

THE INFLUENCE OF EXECUTIVES' CHARACTERISTICS ON BANK PERFORMANCE: THE CASE OF EMERGING MARKET

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Abstract

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This research is expected to provide information for the benefits of Bank SulutGo and also the Government of North Sulawesi in forming the composition of the board of directors and board of commissioner and all bank officials in SulutGo Bank. The population and samples are SulutGo Bank officials consisting of boards of commissioners, boards of directors, division leaders and branch leaders of all the Banks of SulutGo. They consist of 4 Commissioners, 5 Directors, 2 Heads of Department, 19 Heads and Divisional Representatives, plus 94 head offices (head office, branch offices and sub-branch offices) scattered throughout the provinces of North Sulawesi, Gorontalo, DKI Jakarta and East Java. In measuring the performance of BPD, Capital Adequacy Ratio (CAR), Return on Assets (ROA) and Return on Equity (ROE) are employed. The results show age, education level, work period and gender has a positive relationship with CAR, but there is no relationship with ROA, ROE and Total Assets. The same with the F-test, simultaneously age, education level, work period and gender has a positive relationship with CAR but there is no relationship with ROA, ROE and Total Assets.

Keywords: Executives Characteristics, Bank Performance, Bank SulutGo

1. INTRODUCTION

As the largest archipelagic country in the world, Indonesia ranked the 15th with its total population of more than 237 million people, which is the 4th largest in the world (BPS 2010). With this large population, Indonesia has more than one hundred tribes and local languages, and a number of diverse religions. In addition, with its large populations and rich natural resources, Indonesia certainly is a demanded place where many companies in various sectors, as well as a large number of foreign companies, have been invested.

There have been many issues related to business in Indonesia, which are interesting to be examined. Those issues include Top Management Team (TMT) related topics covering other sub-topics, such as TMT relationships with the owner and with the government. The issue also touches upon the military involvement as well as the composition of

TMT itself with regard to age, gender, background, education and others.

It is interesting to examine Management Science in Indonesia, as many problems in that field have no scientific answers so far, particularly with regard to the top management team topics in Indonesia. In international business magazines, such as Forbes, Economist, Fortune and also national business magazines, such as Business Review, Bisnis Indonesia, Fortune Indonesia, and others, there is always an interesting issue about top management team, whether it is a team or an individual like a CEO, CFO, and so on.

Nonetheless, there have been a little number of scientific publications in international journals or accredited journals that discuss about Top Management Team in Indonesia; whereas in the field of strategic management or human resources, this topic has been an important issue among academics all over the world, since the publication of paper on

upper echelons theory by Hambrick and Mason in 1984. There is even an updated theory made by Hambrick in 2007 based on research by Finkelstein and Hambrick (1996). They noted that more than two hundred studies on upper echelons theory published in various top journals in the world between 1984 and 1996. In fact, this topic is most frequently studied in the United States and Europe. It has been 28 years since the first publication in 1984 by Hambrick and Mason, yet in Indonesia, only a few are examining this. Such a topic has indeed been presented in some publications written by various Indonesian researchers, but not in the top international scientific journals though.

The authors, therefore, intend to scrutinize this topic by raising a question of whether the diversity in the Top Management Team affects the corporate performance, especially in banking companies and more specifically in Regional Development Banks (Bank Pembangunan Daerah/BPD) throughout Indonesia. So far Indonesia has adhered to a two-tier system, which separates the board of directors (from herein is called the top management team) which has a role in implementing or managing the company on the one side and board of commissioners who plays a role in overseeing the board of directors in managing the company on the other side. Tulung and Ramdani in 2018 state board independence and board size has a positive relationship between with BPD performance.

Indonesia has several types of companies including private companies and also state-owned companies (or State-Owned Enterprises/SOEs). Both types of companies have a fundamental difference in appointing board members of commissioners and that of directors in which private companies tend to appoint the company owner's family members while at the same time hiring some professionals and employees who have high career achievement and are allowed to be included in the Top Management Team. As with the SOEs, the appointment of the board of commissioners and board of directors is strongly influenced by the incumbent government, which in this case is represented by the minister of SOEs. Hence, the SOE minister can, therefore, appoint any professionals from outside the company or career officials from within the company itself.

