

## **Board Chairman Characteristics and Performance of Islamic Banks: Evidence from Islamic Banks in Indonesia and Malaysia**

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### **Abstract**

**Purpose:** The purpose of this study is to explore the impact of chairman characteristics—specifically age, gender, and education level—on the performance of Islamic banks in Indonesia and Malaysia. The motivation for this research stems from the limited and mixed findings in existing literature regarding the role of leadership traits in shaping bank performance, especially in the context of Islamic banking. This research aims to fill the gap by analyzing how these specific characteristics influence the strategic decisions and overall performance of banks in these two countries, which are home to some of the largest Islamic banks globally. The key finding of this study is that while the age of the chairman significantly impacts performance, gender and education level do not show a notable effect.

**Methodology:** The study employed a quantitative research methodology, using panel data from Islamic banks in Indonesia and Malaysia from 2015-2020. A panel data regression model was utilized to assess the influence of chairman characteristics on bank performance based on financial indicators such as return on assets (ROA). Data were collected from publicly available financial reports over a period of several years, and the characteristics of each chairman, such as age, gender, and education level, were analyzed in relation to these performance.

**Findings:** The results of the regression analysis show that the age of the chairman has a significant positive relationship with bank performance. Older chairmen appear to contribute to better decision-making and long-term strategy formulation, which in turn improves the performance of Islamic banks. However, the gender and education level of the chairman were found to have no significant impact on the performance of these banks during the research period. This suggests that experience, reflected in age, plays a more crucial role than gender or educational background in determining bank performance.

**Novelty:** This study provides valuable insights into the role of leadership chairman characteristics in Islamic banks, with a focus on the importance of age as a key predictor of bank performance. By contrasting the effect of age with gender and education, this research contributes to the ongoing debate about leadership in the financial sector. The novelty lies in its focus on the specific context of Islamic banks in Indonesia and Malaysia, offering a regional perspective on how leadership traits influence bank success. Future research could further explore additional leadership traits or examine a larger dataset across different regions to strengthen these findings.

**Keywords:** Chairman Characteristics, Islamic Banks, Performance, Age, Gender, Education, Indonesia, Malaysia

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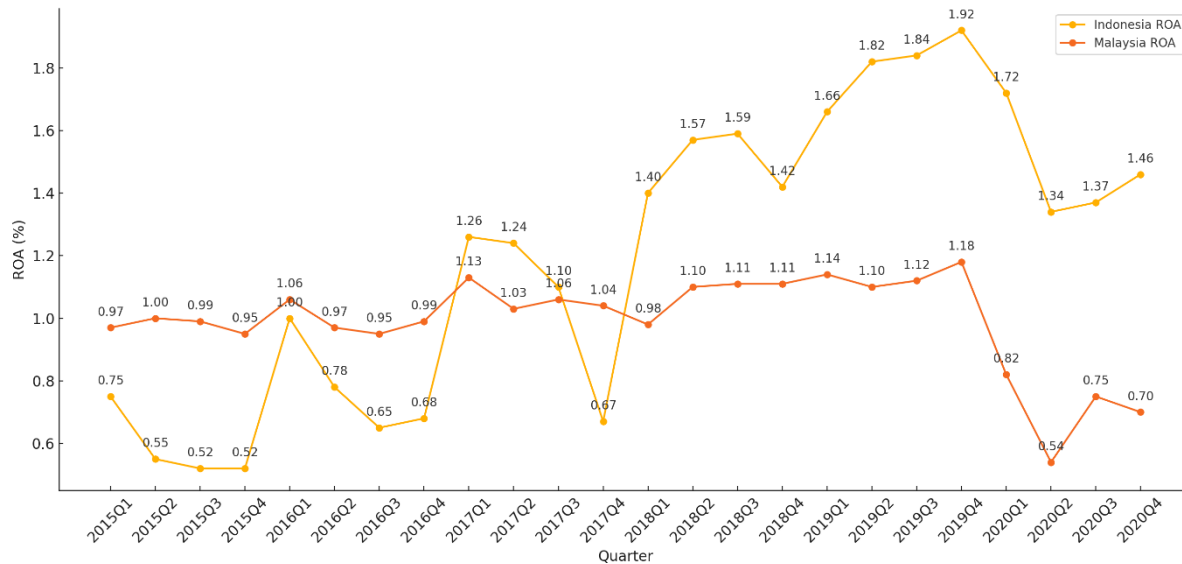
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## Introduction

