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Influence of CEO Characteristics to Firm Performance with CSR as a Mediation Variable

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This study aims to identify and analyse the influence of a CEO's characteristics on firm performance that are mediated by Corporate Social Responsibility (CSR). A total of 117 companies were sampled in this study. The data were analysed using WarpPLS 6.0. The measurement of CSR used the GRI G4 Standard. The results of this study indicates that CSR does not mediate the CEO's characteristics on firm performance.

Key words: *Age, CEO, CSR, Gender, Tenure, and ROA.*

Introduction

Over the years, companies and practitioners have debated whether Corporate Social Responsibility (CSR) influences company performance (Albi et al., 2017). Friedman (1970) defines CSR as a corporate action to generate as much profit as possible to meet the wishes of shareholders by complying with legal and ethical requirements. Carroll (2008) emphasises CSR as a corporate action to contribute to social welfare beyond financial interests and legal obligations. Hill et al. (2007) expand the definition of CSR to include legal, economic, ethical, and philanthropic actions that can benefit corporate stakeholders.

CSR is considered as a response to the demands of various groups, such as the environment and stakeholders (Prahalad and Hamel, 1994; Cochran, 2007; Dahlsrud, 2008; Crowther and Aras, 2008). The environmental dimension refers to how business operations can harm the natural environment and the social dimension relates to how companies contribute to society. Meanwhile, the CSR stakeholder dimension is related to how the company interacts with its employees, suppliers, and customers (Famiyeh, 2017).

According to Kreitner (2001) and Kurschner (1996) there is abundant evidence that CSR can lead to customer loyalty, support from stakeholders, and improvement in the company's reputation (Maignan et al., 2005). When organisations introduce CSR into operations, companies will enjoy long-term benefits such as the durability of more skilled employees, improved employee standards, ability to influence public opinion during government intervention, attract socially conscious investors, multiply customer base, increase creditworthiness in financial markets, having suppliers who are increasingly supporting, and improving public image, etc. (Kreitner, 2001). Therefore, CSR can be a "win-win solution" for communities and organisations to obtain long-term benefits (Kurschner, 1996).

Over the years, many studies have examined the impact of CSR on a number of organisational outcomes, such as brand equity (Nguyen and Oyotode, 2015), market performance (Becchetti and Ciciretti, 2009), and firm performance (Nelling and Webb, 2009; Peloza, 2006). According to Albi et al. (2017) financial performance is the most appropriate component for this relationship. Because, unlike other measures, financial performance does not depend on perception and is not biased. However, the results of research on the relationship between CSR and financial performance are uncertain, for example, Bragdon and Marlin (1972) found evidence that social responsibility can have a negative relationship with financial performance. Meanwhile, Waddock and Graves (1997) stated that CSR has a positive effect on firm performance.

There are two conflicting opinions on the relationship between CSR and firm performance. First, based on the agency theory (Jensen and Meckling, 1976) CSR reflects agency problems between managers and shareholders. Affiliated internal parties may have an interest in over-investing in CSR to get personal benefits by building their reputation as a good person (Barnea and Rubin, 2010; Brown et al., 2006). Managers can use slack (CSR involvement) to engage in excessive diversification in building their image (Tan and Peng, 2003). As a result, slack is a source of agency problems, which creates inefficiencies, impedes decision making and impairs performance. Second, the stakeholder theory (Freeman, 1994, pp) shows that CSR involvement can improve relationships between various stakeholder groups and thus will result in better company performance (Waddock and Graves, 1997). Similarly, Jo and Harjoto (2011) argue that managers use CSR involvement to resolve conflicts among stakeholders and thereby maximise shareholder wealth, so CSR involvement will positively influence firm performance.

The level of corporate involvement in CSR is influenced by the characteristics of CEOs. Waldman and Siegel (2008) argue that the company's decision to engage in CSR initiatives is a strategic choice, and leaders who like change are more likely to formulate and implement CSR. The Stakeholder Theory implies that the extent to which managers pay attention to stakeholder interests is largely dependent on the manager's values and moral guidelines (Huang, 2013). CSR and performance are important for the company because, stakeholders will doubt if the company is less responsible (Cannella Jr. et al., 2008). Several main demographic variables influence strategic choices, namely age, tenure, nationality, and educational specialisation (Wiersema and Bantel, 1992), and also gender (Anderson, 2003).

