

CEO CHARACTERISTICS AND CORPORATE PERFORMANCE OF THE MALAYSIAN SHARIAH- COMPLIANT COMPANIES

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ABSTRACT

This study attempts to examine the relationship between the CEO characteristics and the corporate performance of the Malaysian companies. These CEO characteristics are supported by the upper echelons theory and accountability theory. The findings reveal that the concentration of power in a single hand and the CEO with vast experiences are unable to provide gratification on the firm performance. However, CEO gender, ethnicity and tenure are positively linked to the economic performance. Ways forward and limitation have been further discussed.

Keywords: CEO Characteristics, Upper-echelons theory, Accountability theory, Performance, Shariah-compliant.

INTRODUCTION

Old Folks ever said that “*an institution without a leader is just like a ship without a captain*”. This quote attempts to imply how important to have a (good) leader in sailing company towards achieving an intended positive direction and ends. The subject of leadership has received a considerable attention especially since the downfalls of the giant corporations in the late 1990s due to the abusive of power and self-interests of their top leaders. In Islam, the act of abusive of power and any kind of transgression towards other people and followers are against to the Shariah injunctions. Islam promotes fair and justice in any endeavour, and leadership is an instrument for the realization of ideal economic and society (Ali, 2009). As what being stated in Quran: “*When ye judge between people that ye judge with justice*” (An-Nisa’:58), and this Quran verse is clearly calls for good leadership values and leaders.

A company's leader or widely-known as a CEO is a person who directly involves in leading and managing operational-related activities. Being a leader in an Islamic business organization or a Shariah-compliant company (SCC), the roles of company's CEO calls for challenging tasks and credibility to reflect the image of that company with Islamic status. Phipps (2012) proposed a framework that integrates spiritual element into a leader's strategic decision-making. Spiritual element refers to the presence of Islamic religion in the context of the SCCs. Given Islam is highly emphasizes on the ethical values and divine guidelines to be embraced by a leader, Islam accentuates the concept of brotherhood or 'unifying roles' to be addressed by the presence of a leader. This concept impede a Muslim leader from being in the state of competitive for economic pursuits and concentration of power in a single hand, where these elements ignite the propensity of the leader to compromise other humanity and societal values (Hooy & Ali, 2016). However, from the perspective of stewardship theory views that the concentration of power through role duality deals with no problem or has no anticipation on adverse impacts since the leaders act in the best interests of the shareholders (Donaldson & Davis, 1991).

Given Islam knows better the strength and weaknesses of its human beings, therefore Islam instructs man to be responsible and accountable for everything that underpins as his obligations. By carrying out his duties and responsibilities, implicitly he has fulfilled the rights of wider circles of stakeholders through the explicit growing firm performance. This is because Islam upholds the concept of accountability especially in context of leadership since a leader or CEO must be accountable for their duties and responsibilities to the company and its constituents as well (Ather & Sobhani, 2008). Islam puts the roles and responsibilities as the top priority in order to make human beings responsible for his good and bad deeds in which all his doings will be rewarded and punished, as Allah says:

"...whosoever does good equal to the weight of an atom (or a small ant) shall see it. And whosoever does evil equal to the weight of an atom (or a small ant) shall see it."
(Surah Az-Zilzal: 7-8).

The proponents of organizational outcomes and top leaders' characteristics have described that the association between the CEO's demographic attributes and corporate performance is supported by the upper echelons theory (Hambrick & Mason, 1984; Ting et al., 2015). CEO attributes are linked to the performance (Hooy & Ali, 2016), although some studies may provide paradoxical evidences (Weng & Chen, 2016; Duru et al., 2016). The mixed findings can be attributed by many factors, either internalities or externalities. From the aspect of internalities, it can be associated by the demographic and cognitive factors (Watson et al., 1993; Miliken & Martin, 1996), in which the former factors include gender, race, age and ethnicity whilst the latter factors emphasize on the educational values, knowledge, perception, affection, etc. These factors are indispensable towards the self-development of a CEO of being a leader in such an organization, especially in serving their characteristics and values to the company's context of management, leadership and corporate governance.

Given Malaysia is a multi-racial country, hence the pattern of leadership values served by a CEO may be different according to the variation of a set of beliefs and values embraced by each ethnic (Haniffa & Cooke, 2002). Different to the other two major races counterparts, the Malay race is usually characterized by their inborn Islamic religion and values. Besides, serving their roles to the SCCs are pretty challenging since the CEOs are expected to fulfill dual requirements; economic activities and Shariah principles as well. Being the CEO of the SCCs, the roles seem to reflect their characteristic towards the image that being carried along the company with its Shariah status. Given the CEO is the leader of a company whose functions are within the major component of company's overall operational and financial matters, CEO is tacitly the khalifah of his company as well as his surroundings and this khalifah role is imperative in making ascertain that all company's activities are carried out within the Shariah framework. Since this study provides a limited scope of measurement of firm performance from the context of sole economic measures i.e. ROA, ROE and profitability, the issue of measurement of Shariah principles could be addressed in the future studies. In a narrow context, this study attempts to examine the influence of CEO characteristics (measured by demographic and cognitive factors) towards the performance of the SCCs. Since the study is carried out from the context of the SCCs, the element of Islamic perspective especially on the roles of the CEO is inevitable and pertinent for further deliberations and even for future studies. Therefore, with this distinctive element it is expected that it could provide useful insights and ideas especially to market regulator(s) in the effort to strengthen and improvise the functions of company's CEO and their operationalization towards the overall company's activities.