The Islamic finance industry, which is rapidly growing worldwide, has become the backbone of the economy in various countries, including Indonesia and Malaysia, both of which rank among the top five countries in the world for Islamic finance (OJK, 2021). Data from the Islamic Finance Development Indicator for the year 2022 indicates that Malaysia holds the first position in Islamic financial performance, while Indonesia is ranked third.

**Figure 1. ROA Comparison between Indonesia and Malaysia**



Source: Islamic Financial Services Board, 2022

In Figure 1, the comparison of ROA (Return on Assets) between Indonesia and Malaysia from 2015 to 2020 shows fluctuating trends in both countries, with Indonesia generally recording higher ROA compared to Malaysia, especially since 2017. Indonesia peaked in the fourth quarter of 2019 with an ROA of 1.92%, while Malaysia's highest was in the first quarter of 2019 with an ROA of 1.18%. However, in 2020, both countries experienced a significant decline, with Malaysia experiencing a sharper drop compared to Indonesia.

At the macro level, Indonesia and Malaysia play a crucial role in advancing the Islamic finance industry in Southeast Asia. However, the success of Islamic banks is not solely determined by the regulations and policies implemented by the government or regulatory authorities. The character and management approach adopted by the chairman of the board in carrying out their responsibilities has a significant impact on the performance of the Islamic banks themselves. The chairman of the board serves as a supervisor in overseeing the company's activities conducted by the executives (Fama & Jensen, 1983). Hambrick & Mason (1984) and (Le et al., 2024) argue that the influence of individual characteristics, particularly at the executive level, on decision-making and organizational behavior by executives affects corporate performance. Leblanc (2005) and (Chandren et al., 2021) add that board effectiveness goes hand-in-hand with a strong chairman. The implications of this separation not only affect the chairman's role specifically but also influence the overall performance of the company.

Several studies related to the characteristics of the chairman of the board have been conducted, such as the one by Pasaribu (2015), which highlights the importance of independence, title, tenure, age, and the involvement of the chairman of the board in the context of leadership in the UK. One finding indicates that a non-executive chairman can be more effective in monitoring less competent CEOs, especially in situations where the board is dominated by external parties. Xiong (2016) asserts that in China, factors such as gender, tenure, age, and education of the chairman of the board influence

corporate earnings management. This finding suggests that female, highly educated, and long-tenured chairmen of the board tend to have fewer absolute discretionary policies.

Amran et al. (2014) investigated the impact of gender, age, education level, and professional qualifications of the chairman of the board on Return on Assets (ROA) in Malaysia. The study indicates that the experience of an older chairman and the boldness of a young CEO can enhance corporate performance better than the combination of an older chairman and a young CEO or vice versa. Although the results related to ethnicity are still preliminary, they suggest that important ethnic groups will be appointed as part of the New Economic Policy (NEP) initiatives by the government party. (Al-Absy, 2020), in the Malaysian context, examined the connection between the financial stability of a company and the age, ethnicity, tenure, family membership, and the dual role of the chairman of the board. The results show that a high level of financial stability is associated with the age and tenure of the chairman of the board. However, the findings also indicate that ethnicity, family membership, and the dual role of the chairman with the nomination committee can have detrimental effects on the financial stability of the company.