One of the duties of the board is to monitor managers to reduce agency problems. Gender diversity boards are generally believed to be more effective in this regard. Erhardt et al. (2003) and Carter et al. (2003) argue that companies with diverse boards outperform companies with non-diverse boards. Williams (2003) found that companies with a higher proportion of female directors were more involved in corporate philanthropy than companies with lower percentages. Also, other literature found that companies with more female directors were more likely to demand more audit efforts and managerial accountability (Adams and Ferreira 2009).

The CEO tenure has significant implications for the company's operations, because, in the early stages of the CEO's tenure, both the board of directors and external parties are still unsure of the CEO's abilities (Gibbons & Murphy, 1992). CEOs have an incentive to use CSR performance to mark their ability to reduce this problem. Internal and external labour markets have doubts about the capabilities of newly appointed CEOs (Gibbons & Murphy, 1992). The market assesses this capability based on various observable performance indicators, such as financial and non-financial (Chiu & Sharfman, 2016). Gray and Cannella (1997) argue that the CEO age is associated with future expectations in the decision-making process. The literature has found that CEO agency problems are increasing because they are near retirement (Davidson et al. 2007).

Literature Review

Upper Echelon Theory

The Upper Echelon Theory states that organisational results, both strategy and effectiveness, are reflections of the values and cognitive bases of people with strong roles, such as senior executives in an organisation (Carpenter et al., 2004; Hambrick & Mason, 1984). Research has shown that, as the CEO's tenure grows longer, the CEO will make fewer strategic changes, which ultimately show a decrease in performance; this setback depends on industrial development (Hambrick and Fukutomi 1991; Henderson et al. 2006).

Stakeholder Theory

According to Freeman (1984, pp.), the stakeholder theory is a theory that describes which parties the company is responsible for. Stakeholders include shareholders, creditors, consumers, suppliers, the community, government, and other parties (Ghozali and Chariri, 2007: 409).

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that has been widely discussed by experts because CSR does not have the same in providing definitions. CSR definition is the company's commitment to contribute to sustainable economic development by paying attention to corporate social responsibility towards stakeholders and emphasising a balance between attention to economic, social, and environmental aspects (Maryanti & Tjahjadi, 2013). CSR goals and objectives are often contradictory or unclear because companies strive to respond to various demands from various stakeholder groups, such as employees, customers, suppliers, communities, NGOs, government, and the media (Ditlev-Simonsen and Midttun, 2011).

Characteristics of the CEO

The Stakeholder Theory implies the extent to which managers pay attention to stakeholder interests. This theory is influenced by the values and morals of managers (Huang, 2013). This theory also shows that executive demographic composition leads to different strategic choices (Cannella Jr. et al., 2008). CSR is an example of a strategic choice in the upper echelon theory (Huang, 2013, pp.) so the demographic composition of the executive will have an impact on the company's CSR strategy and firm performance. According to Wiersema and Bantel (1992, pp.) the characteristics of the main variable of CEOs are age, tenure, nationality, and educational specialisation (Wiersema and Bantel, 1992). The gender of the executive also plays an important role in the company's strategic outcomes (Anderson, 2003). In this study, the characteristics of the CEO are only measured using gender, age, and tenure.

CEO’s Gender

The theory of gender socialisation shows that women and men tend to look upon morality and ethical behaviour differently (Chodorow, 1974; Mason & Mudrack, 1996). According to Gilligan (1982) in terms of caring ethics, women are superior to men, caring and ethical behaviours are considered more by women than men. The caring ethics explains that humans depend on their parents (mostly their mothers) at least early in their life period; generally, a woman learns through her role as a mother, so there are moral aspects that support the development of caring relationships that enable humans to live and develop. The ethical theory of caring also shows that women's moral development makes them more able to meet the needs of others than men (Held, 2006). Women directors have significant differences in ethical perceptions; gender diversity as an indication of the organisation will be seen by stakeholders as caring and socially oriented (Ibrahim et al. 2009). Bear et al. (2010) also showed that CSR ratings would increase because of the benefits provided by female CEOs.

CEO's Age

Bertrand and Schoar (2003) suggest that older CEOs make investment strategies that are less aggressive and rely on traditional management styles. Orens and Reheul (2013) argue that, according to the Upper Echelon Theory, older CEOs are more reluctant to take risks and are more conservative than younger CEOs. Therefore, older CEOs will avoid risk (MacCrimmon and Wehrung 1986) so older CEOs prefer conservative strategies rather than aggressive ones. Meanwhile, younger CEOs are more willing to take risks at the beginning of management. Graham et al. (2013) found that younger CEOs are risk-tolerant.