Why do we choose BPD as the focus of the study? It is because once again the research in Indonesia, especially in the banking world, very rarely raises the existing problems in the BPD, but mostly private banks and state-owned banks. If there is any research on BPD, usually BPD in one province only not Regional Development Banks (BPDs) across Indonesia. The appointment of a top management team in BPD is an interesting issue because it deals with politics. It is no longer a secret that to get access to a BPD's Top Management Team, one should have a close relation with the local government, i.e., the provincial government which is the largest shareholder of BPD in every province. However, there may be some BPDs that employ professionals to improve their performance, albeit very rare. The number of BPD itself amounted to 26 throughout Indonesia and existed in 26 provinces long before the expansion of several provinces in Indonesia. The purpose of this research is basically to know how the characteristics of a bank official's composition influence the performance of banks,

particularly Bank SulutGo. The composition includes age, education level, educational background, experience and gender. This research is expected to provide information for the benefits of Bank SulutGo and also the Government of North Sulawesi in forming the composition of the board of directors and board of commissioner and all bank officials in SulutGo Bank. Another benefit generated from this study for SulutGo Bank and the Government of North Sulawesi is how to measure the performance of Board of Commissioner, Board of Directors, Division Leaders and all branch leaders of SulutGo Bank.

2. LITERATURE REVIEW

2.1. Agency theory

The Agency is a relationship between the principal and the agent in which the agent acts on behalf of and for the interest of the principal and for its actions the agency gets a certain reward (Suwardjono, 2005). In running the company's operation, managers who often do not maximize shareholder's wealth are tempted to improve their own well-being. This condition will lead to the emergence of differences in interests between external shareholders and managers. The conflict caused by the separation between ownership and management function in financial theory is called Agency Conflict. With the agency problem caused by the conflict of interest and information asymmetry, the company must bear the agency cost. Agency Cost is a cost incurred as a result of the provision of a mandate given by shareholders to other parties to carry out the management of the company for the sake of the company's survival as well as in the interest of shareholders.

Reduced interest on the calculation of taxable income will reduce the proportion of the tax burden so that the proportion of net income after the tax becomes greater or higher profitability level. The research related to the capital structure by Christianti (2006) found that different interests between outsiders and insiders led to Agency Cost as the managers tend to use high debt not based on the maximization of company value but for their own opportunistic interests.

According Rustendi and Jimmi (2005) defined "insider" as a shareholder, director or officer of the company who has a significant proportion of the company's shares; whereas Wahidahwati (2002) defines "insider" as "management of managerial ownership by stockholder who actively participates in corporate decision making (Directors and Commissioners). Managerial ownership is measured by the percentage of shares owned by managers.

According to Hardiyanti and Mahfud (2011), a measuring tool used for managerial ownership variables (insider ownership) is the percentage of shares owned by Directors and Commissioners. From the above explanation, it can be concluded that managerial ownership is the percentage of shares owned by a company's Managers and Directors.

Jensen and Meckling (1976) have discussed many aspects of agency problems. They found agency problems arise when a manager has fewer shares than the company's total. This partial ownership may result in managers' lack of work

enthusiasm and even more, they require more rewards in the form of luxurious offices and equipment, service vehicles instead of having to bear all the costs for it (Rustendi & Jimmi, 2008).

2.2. Age

Tulung and Ramdani in 2016 found that diversity of age in TMT characteristics has a positive relation with BPD performance. At the demographic level, Team Diversity refers to variables, such as the age used to measure team differences. This diversity indicator is used to measure deeper differences in terms of cognitive, information and value, because a young manager may have different information, experience and perspective compared with senior managers in making a company's decision to strategic issues. Pegels and Yang (2000, p. 697) suggest that older managers tend to avoid risk (Vroom & Pahl, 1971), whereas young managers tend to pursue something riskier, and innovative growth strategies.