This study approximates the characteristics of the chairman of the board with the variables of age, education, and gender. Amran et al. (2014) demonstrate that the age of the chairman has a positive influence on company performance. However, another study by Bertrand & Schoar (2003) indicates that senior chairmen tend to have lower capital expenditures and smaller financial leverage. These differences may be reflected in the more conservative strategies adopted by older chairmen to avoid high-risk decisions and potential value loss. Risk awareness and more cautious decision-making become the focus of older chairmen, impacting risk management and corporate control policies (Fernandes et al., 2021; Hertrampf et al., 2024).

The innovation in this research employs the education and gender of the chairman of the board to measure the performance of Islamic banks. The chairman of the board should possess a high level of education. A high educational background, such as postgraduate qualifications, enhances individual human capital (Plian, 1995) or provides higher cognitive abilities, greater decision-making capacity, higher tolerance for ambiguity, and a tendency or openness to innovation. These qualities equip them with effective solutions for complex decision-making tasks (Bantel & Jackson, 1989). Meanwhile, female chairmen of the board are perceived to be capable of enhancing the performance of Islamic banks. Moreno-Gómez et al. (2018) and Tanaka (2019) found that gender diversity in leadership has a positive impact on corporate performance.

This study aims to examine the characteristics of the chairman (age, education, gender) on the performance of Islamic banks in Indonesia and Malaysia. The research also includes testing the results between countries due to differences in the board system. Indonesia adheres to a two-tier board system, while Malaysia adopts a one-tier board system. The findings of this study can contribute to practitioners in the Islamic financial industry, regulators, and researchers in understanding the dynamics that influence the performance of Islamic banks. Through a better understanding of the role of the chairman, it is hoped that recommendations and guidelines will be formulated to advance the Islamic financial industry towards sustainability and in accordance with Sharia values.

### **Literature Review and Hypothesis Development**

The Upper Echelon Theory, initially proposed by Donald Hambrick and Phyllis Mason in 1984, posits that decision-making and organizational behavior can be understood through the lens of individual characteristics, particularly at the executive level. The Upper Echelon Theory provides a relevant framework for understanding the influence of individual characteristics on decision-making and organizational performance (Hambrick, 2007). In the context of evaluating the characteristics of the chairman in Islamic banks, this theory offers insights into how individual variables such as values, educational background, age, gender, and experience can shape organizational decisions and strategies

(Xiong, 2016). Previous research has shown that the characteristics of the board chairman can influence corporate performance. For instance, (Talha & Salim, 2011) studied the characteristics of chairman statements and corporate performance in Malaysian construction companies, demonstrating that these characteristics have a significant impact. Al-Matari (2022) found that the characteristics of the board chairman have a significant effect on corporate performance in Saudi Arabia. Additionally, Al-Sayani et al. (2023) also examined the moderating effect of the audit committee chairman's multiple directorships on the relationship between audit committee characteristics and firm performance.

The age of the chairman of the board has a significant relationship with the performance of Islamic banks. The Upper Echelon theory indicates that with increasing age, an individual can accumulate experience and wisdom that can positively influence decision-making abilities and long-term strategies, ultimately contributing to performance (Al-Matari, 2022). The theory posits that the personal characteristics of top executives, such as age, shape their cognitive bases and values, which in turn influence their strategic choices and organizational outcomes. The age of the chairman of the board can be linked to the level of experience and leadership maturity, providing wisdom and a deep understanding of the dynamics of the financial industry. A chairman of the board with an older age may be more capable of making strategic decisions, potentially enhancing the Return on Assets (ROA) of Islamic banks. Amran et al. (2014) research shows that the age of the chairman has a positive influence on corporate performance.

Hypothesis 1: The age of the chairman of the board has a positive effect on the performance of Islamic banks.