CEO's Tenure

Tenure is defined as the length of time the CEO is in a company. Short tenure CEOs are more likely to be given incentives to undertake value-enhancing initiatives such as increasing the level of CSR involvement; whereas CEOs with longer tenure have a large influence on board members in setting company policies to reduce risk (Hermalin and Weisbach, 1998). Musteen et al. (2006) found that CEOs were less able to accept change when their tenure increased. A longer CEO tenure can also lead to greater conservatism and bias because CEOs are confined in their comfort zones. Henderson et al. (2006) show that the CEO's long service life can influence in a stable environment. However, this is detrimental when business conditions change quickly.

Firm Performance

Srimindarti & Caechillia (2004) define performance as a general term used for part or all of the actions or assets of an organisation in a period concerning standard amounts such as past costs or projected based on efficiency, responsibility and management accountability. According to the Upper Echelon Theory by Hambrick (1984) company performance is measured by profitability measured by ROA.

Hypotheses Development

Gender Relations CEO and Firm Performance by CSR as Variable Mediation

A board of directors with gender diversity leads to positive financial results; this argument is based on the belief that a diverse board of directors is expected to be able to promote a better understanding of the market, increase creativity for decision-making abilities, solve problems more effectively, expand perspective, and improve supervision (Carter et al., 2003; Carter et al., 2010). Generally, there is a direct relationship between the number of women on the board of directors and financial performance (Rhode & Packel, 2010). In contrast, research conducted by Hermalin and Weisbach (2003) states that CEO gender and firm performance cannot be directly related, but require other variables. One other variable is CSR. According to the Stakeholder Theory, companies that build reciprocal relationships with stakeholders through improving ethical and social standards are expected to benefit from improved company performance (Freeman et al., 2004; Jensen, 2001). So logically, the mechanism of relations between women on the board of directors can influence company performance through CSR policies as a way of responding to the needs of the interests of stakeholders. Therefore, CSR can mediate the relationship between women on the board and financial performance. Thus, a hypothesis can be proposed:

H1: Gender CEO has a positive influence on firm performance with CSR as a mediating variable

Relationship between CEO Age and Firm Performance with CSR as a Mediation Variable

Based on the Upper Echelon Theory, older CEOs are more reluctant to take risks and are less aggressive than younger CEOs (Hambrick and Mason 1984). As a result, they will be more inclined to choose internal funding compared to external funding. Bertrand and Mullainathan (2003) explain that older CEOs tend to be less aggressive in policies concerning company finances. Serfling (2012) also agrees that companies with younger CEOs will invest more and have greater company growth opportunities.

Strategic choices can be used as a mediation between the age of the CEO and firm performance (Hambrick and Mason 1984). One strategic choice is CSR (Huang, 2013). Corporate CSR policies can be influenced by executive demographic composition (Cannella Jr. et al., 2008). Therefore, CSR can be a mediation between the age of the CEO and firm performance. From this explanation, a hypothesis is proposed:

H2: CEO age has a negative influence on firm performance with CSR as a mediating variable

Relationship between CEO's tenure and Firm Performance with CSR as a Mediation Variable

CEOs who have a short tenure are more likely to use initiative and will continue to make updates so as to attract the interests of stakeholders, while CEOs with a long tenure will tend to retain CSR policies; this is because the CEO has gained the trust of stakeholders so that the CEO is more focused on reducing company risk (Hermalin and Weisbach, 1998). A longer CEO tenure can also lead to greater conservatism and bias because CEOs are trapped in their comfort zones. This is in line with Henderson et al. (2006) that the CEO's long service life can be valuable in a stable environment. However, this is detrimental when business conditions change quickly.

According to the Upper echelon Theory, the strategic choice is a mediation between CEO tenure and firm performance (Hambrick and Mason 1984). CSR is a strategic choice, so tenure influences corporate CSR policies (Cannella Jr. et al., 2008). Therefore, CSR can be a mediation between CEO tenure and firm performance. From this explanation, a hypothesis is proposed:

H3: Tenure CEOs have a negative effect on firm performance with CSR as a mediating variable

Research Method

This research uses quantitative methods with associative methods. Testing the research hypothesis using Structural Equation Models (SEM) through WarpPLS 6.0 software. The use of this model is because the research framework tests the direct and indirect relationships between the independent variables and the dependent variables.

