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The Older, the Wiser? Investigating the Effect of CEO Age on the Bank Performance in Malaysia

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Abstract: This paper aims to investigate the impact of CEO age on commercial bank performance in Malaysia. Our sample data consists of 84 observations from commercial banks in Malaysia from 2016 to 2021. Using the Quantile Regression Method, we find that the CEO's Age positively influences the commercial bank's performance. This finding indicates the wisdom of the CEO in making decisions when they are getting older, positively affecting the commercial bank's performance. The result is consistent with the resource-based view; the CEO is the invaluable human capital providing experience in managing the bank's performance. Our findings guide practitioners in hiring a qualified CEO.

Keywords: *CEO Age, CEO education, Commercial Bank performance, Malaysia, Quantile regression*.

1. Introduction

Hiring the wrong Chief Executive Officer (CEO) affects not just the financial performance but the entire business (Anania, 2020). In other words, a qualified CEO is crucial for the firm's survival because it affects the team culture and productivity of the firm. The literature shows the investigation of CEO effectiveness is centred around non-financial firms. Financial firms were typically filtered out of the analysis due to different reporting requirements than non-financial firms. This causes difficulties in drawing inferences regarding the impact of CEO fixed effects (i.e., CEO effectiveness) on the banking industry. Therefore, this study aims to investigate the effectiveness of the CEO (proxied by CEO experience measured by CEO age) on commercial bank performance in Malaysia. Research examining CEO age and bank performance relationships in Malaysia is necessary. The Development of Financial Institutions Act 2002 (Act 618) states that financial institutions should be managed by a "fit and proper" CEO in terms of educational qualifications and experience to strengthen the bank's performance. However, the Act did not specify the types of educational qualifications and experience that a CEO should possess. The mandatory retirement age for workers in Malaysia is 60; however, a recent news report says that commercial bank staff are eligible to retire after 61 (Parkaran, 2023).

The news indirectly implies the worthiness of the older worker, implying that the more senior worker has value in contributing their expertise and experience to the workplace. The ambiguity of the Act and the decision to lengthen the commercial bank staff motivate us to investigate further the influence of CEO age on commercial bank performance in Malaysia. The CEO's age might contribute to two different effects on the commercial bank's performance. First, it is argued that older CEOs could significantly improve their performance if they use the experience gained through their accumulated experience and knowledge as they age to manage the firm operations (Cline & Yore, 2016; Peni, 2014; Shan et al., 2019). Second, older CEOs might harm the bank's performance if they turn out to be conservative and risk-averse when dealing with the complexity of the commercial bank environment (Belenzon et al., 2019; Bertrand & Schoar, 2003; Serfling, 2014) as prior studies focused on examining observable factors, such as bank-specifics, macroeconomic factors, and corporate governance. As determinants of commercial bank performance (Khanifah et al., 2020; Nainggolan et al., 2022; San & Heng, 2013; Sufian et al., 2016). It is difficult for us to quantify the direct impact of unobservable factors such as managerial fixed effects (i.e., CEO age) on the commercial bank's performance.

Recently, Gupta & Mahakud (2020) and Pham (2023) have emphasized the importance of CEO characteristics as determinants of commercial bank performance in India and Vietnam, respectively. This empirical evidence convinces us that an investigation on the CEO age in explaining commercial bank performance in Malaysia would produce meaningful findings for the literature. The novel contribution of our study is to highlight the effect of CEO age at different quantiles of the conditional distribution (outside the mean of the data) of commercial bank performance in Malaysia. The use of QRM made the estimators more robust in providing

comprehensive inferences about the relationship between CEO age and commercial bank performance. Unlike previous studies such as Khanifah et al. (2020), Nainggolan et al. (2022), San & Heng (2013) and Sufian et al. (2016), which observed Malaysian banking performance based on bank-specific, macroeconomic and corporate governance factors, we are the first to examine the impact of the managerial fixed effect on commercial bank performance in Malaysia, at least to the best our knowledge. The inclusion of CEO age added an empirical contribution to the positive impact of the older CEO that is supported by the resource dependency theory. Furthermore, this research is more likely to assist the policymaker in designing a proper and suitable policy for hiring older workers. As Malaysia is experiencing a greater percentage of an ageing population in the future (Bernama, 2022), we showed the worthiness of hiring older workers at the workplace, which signifies that an ageing population is not a bad indicator of commercial bank performance, and hence promotes economic growth.