Higher education can bring a broader and more analytical perspective when facing business challenges. Deeper expertise and knowledge can assist the chairman of the board in designing policies and corporate strategies that support optimal financial performance. According to the Upper Echelon Theory, educational background can shape an individual's understanding and knowledge in decision-making and organizational strategy. The theory suggests that executives' educational experiences influence their cognitive styles and problem-solving approaches, which affect their strategic decisions and organizational performance. A chairman of the board with a higher level of education may tend to bring insights and deeper understanding that can support the performance of Islamic banks. The chairman of the board should possess a high level of education. A high educational background, such as postgraduate qualifications, enhances individual human capital (Plian, 1995), providing higher cognitive abilities, greater decision-making capacity, higher tolerance for ambiguity, and a tendency or openness to innovation (Hazzaa et al., 2024). These qualities equip them with effective solutions for complex decision-making tasks (Bertrand & Schoar, 2003).

Hypothesis 2: The education of the chairman of the board has a positive effect on the performance of Islamic banks.

The gender of the chairman of the board is also a crucial consideration, where gender diversity can bring variations in perspectives and ideas that support potential adaptation and innovation (Faccio et al., 2016). The Upper Echelon Theory posits that the demographic characteristics of top executives, including gender, influence their cognitive bases and values, which in turn affect their strategic choices and organizational outcomes. By involving a female chairman of the board, who may bring different perspectives and approaches, company can benefit from diversity in decision-making, which can enhance innovation and organizational performance (Finkelstein & Hambrick, 1996). Gender diversity can lead to a broader range of ideas and solutions, fostering a more innovative and adaptive organizational environment. Studies by (Moreno-Gómez et al., 2018) and (Tanaka, 2019) found that the presence of women on the board can improve corporate performance.

Hypothesis 3: The gender of the chairman of the board has a positive effect on the performance of Islamic banks.

**Research Methodology**

This research aims to investigate the impact of the characteristics of the chairman, including age, education, and gender, on the performance of Islamic banks in Indonesia and Malaysia during the period of 2015-2022. The research method used is longitudinal analysis by collecting financial data of Islamic banks and profiles of the chairman from annual reports and publications of Islamic banks. Independent variables involve the age, education, and gender of the chairman, while the dependent variable is the performance of Islamic banks, measured through financial profitability ratios. Regression analysis and panel regression will be utilized to evaluate the relationship between individual characteristics and the performance of Islamic banks, while comparisons between banks and countries will provide an in-depth understanding of contextual differences. The data analysis will be conducted using Stata 17 software to ensure robust and accurate results. The measurements of each variable can be seen in Table 1.

Table 1. Measurement of Variables

Code	Variable	Measure	Reference
ROA	Islamic Bank Performance	Return on Asset = Net profit after tax divided by total assets	(Al-Sayani et al., 2023)
<b>Chairman Characteristics</b>			
Age	Age	Number of years since the birth year of the chairman	(Al-Absy, 2020)
Edu	Education	Total score of the educational level of the chairman Score measurement: Bachelor's degree score: 1 Master's degree score: 2 Doctorate score: 3	(Al Quddus et al., 2023; King et al., 2016)
Gender	Gender	Dummy variable Male: 0 Female: 1	(Xiong, 2016)
Ln_Asset	Bank Size	Natural logarithm Total assets of Islamic banks	(Hakimi et al., 2018)
GDP	Gross Domestic Product	Natural logarithm Gross Domestic Product of the country	(Farag et al., 2018)
INF	Inflation	Inflation rate of the country	(Farag et al., 2018; Okoyeuzu et al., 2021)

This study utilizes panel data from Islamic banks in Indonesia and Malaysia for the years 2015-2020 to examine the influence of chairman characteristics on the performance of Islamic banks. In the testing process, a regression equation is employed as follows:

$$ROA_{it} = \alpha + \beta_1 AGE_{it} + \beta_2 EDU_{it} + \beta_3 GENDER_{it} + \beta_4 LN\_ASSET_{it} + \beta_5 GDP_{it} + \beta_5 INF_{it} + \varepsilon \quad (1)$$

