in this study shows a statistically insignificant relationship with company performance. The results of this study are different from previous studies which stated that the greater the CEO stock ratio, the greater the company's performance, [9], [26], [27]. This is because in the research sample companies only a few CEOs have contributed share ownership in the company he leads, so the percentage of share ownership does not have a significant effect on company performance.

The educational background of the CEO in this study statistically has no significant effect on company performance. This means that companies with a bachelor's educational background statistically have no effect on improving company performance. This study contradicts previous research conducted by [16] and [28] in which the authors stated that CEOs who have a master's educational background and doctors can significantly improve the company's performance.

This study found that CEO's length of service had no effect on company performance. The CEO who has led the company for a long time does not mean that it will increase the value of the company. This result contradicts the findings of [29] in which the authors stated that a CEO who has led an organization for a long time will tend to have a higher level of knowledge of the culture and operations of the company, so that he will be able to make a more effective contribution to improving company performance. However, our research supports the results of research by the authors in [30] which stated that investors tend to choose companies with shorter CEO tenures on the grounds that these companies have a better level of financial stability. Likewise (Nguyen et al., 2018) which describes long service CEOs as having no influence on developing companies.

5 Conclusion

The National Energy Policy (KEN) and the Paris Agreement are steps in Indonesia's energy transition towards the use of new and renewable energy. The government is committed to reducing greenhouse gas (GHG) emissions using new and renewable energy. Therefore, the role and background of CEOs

in mining companies in Indonesia are crucial in improving company performance. This study found that CEO's work experience and CEO's Strength and CEO's education level did not significantly influence the performance of mining sector companies in Indonesia.

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-Ribhan carried out the concept study and was responsible for discussion section as well as made revisions.
-Aripin Ahmad conducted data collection
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-R. A. Fiska Huzaimah was in charge of the literature reviews and methods.

Conflict of Interest
The authors have no conflict of interest to declare.

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