2. Literature Review

According to resource dependency theory, the firm's internal environment, such as its resources and capabilities, is invaluable capital for achieving the firm's objectives (Pfeffer & Salancik, 1978). In other words, the CEO is a strategic resource for the firm to gain a competitive advantage. The CEO's Age is the length of time since the CEO was born. The Age represents the top management's accumulated experience, knowledge, and quality (Cline & Yore, 2016; Peni, 2014; Shan et al., 2019). Taylor (1978) posits that older managers have a better capacity to process information into good decisions than younger managers. More senior managers are argued to have a competitive edge compared to younger managers due to their greater work experience and concentration on the firm's long-term goals (Peni, 2014). Other arguments suggest that younger CEOs are conservative in adopting riskier investment policies because they will be punished more severely for poor performance (Serfling, 2014). D'Ewart (2015) empirically showed that older CEOs aged between 50 to 60 made significant contributions to the firms' abnormal returns. Similarly, Serfling (2014) exhibited that older CEOs positively influence risk-adjusted returns and reduce the volatility of stock returns compared to younger CEOs.

Li et al. (2020), who conducted a study based on China firms, discovered that CEO age positively correlates with the firm's growth and CSR activities. Pham (2023) relates the CEO's Age with their working time, in which longer working time helps the older CEO establish a reliable and efficient working group that leads to better performance. The Upper Echelons Theory, on the other hand, suggests that the firm's performance is a reflection of its top executives (Hambrick & Mason, 1984). The theory posits that older executives have conservative behaviour due to a lower ability to integrate information, psychological commitment to the status quo, and risk aversion towards financial and career insecurity. Bertrand & Schoar (2003) infer that older CEOs merely focus on projects that produce earlier results and are risk averse, negatively impacting the firm's performance. In other words, younger CEOs are more aggressive and tend to take more significant risks to signal superior ability (Serfling, 2014). According to Cline and Yore (2016), the CEO's quantitative competence, multitasking skills, and risk perception decline as he or she matures, destroying the firm's worth. By using closely held firms in three Western countries, Belenzon et al. (2019) found that the firms managed by older CEOs were associated with lower investment, lower sales growth, and lower profitability.

Similarly, Han (2023) reported that young companies with young CEOs experience higher increases in assets and sales, spend more on capital expenditure, and engage in more R&D activities than similar companies with older CEOs. Setiawan & Gestanti (2022) and Shan et al. (2019) showed that CEO age has a negative impact on the firm's financial policy. Based on theories and past empirical findings, CEO age can be viewed from two perspectives. It seems that having older CEOs could bring pros and cons to the company, depending on how we perceive the older CEOs' value. Suppose the older CEOs used their accumulated working experience to help achieve firms' goals. In that case, the firms' performance is expected to be superior to those led by the younger CEOs. However, the older CEOs may not act in the firms' interest due to their risk-averse behaviour toward making riskier decisions. Although the fear of taking risky activities may conquer older CEOs, we believe that their working experience may surpass their fear, which helps make accurate decisions and improves the firm performance. Hence, we hypothesized that:
H1: The older CEO positively impacts the bank's performance in Malaysia.

3. Methodology

Sample: The study aims to investigate the relationship between CEO age and banks' performance for all commercial banks in Malaysia from 2016 to 2021. We obtained all the financial data from Thomson Reuters and manually collected the CEO characteristics data from the bank's annual financial statements. To mitigate the potential estimation bias, we construct a balanced panel by ensuring the data for all banks are available for consecutive years. Any missing data were supplemented using the available data from the financial statements and the banks' websites. After removing the banks without the data, we obtained 14 commercial banks that yielded 84 observations.