2.3. Level and education background

Bantel and Jackson (1989) found Top Management Teams with higher levels of education have more innovations. The educational background of each top management team members is influential to their knowledge. Although it is not a must for someone who will enter the business world to have a business education background, it would be better if the team members have a business and economic knowledge. By having business knowledge, at least team members have a better ability to manage the business and make business decisions than lacking appropriate business knowledge. Ultimately it will be affect the company's value. Meanwhile, Dahlin et al. (2005) found that educational diversity in TMT affects the range and depth of positive use of information; while this may adversely affect the integration of information.

2.4. Gender

Carter et al. (2003) found that firms with two or more women in board members have higher corporate values than firms with fewer women in board members of less than two. meanwhile Glunk et al. (2001), found that gender distribution differs greatly among countries, for instance, female executives are clearly not too numerous in the UK, Denmark, and the Netherlands. The proportion of women in important positions is still small, as men's ability is considered higher than women. But on the other hand, women tend to have a very high cautious attitude, to avoid risks, and to be more thoroughly than men. This makes women not hasty in making decisions. Therefore, female directors as members of the board are considered able to make more informed decisions and lower risks.

3. METHODOLOGY

3.1. Research framework

In this study, we use a deductive research method as a methodological approach. A deductive study requires prior conceptual development and

structural theory and is tested through empirical observation (Gill and Johnson 2002). The population and samples are SulutGo Bank officials consisting of boards of commissioners, boards of directors, division leaders and branch leaders of all the Banks of SulutGo. They consist of 4 Commissioners, 5 Directors, 2 Heads of Department, 19 Heads and Divisional Representatives, plus 94 head offices (head office, branch offices and sub-branch offices) scattered throughout the provinces of North Sulawesi, Gorontalo, DKI Jakarta and East Java. In measuring the performance of BPD, Capital Adequacy Ratio (CAR), Return on Assets (ROA) and Return on Equity (ROE) are employed.

In this study, each hypothesis analyzes the influence of official composition at Bank SulutGo (Independent Variable) on the company performance (Dependent Variable). A direct hypothesis is conducted to measure the relationship between the composition of officials of Bank SulutGo and the value of CAR, ROA and ROE from Bank SulutGo.

3.2. Variable definition and operations

Variables used in this study are divided into two independent variables and dependent variables. The independent variable is characteristics of Bank SulutGo officials consisting of age diversity, gender diversity, education level, educational background, certification level, and experience, while the dependent variable is the company's financial performance consisting of CAR, ROA and ROE.

3.2.1. Dependent variable

3.2.1.1. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio is a capital ratio that shows the ability of banks to provide funds for development purposes and also risks that can be used in bank operations. The higher the CAR, the better the bank's ability to bear the risk of each productive asset. If the CAR value is high, the bank is able to finance operational activities and contribute significantly to profitability. Capital Adequacy Ratio (CAR) was selected in this study to measure the performance of Bank SulutGo

3.2.1.2. ROA (Return on Asset) Ratio

According to Husnan (2001), profitability is a company's ability to generate profits (profit) at the level of sales, assets, and capital stock. Meanwhile, profitability can also define as the ability of companies in obtaining profit (Saidi, 2004). The investors' objective in investing shares in the company is to get a return. The higher the company's ability to earn a profit, the greater the expected return of investors, this makes the value of the company better.

Previous researches mostly focus on measuring company performance by calculating Return on Assets (ROA) and Return on Equity (ROE) (Habelian & Finkelstein, 1993; Michel & Hambrick, 1992). ROA is chosen because it shows the ability of banking performance while also measuring the effectiveness of the company in generating revenue from asset management. The greater the ROA shows the better the performance of the bank because of the greater

returns, thus resulting in the growth of the company's assets (Dendawijaya, 2001, p. 120).

Sutrisno (2009) describes the profitability ratio is the result of the policy made by management. Profitability ratio aims to measure how much profit level that can be obtained by the company. The greater the level of profit indicates the better management of the company. This profitability ratio can be measured using Return on Assets (ROA). According to Hanafi (2016), Return on Asset ratio (ROA) is a measure of the company's ability to generate profits by using the total assets (property) owned by the company after adjusting the costs to mark the asset.