Data Collection Techniques

The population in this study is the company that went public listed on the Indonesia Stock Exchange in the year 2013 to 2017. The sample selection method used is the method of purposive sampling. The criteria for companies that are sampled in this study are as follows:

1. Companies were other than the financial sector that are listed on the Indonesia Stock Exchange in 2013 to 2017 by disclosing sustainability reports that use the GRI G 4 guidelines.
2. Companies were other than the financial sector that has all the data and information related to the required variables.

Variable Identification

CEO

The characteristics of CEOs are personal demographics that identify CEOs measured by three characteristics or CEO information as explained below (Huang, 2013).

1. CEO's Gender

CEO's Gender (CGENDER) is the gender diversity of the leaders of each company. CEO gender is measured using a dummy variable, a score of 1 (one) for female CEOs and a score of 0 (zero) for male CEOs (Cooper, 2017).

2. CEO's Age

The CEO's age is the age of the company's leadership as written on the company's annual report. CEO age (CAGE) will be measured directly based on the age revealed or by reducing the current research year to the year of the CEO's birth (Nguyen, 2017).

3. CEO's Tenure

CEO's Tenure (CTENURE) is the number of years in the current CEO tenure. Tenure is measured using the CEO's tenure period, namely by reducing the research year by the first year of office which will produce figures on a ratio scale (Nguyen, 2017).

CSR

In general, measuring CSR in Indonesia uses GRI. The approach to calculating CSR uses a dummy variable in which each CSR item in the research instrument is given a value of 1 if disclosed, and a value of 0 if not disclosed. Then the score of each item is added together to get the overall score for each company. The measurement instruments in the checklist that will be used in this study refer to the instruments used.

The CSRI calculation formula is as follows: (Rakhiemah & Dian, 2009)

$$CSRD_j = \frac{\sum Xij}{nj}$$

Information

$CSRD_j$: *Corporate Corporate Responsibility Index* j
X_{ij} : *dummy* variable : 1 if the item is disclosed and 0 if the item is not disclosed. Thus $0 \leq CSRD_j \leq 1$
n_j : number of GRI disclosure indicators

Firm Performance

Based on the Upper Echelon Theory by Hambrick (1984), Firm Performance measurement uses profitability. Profitability ratios can be measured in various ways, but in this study using the Return On Asset (ROA) ratio to measure the level of profitability of the company. The use of the ROA ratio was chosen because it can assess the efficiency of the use of assets.

$$\text{ROA}=\frac{EBIT}{Total\ Asset}$$

Results and Discussion

Inner Model Analisys

The *inner model* testing is reviewed through the *adjusted R2* value by considering the *Q-square value*. Where:

Table 1: Inner Model Testing

Dependent Variable	Value *Adjusted R-square* (R^2)	Value *Q-square* (Q^2)
CSR	0.0 51	0.0 80
Firm Performance	0.006	0.0 58

Model Fit Testing

Model fit testing aims to find models that fit the original data so that it can determine the quality of the model. Model fit testing is carried out by considering two indices consisting of average path coefficient (APC) and average variance factor (AVIF) (Sholihin & Ratmono, 2013)

Table 2: Model Fit testing

	Index	P-value	Criteria	Information
APC	0, 116	0.050	≤0.05	Fulfilled
AVIF	1,0 39		≤5	Fulfilled

The results of this study is presented in the table below.

Table 3: Hypothesis Testing Results Direct Effect before Entering Mediation Variables and after Entering Mediation Variables

Direct Influence before Entering Mediation Variables			
Relationship Between Variables	***Path coefficient***	**P-value**	**Significance**
GENDER → ROA	-0.06	0.25	Not significant
AGE → ROA	-0.15	0.05 *	Significant
TENURE → ROA	0.06	.24	Not significant
Direct Influence after Entering Mediation Variables			
Relationship Between Variables	***Path coefficient***	**P-value**	**Significance**
GENDER → CSR	-0.19	0.02 **	Significant
GENDER → ROA	-0.05	0.29	Not significant

AGE → CSR	-0.12	0.09 *	Significant
AGE → ROA	-0,13	0.07 *	Significant
TENURE → CSR	.17	0.03 **	Significant
TENURE → ROA	0.05	0.29	Not significant
CSR → ROA	.10	.13	Not significant

Note: significance of *p-values* * *p* <0.10, ** *p* <0.05, *** *p* <0.01

In addition to conducting research on direct effects as shown in table 3, the researcher also conducted indirect tests which are presented in table 4.