The remainder of the paper is organised as follows. Section 2 outlines the research design and measurement of variables, sample and sampling procedures. Section 3 presents the analysis of findings and the discussion of the results. Ultimately, Section 4 presents conclusion and limitation of the current study and a way forward for future research.

RESEARCH METHODOLOGY

The research design of this study is quantitative in nature, and is carried out in order to achieve the objectives of the study. Given the population of the study is the Shariah-compliant companies with a total of 627 for a single year of 2014, the sampling procedures is undertaken by using simple random sampling method to come up with a sample size of 241 companies (Sekaran & Bougie, 2010) across different industries. However, the original sample size has been reduced to 224 companies after considering some circumstances that require to rule out certain companies, for instance due to unavailability of the company's annual report for that particular year and companies which under finance sector which are subject to abide by different regulations background.

Pertaining to data acquisition, since the current study is quantitatively carried out, hence it requires for the utilization of the quantitative content analysis. The information relating to the company's CEO attributes; proxied by CEO duality, CEO ethnicity (Muslim and non-Muslims) and CEO gender (male vs female) and the accounting figures that reflect to the measurements of corporate performance (measured by return on equity (ROE), return on assets (ROA) and profitability) are gathered from the most available and easily accessible document; corporate annual report. The conceptual framework of the study is constituted by the CEO characteristics which are regarded as the independent variables, whilst the performance measurements act as the dependent variables. All the data have been analysed in both descriptive and inferential statistics by using the SPSS to accomplish the objectives of the study.

DISCUSSION OF RESULTS

Results Of Descriptive Statistics

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean
Return on assets	-0.554	0.474	0.0446
Return on equity	-0.366	0.883	0.0480
Profitability	-1.223 billion	3.964 billion	113.5 million
CEO Duality	Duality 14.3%	Separate position 85.7%	
CEO Ethnicity	Muslim 24.6%	Non-muslim 75.4%	
CEO Gender	Female 2.2%	Male 97.8%	

Table 1 above depicts the results of descriptive statistics pertaining to the CEO attributes and corporate performance of the SCCs ($n=224$). On average, the performance of the SCCs in year 2014 which is measured by ROA, ROE and profitability is relatively mediocre. Majority of the SCCs' CEO are held in different position which helps to prevent the concentration of power by the single hand (85.7%). This is consistent to the requirement of Islamic religion to stay away from abuse of power by an individual person to satisfy one's self-interest. Although the SCCs are those business organizations that have successful comply with and fulfill the SC's screening norms, however two-third of the SCCs are under the reign of non-Muslim CEOs (75.4%). Based on CEO gender, this is what expected as most of the SCCs (97.8%) are dominated by the male CEOs.

Table 2: Test of Correlation (Spearman-Rho)

	ROA	ROE	Profitability
CEO Duality	0.533 (-0.042)	0.741 (-0.022)	0.991 (0.001)
CEO Ethnicity	0.238 (-0.079)	0.897 (-0.009)	0.046 (0.134)*
CEO Gender	0.066 (0.123)	0.037 (0.140)*	0.881 (0.010)
CEO Experience	0.490(0.046)	0.264 (0.075)	0.071 (0.121)
CEO Tenure	0.046 (0.133)*	0.225 (0.081)	0.655 (0.030)

*Correlation is significant at .05 level (2-tailed).

Table 2 above shows the relationship between the CEO characteristics and the corporate performance of the SCCs via the correlation test. CEO duality fails to indicate the significant association with all three performance measurements, which inconsistent to Duru et.al. (2016) which find negative relationship with the firm performance. Meanwhile, both CEO ethnicity and CEO gender have significant relationship with, at least, one corporate performance measure ($p=0.087$; $p=0.037$). The former CEO proxy (CEO ethnicity) is associated with profitability in a positive direction ($p=0.046$) which prevailed by the non-Muslim CEO and this finding is consistent with Hooy and Ali (2016), whilst the CEO gender is associated with the firm performance under the reign of male CEOs. Meanwhile, the CEO tenure has positive association only with the firm performance measured by ROA ($p=0.046$). This means that given the long-term tenure of the CEOs, they are well-versed with the operational matters and able to generate earnings from the company's assets. However, those CEOs with vast experiences are not associated with significant firm performance.

CONCLUSION

Religion plays a vital role in shaping the way an organization being managed and led by a leader or CEO. Operational matters are not the only matter that lying on the shoulders of the CEO, but it calls for greater responsibilities to boost economic performance as well as to uphold the Shariah principles. Those companies with the concentration of power in the single hand of the CEO and CEO with vast experiences are unable to provide guarantee the positive economic performances. However, those companies with male CEO, non-Muslim CEO and have long-term tenure within a company at least have experienced positive performance measurement. These findings are partially supported by each upper-echelons theory and accountability theory. It is important to note that the appointment of a CEO is endogenously determined and there will be many factors that would influence towards the capabilities of CEO in generating positive economic outlook. These factors could contribute as ways forward for future studies and by incorporating religious element in the leadership values would fill loopholes in this breadth of study.

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