3.2.1.3. ROE (Return on Equity) ratio

ROE is an important measurement for prospective investors because it can find out how efficiently a company using their money to invest for generate net income. ROE can be used as an indicator to assess management effectiveness in using equity financing to fund operations and grow the company. ROE is chosen because it is the ratio of earnings to equity (Bodie et al., 2002). In other words, when ROE of a company is high then the company profit is also high; and this will have a positive effect on the stock price. ROE has often been used to measure the company's financial performance (Certo et al., 2006).

3.2.2. Variable independent (unit of analysis)

The unit of analysis in this research is a board of commissioner and directors of Bank SulutGo and its head of the department, division heads, and head of branch offices, sub-branches throughout North Sulawesi and Gorontalo and some in DKI Jakarta and East Java.

4. RESULT

4.1. Description of research objects

4.1.1. Regional Development Bank of Indonesia

Regional Development Bank (BPD) is a commercial bank whose share ownership is owned by Provincial Government in various regions. For example, Bank Jatim, its share ownership belongs to East Java Provincial Government. There are also Regional Development Banks whose shares are owned by two

provinces, namely Bank BJB whose shares are owned by the Provincial Government of West Java and Banten Province.

Generally, banks in Indonesia are categorized into two types: Commercial Banks and Rural Banks. The Regional Development Bank is not a single category or type of bank, but it is classified as a Commercial Bank. It is referred to as the Regional Development Bank because it is intended as a partner of the Provincial Government to support the Provincial Government development program that requires financial services and banking.

Like other commercial banks, the Regional Development Bank has various products and services for various segments of society and the business world. The Products of Third Party Funds consist of Savings, Current Accounts and Time Deposits. Credit and financing products vary, ranging from consumer segments such as unsecured loans and housing, as well as productive segments, such as venture capital and investment. In general, the products and services of the Regional Development Bank are not inferior to other commercial banks.

Also from the information technology, the Regional Development Bank is no less left behind. Many Regional Development Banks already have banking products based on information technology, such as mobile banking and internet banking. There are also Regional Development Banks that have smartcard products that serve as electronic money. One Regional Development Bank already has a Cash Management System service. Some other Regional Development Banks have issued credit cards although it is still limited to co-branding with banks that have issued credit cards. This implies that the Regional Development Bank has started and will continue to make the maximum effort in the pursuit of innovation of products and services.

4.2. Results of research

As shown in Table 1, CAR of SulutGo Bank has increased significantly from 10.60% in 2010 to 18.76% in 2012 but continues to decline by 13.79% in 2015 and again rose to 17.11% in 2016. While ROA of SulutGo Bank in the last six years shows the up and down, in 2016 it was at 2%, for the ROE ratios trend is almost the same as ROA that is up and down from 2010 to 2016 from 32.46% to 21.02%. For the total assets of SulutGo Bank, from 2010 it has been always increasing from year to year.

Table 1. Financial performance of bank SulutGo (2010–2016)

Variable	2010	2011	2012	2013	2014	2015	2016
CAR	10.60	12.71	18.76	17.27	14.26	13.79	17.11
ROA	3.04	2.01	3	3.48	2.16	1.56	2.00
ROE	32.46	23.02	39.86	36.92	23.16	20.10	21.02
Total Asset	4,323,410	5,298,034	6,548,586	7,805,462	10,726,425	10,736,801	10,736,801

Table 2 shows the results of descriptive statistics of the officials' characteristics of Bank SulutGo. Out of 195 officials, the youngest is 36 years old while the oldest is 71 years old with a mean of 51.07 which means most or the average of officials at Bank SulutGo is 51 years old. For the education level, 1 = SMA, 2 = Bachelor Degree, 3 = Master and 4 = Doctor, with mean 2.17 shows

the average level of education in Bank SulutGo is a graduate, with the lowest level of education is high school graduates and highest doctoral degree. For gender of 195 officials in Bank SulutGo showed a mean of 0.29 which means close to 0 which means that men dominate the number of officials in Bank SulutGo.