Table 4: Hypothesis Testing Results for Indirect Effects

Hypothesis	*P-value of indirect effect with 2 segments*	Information
Gender → CSR → ROA	.384	Rejected
Age → CSR → ROA	0.425	Rejected
Tenure → CSR → ROA	.396	Rejected

Note: * p <0.1; ** p <0.05; *** p <0.01
Source: Processed WarpPLS Data, 2019
Table 4 is the result of *indirect effects with 2 segments* stating that CSR cannot mediate by showing *p-values* that do not meet the significance level of 10% or *p-values* > 0.10.

Figure 1. Indirect Relations

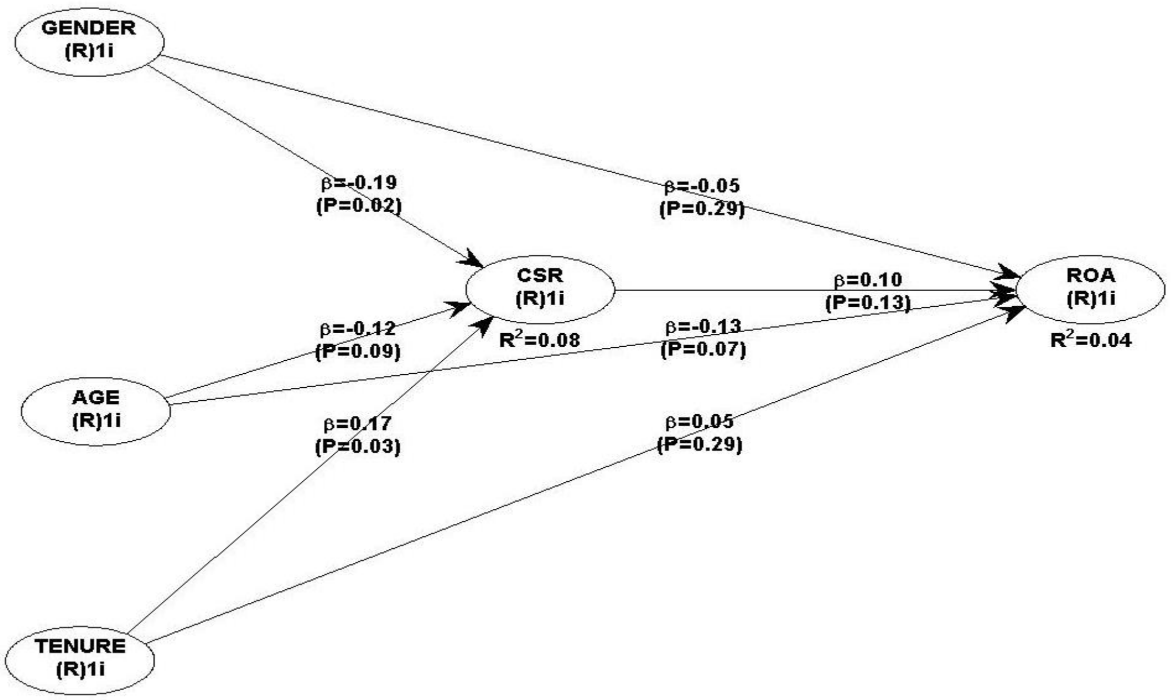

Table 6 is the result of testing the direct effect and Table 7 is the result of *indirect 2 segment* which proves that for H1, H2, and H3 this study was rejected because it showed a value of $p >$ 10% .

Discussion

The results of the path coefficient analysis indicate that the first hypothesis (H1) of research, which states that the CEO's gender has a positive influence on firm performance through CSR as a mediating variable, is rejected. The results showed that CSR does not mediate the effect of gender on firm performance. This result can occur because the number of female CEOs in Indonesia is far less than the number of male CEOs in Indonesia; this is in line with Rao & Tilt (2015) who explain that the relationship between CEO gender with firm performance does not require CSR as an alternative explanation because gender differences in the board of directors cannot reflect the "Soft Improvement" that women bring to the board, such as an increase in ethical and social standards that lead to improved relations with stakeholders and ongoing support from these stakeholders. Thus, there is no strong empirical evidence to prove the first hypothesis (H1) of this study which states that CSR mediates the influence of gender on firm performance. These results prove that gender has a stronger direct effect on firm performance compared to indirect influence through CSR.