Estimation Model: The research model is built from relevant theories and empirical studies of Gupta & Mahakud, (2020), Liu & Jiang (2020), Nguyen et al. (2018) and Pham (2023):

$$\text{Bankperf} = \beta_1 \text{CEO Age} + \beta_2 \text{ CEO Education} + \beta_3 \text{Bank Size} + \beta_4 \text{ Bank Age} + \beta_5 \text{Bank Capital} + \beta_5 \text{Deposit Growth} + \lambda.\text{year} + \varepsilon \quad \text{(Equation 1)}$$

Where,
Bankperf = Proxy by Return on assets measured by the percentage of net profit divided by total assets (main results) and Return on Equity measured by the percentage of net profit divided by total equity (robustness results)
CEO Age = Natural log of CEO Age-adjusted by year
CEO Education = A dummy variable of 1 for CEO with financial Education and 0 otherwise
Bank Size = Natural log of total assets
Bank Age = The Age of the bank since establishment adjusted by year
Bank Capital = A ratio of total equity divided by total assets
Deposit Growth = percentage of growth in deposits

In our study, Bank Performance (bankperf) is the dependent variable and the CEO's age is the independent variable. Following the previous studies, we included a set of control variables such as CEO education, bank size, bank age, bank capital and deposit growth.

Estimation Method: We first employed the Ordinary Least Square (OLS) method to run the analysis to estimate equation 1. However, OLS can only capture the average conditional effects of all the explanatory variables. In other words, this technique cannot capture all the information between CEO age and commercial bank performance. As the CEO characteristics are heterogeneous, we used the Quantile Regression method (QRM) to estimate the CEO's Age's impact at different quantiles of the conditional distribution of the banks' performance. The QRM is also argued to be more robust in the presence of outliers. Hence, using QRM can provide a more comprehensive estimation of the relationship between the CEO's Age and the banks' performance.

4. Results and Discussion

Table 1 summarises the features of the descriptive statistics of all variables for the entire samples used in our study. The data show that the average CEO age is 3.9785 (I.e., 53.44 years), which indicates that the commercial banks in Malaysia are managed by CEOs aged 53 years old, which is still within the mandatory retirement age of the bank staff in Malaysia.

Table 1: Descriptive Statistics

	Mean	SD	Q25	Q50	Q75	Skewness	Kurtosis
Return on Assets	0.0099	0.0057	0.0077	0.0099	0.0117	-1.5328	13.5628
Return on Equity	0.0905	0.0509	0.0745	0.0997	0.1170	-0.0026	19.9976
CEO Age	3.9785	0.1213	3.9120	3.9512	4.0163	1.6484	6.1364
CEO Education	0.7142	0.4544	0.0000	1.0000	1.0000	-0.9486	1.9000
Bank Size	17.9721	1.8741	16.0585	18.3551	19.3381	-0.5608	1.9827
Bank Age	3.5873	0.4288	3.2189	3.5694	3.9512	0.2431	2.1227
Bank Capital	0.1200	0.0465	0.0945	0.1036	0.1241	2.0483	6.7719
Deposit Growth	0.2091	0.0717	-0.0025	0.0390	0.0675	-0.1587	4.2647

Table 2 shows the correlation result between the independent variables. Based on the correlation results, we suggest the absence of multicollinearity issues because the coefficients of the variables were less than 0.8 (Shrestha, 2020).

Table 2: Correlation between the Variables

	CEO Age	CEO Education	Bank Size	Bank Age	Bank Capital	Deposit Growth
CEO Age	1					
CEO Education	0.0589	1				
Bank Size	0.2139	0.1696	1			
Bank Age	0.1414	0.073	0.7905*	1		
Bank Capital	-0.0807	-0.2642*	-0.6684*	-0.3843*	1	
Deposit Growth	-0.0417	0.0925	0.1135	0.0972	-0.1859	1

Table 3 reports the regression results for the CEO age and commercial bank performance based on the OLS and QRM estimations. Based on the OLS result (main result), CEO age has a positive and significant relationship with commercial bank performance. The coefficient of 0.0135 indicated that by increasing CEO age by 1, the banks' profitability improved by 1.014%[1]. At the same time, the QRM results (main result) show similar signs of the impact of CEO age on commercial bank performance. The CEO age has a greater impact when the bank valuation is at the 25th percentile, meanwhile a smaller impact when the bank valuation is at the 75th percentile. Taken together, it seems that older CEOs tend to have a better ability to manage commercial banks in Malaysia than younger CEOs. This could be because the more senior CEO has more experience and knowledge in dealing with the banking industry's complex environment, resulting in better informed strategic decisions and, hence, improved commercial bank performance. Another reason could be that the older CEO has the skill of maintaining social relationships with his/her working team, which is likely to motivate.