Table 2. Descriptive statistics

Variables	N	Maximum	Minimum	Mean	Std. Deviation
Age	195	36	71	51.07	5.817
Education Level	195	1	4	2.17	.595
Work period in BSG	195	1	35	22.90	8.725
Gender	195	0	1	.29	.458
Valid N	195				

Table 3 shows the frequency of Bank SulutGo officials from each of the variables used in this study, for the frequency of position variables consisting of 26 (13%) board of commissioners, 29 (15%) directors, 90 (46%) division leaders and 50 (26%) branch leaders with the most number of

division leaders and the least amount is the board of commissioners. The age variables were age group 35-45 = 20 (10%), age group 46-55 = 144 (74%), age group 56-60 = 17 (9%) and age group above 61 = 14 (7%).

Table 3. The frequency of bank SulutGo officials

Position	Variables			
	Commissioner	Directors	Head of division	Branch leader
Age	26	29	90	50
Age	35-45	46-55	56-60	61<
	20	144	17	14
Education Level	SMA	S1	S2	S3
	16	132	43	4
Work period in BSG	1-10 year	11-20 year	21-30 year	31-40
	26	12	135	22
Gender	Man		Woman	
	137		58	

For the education level, it consists of SMA=16 (8%), Bachelor (S1) = 132 (68%), Master (S2) = 43 (22%) and Doctor (S3) = 4 (2%) with the most number is the age group of 46-55 and the least of the age group above 61. For the long working variable in the BSG consists of groups of 1-10 years = 26 (13%), groups

of 11-20 years = 12 (6%), 21- 30 years = 135 (69), and 31-40 groups = 22 (11%) with the most number being 21-30 years old and the fewest number is 31-40. For gender variables (gender), it consists of men as much as 137 (70%) and women as much as 58 (30%). Total sample (N) is as much as 195.

Table 4. Regression results

Variables	ROA	ROE	CAR	Total Assets
Age	.467	.130	.037	.726
Education Level	.522	.157	.043	.566
Work period in BSG	.501	.151	.044	.548
Gender	.489	.133	.043	.829
F-Test	.516	.095	.022	.122
Valid N	195			

The results show age, education level, work period and gender has a positive relationship with CAR, that results support the findings from Tulung and Ramdani (2016) but there is no relationship with ROA, ROE and Total Assets. The same with the F-test, simultaneously age, education level, work period and gender has a positive relationship with CAR but there is no relationship with ROA, ROE and Total Assets.

5. CONCLUSION

Regional Development Bank (BPD) as one of the existing banks in the national banking system has a significant role and function in the context of regional economic development because BPD is able to open service network in areas which are economically impossible to be done by private banks. Law No. 13/1962 concerning the principles of the Provincial Development Bank's Regulation states that BPD works to back up regional economic development, drives regional economic development to improve the living standard of community, and provides financing assistance for regional development, raises funds, implements, and stores

the local treasury area) in addition to running banking business activities (Hasan et al., 2010). Meanwhile, as stated in Article 2 of KEPMENDAGRI No. 62/1999 on the guidelines of the organization and working procedures of regional development banks, the BPD was built to develop the economy and drive regional development through the activities of BPD as a Bank. In this research found the age, education level, work period and gender on executives at Bank SulutGo has no relationship with the performance according to ROA, ROE and Total Assets but has a positive relationship if we measure with CAR. The result of gender diversity supports the finding from Al-Amarneh (2017) that the negative impact of the existence of women in the board. This research has different results with the finding from Ghabayen et al. (2016) they found the larger board size and a higher level of the disclosure are correlated. This research also describes the composition of the executive of Bank SulutGo, but this research has a several limitations such as just use one BPD which is Bank SulutGo even though we have 195 sample, in further research is better if we use the data of all BPD in Indonesia for see the picture of this topic in Indonesia BPD. Furthermore

in further research, we want to investigate the research regarding the regulation and bank risk-taking behavior in emerging market to make a connection this research with the finding from Luu (2015). He also found the size of board has negatively related with bank risk level and Cousin (2012) in Chinese Bank Regulation his research was investigated an explanation for the rationale behind the current banking regulatory arrangement in China. Besides the regulation we also can add

ownership structure for make a correlation with board characteristics or corporate governance, to support and fill the gap the research from Al-Faryan and Dockery (2017) which was find for the majority of the ownership structures considered, in favour of the view that firm size, regulation and instability affects ownership structure. The results suggest that the size variable has a positive effect on ownership concentration.

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