The second hypothesis of this study states that the age of the CEO has a negative influence on firm performance through CSR as a mediating variable, based on the analysis of the path coefficient. The results showed that CSR cannot mediate the influence of the CEO's age on firm performance, so the second hypothesis (H2) is rejected. CSR cannot mediate the relationship between CEO age and firm performance, because CSR is not solely determined by the CEO, but is determined by the interaction between the CEO and the industry and stakeholder characteristics, so that the CEO's age can only influence CSR when decision-making conditions have high risks (Oh et al., 2014). The upper echelon theory perspective has shown an important role in this regard, that not all CEOs have the same influence on firm performance (Finkelstein and Hambrick 1990). Thus, there is no strong empirical evidence to prove the second hypothesis (H2) of this study which states that CSR mediates the influence of CEO age on firm performance. These results prove that the age of the CEO has a stronger direct effect on firm performance compared to an indirect effect through CSR.

The third hypothesis of this study states that the influence of CEO tenure on firm performance with CSR as a mediating variable. Based on the path coefficient analysis in point 4.4.2.3, the results show that CSR does not mediate the influence of CEO tenure on firm performance, so the third hypothesis (H3) is rejected. CSR cannot mediate between CEO tenure and firm performance; the results of this study are not in harmony with the upper echelon theory described by Hambrick (1984) but this research is in line with agency theory. The agency theory is more concerned with the interests of certain parties; certain parties referred to here is the CEO (Barnea & Rubin, 2010). CEOs in Indonesia have been in the company for a long time even though they are in different positions on the board of directors each year. This is because CEOs with longer tenure have more experience and knowledge of the company; the results of this study are in line with the results of previous studies such as Nguyen (2015, pp.) Huang, (2013, pp.) McCarthy et al., (2017) and Rao and Tilt (2015, 2016). Thus, there is no strong empirical evidence to prove the third hypothesis (H3) of this study which states that CSR cannot mediate the influence of CEO tenure on firm value. These results prove that CEO tenure has a stronger direct effect on firm performance compared to indirect influence through CSR.

Conclusion

This study discusses the mediating role of hedging and earnings management in the effect of good corporate governance on firm value. Based on the results of research and analysis of the discussion it can be concluded as follows:

1. This result can occur because the number of female CEOs in Indonesia is far less than the number of male CEOs in Indonesia; this is in line with Rao & Tilt (2015) who explain that the relationship between the CEO's gender with firm performance does not require CSR as an alternative explanation because gender differences in the board of directors cannot reflect the " Soft Improvement " that women bring to the board, such as the improvement of ethical and social standards that lead to improved relations with stakeholders and ongoing support from these stakeholders .
2. CSR cannot mediate the relationship between the CEO's age and firm performance, because CSR is not solely determined by the CEO, but is determined by the interaction between the CEO and the industry and stakeholder characteristics, so that the CEO's age can only influence CSR when decision-making conditions have high risks (Oh et al., 2014). The upper echelon theory perspective has shown an important role in this regard, that not all CEOs have the same influence on firm performance (Finkelstein and Hambrick 1990).
3. CSR cannot mediate between CEO tenure and firm performance; the results of this study are not in harmony with the upper echelon theory described by Hambrick (1984) but this research is in line with the agency theory. The agency theory is more concerned with the interests of certain parties; certain parties referred to here is the CEO (Barnea & Rubin, 2010). CEOs in Indonesia have been in the company for a long time even though they are in different positions on the board of directors each year. This is because CEOs with longer tenure have more experience and knowledge of the company; the results of this study are in line with the results of previous studies such as Nguyen (2015, pp.) Huang (2013, pp.) McCarthy, et al., (2017) and Rao and Tilt (2015, 2016).

Limitations

This research has limitations that can be taken into consideration for further research. The limitation of this study is that the characteristics of the CEO are only measured using gender, age, and tenure. CSR is only measured using GRI G4, and firm performance is only measured using profitability ratios namely Return on Assets (ROA) only. Then, the sample from this study is only companies that issue G4 sustainability reports only.

Suggestions

Based on the research that has been done, suggestions are given to further research, which may add another variable in the characteristics of the CEO as the educational background of the CEO, CEO compensation, and citizenship CEO. Replacing CSR measurements with another proxy. Add or replace firm performance measurements with other proxies such as ROE or Tobins'Q.

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