Ensure the engagement and commitment of the team members in working towards the bank's goal. Our results are supported by the resource dependency theory, which suggests the CEO is an important human capital that brings tacit knowledge to the banks' strategic action; and, therefore, the performance. The findings are consistent with previous studies such as D'Ewart (2015), Li et al. (2020) and Pham (2023). However, our results are not in line with Bertrand & Schoar (2003), Cline & Yore (2016) and Setiawan & Gestanti (2022), that exhibit the inhibitory deficit behaviour of the older CEO, which destroys the firms' value. The robustness results report similar findings. Since our findings are consistent with our prediction, we accepted H1. Regarding the control variables, the educated CEO has better knowledge of managing

[1] In order to calculate the value of profitability, we compute the exponential of the coefficient of log CEO age in excel [exp(0.0135)] and we obtained a value of 1.104, in which indicates an increase of 1 of the CEO age, the firm performance improved by 1.014%.

commercial banks in Malaysia (main and robustness results). The older bank has more significant implications for the bank's performance. On average, the larger bank did not seem to contribute to strengthening the bank's performance. The banks with greater amounts of capital result in lower performance. Our study finds an insignificant relationship between deposit growth and commercial bank performance.

Table 3: Regression Results for the Relationship Between CEO Age and Banks' Performance

	Return on Assets (Main Results)				Return on Equity (Robustness results)			
	OLS	**QRM**			**OLS**	**QRM**		
		25%	**50%**	**75%**		**25%**	**50%**	**75%**
CEO Age	0.0135[a]	0.0108a	0.0088[a]	0.0093[a]	0.0937[b]	0.0798[a]	0.0818[b]	0.0758[a]
	(2.83)	(4.44)	(3.88)	(5.27)	(2.28)	(2.76)	(2.00)	(3.02)
CEO Education	0.0016	0.0014	0.0022[a]	0.0024[a]	0.0064	0.0132	0.0159	0.0141[b]
	(1.24)	(1.60)	(3.57)	(4.13)	(0.59)	(1.62)	(1.42)	(2.53)
Bank Size	-0.0027[a]	-0.0007	-0.0011[a]	-0.0018[a]	-0.0173[a]	-0.0055	-0.0074	-0.0178[a]
	(-4.27)	(-1.74)	(-3.62)	(-6.62)	(-3.13)	(-1.29)	(-1.32)	(-6.28)
Bank Age	0.0079[a]	0.0029	0.0042	0.0038[a]	0.0602[a]	0.0272	0.0267	0.0336[a]
	(3.54)	(1.83)	(3.64)	(5.63)	(3.12)	(1.65)	(1.33)	(4.22)
Bank Capital	-0.0300	-0.0209	-0.0134	0.0261[a]	-0.5386[a]	-0.5237[a]	-0.0467[a]	-0.6699[a]
	(-1.73)	(-1.55)	(-1.64)	(3.99)	(-3.61)	(-5.32)	(-3.08)	(-7.97)
Deposit Growth	0.0033	-0.0010	0.0017	0.0061	-0.0504	-0.0152	-0.0405	-0.0279
	(0.41)	(-0.17)	(0.42)	(1.65)	(-0.73)	(-0.44)	(-0.56)	(-0.82)
R^2	0.3395				0.3845			
Pseudo R^2		0.2941	0.2388	0.2999		0.4144	0.3306	0.3492

Notes: OLS is the Ordinary Least Square. QRM is the Quantile Regression Method. [A] & [b] denote the significance level of 1% and 5%, respectively.

5. Conclusion

The study of CEO age and commercial bank performance in Malaysia from 2016 to 2021 suggests that older CEOs have more wisdom, which strengthens commercial bank performance in Malaysia. The results were supported by the resource dependency theory on the value of the CEO as the human capital in bringing strategic resources to the banks. Our results suggest that the CEO fixed effect (i.e., CEO age) should be included when investigating the commercial bank performance. The results are robust across different estimation methods and dependent variables. The significance of our study is that we showed the importance of unobservable factor(s), such as CEO age, as the determinant of commercial bank performance in Malaysia. Overlooking the unobservable factors might lead future studies to miss essential variables to explain commercial bank performance.

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