## Research Results

The descriptive statistical data provides an overview of the research data on Islamic banks for the period 2015-2020 in Islamic banks Indonesia and Malaysia related to variables such as the chairman's characteristics, including age, education, and gender. The data also gives an overview of the performance of Islamic banks and control variables such as bank size, GDP, and inflation, as presented in Table 2.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
ROA	163	1.15	3.25	-20.13	13.58
AGE	163	62.64	8.88	39	82
EDU	163	1.82	0.82	0	3
GENDER	163	0.05	0.22	0	1
LN_ASSET	163	30.68	2.16	24.70	33.64
GDP	163	27.07	0.57	26.43	27.74
INF	163	2.48	1.76	-1.1	6.4

Note: For the definition of variable codes, please refer to Table 2 for variable measurements.

Source: data processed by Stata 17

The statistical description can be seen in Table 2, which provides an overview of the data distribution for the performance of Islamic banks, the characteristics of the chairman, and control variables such as bank size, GDP, and inflation. Return on Assets (ROA) has an average of 1.15, with a standard deviation of 3.25, indicating a considerable variation in the financial performance of banks. The age of the chairman (age) ranges from 39 to 82 years, with an average of 62.64 and a standard deviation of 8.88, showing significant variation in the age group of bank leaders. The education level of the chairman (edu) has an average of 1.82, with a standard deviation of 0.82, reflecting variation in the educational level within the board of commissioners of banks. The gender variable indicates a small proportion with an average of 0.05, signifying the dominance of male chairmen in the research sample. The logarithm of total assets (ln\_asset) has an average of 30.68, with a standard deviation of 2.16, reflecting variation in the size of banks in this study. External data such as Gross Domestic Product (GDP) has an average of 27.07 and a standard deviation of 0.57, while the inflation rate (inf) has an average of 2.48 with a standard deviation of 1.76. With a sample of 163 observations, this statistical description provides a comprehensive understanding of the characteristics and distribution of variables in the study of Islamic banks from 2015 to 2020.

Table 3. Correlation Results

	ROA	AGE	EDU	GENDER	LN_ASSET	GDP	INF
ROA	1						
AGE	0.323	1					
EDU	0.023	-0.19	1				
GENDER	-0	-0.05	-0.12	1			
LN_ASSET	0.047	0.016	0.196	0.0052	1		
GDP	-0.05	-0.4	0.364	0.0619	-0.2551	1	
INF	-0.15	-0.28	0.187	0.0111	-0.2379	0.507	1

Source: data processed by Stata 17

The correlation matrix can be observed in Table 3, indicating the relationship between financial performance and the characteristics of the chairman. Return on Assets (ROA) shows a positive correlation with the age of the chairman (age) at 0.323, suggesting that the older the age of the chairman, the higher the financial performance of the bank. The correlation between the education level of the chairman (edu) and ROA is 0.023, indicating a weak and insignificant correlation. Meanwhile, the gender variable shows a low negative correlation (-0.05) with ROA, indicating that the gender

difference of the chairman does not have a significant impact on the financial performance of the bank. The logarithm of total assets (*ln\_asset*) has a significant positive correlation with ROA at 0.047, while external variables such as Gross Domestic Product (GDP) and inflation (INF) show varying correlations with ROA. The correlation between the GDP variable and ROA is -0.05, indicating a weak negative relationship, while the inflation variable (*inf*) has a stronger negative correlation (-0.15) with ROA. Overall, this correlation matrix provides an in-depth understanding of the relationships between variables in the context of the financial performance of Islamic banks, demonstrating the absence of multicollinearity where correlation values exceed 0.8.

Table 4. Regression Results

	(1) ROA	(2) ROA	(3) ROA	(4) ROA
AGE	0.102** (2.07)			0.104** (2.01)
EDU		-0.162 (-0.28)		-0.149 (-0.26)
GENDER			-0.578 (-0.41)	0.222 (0.15)
LN_ASSET	-1.158** (-2.08)	-1.162** (-2.05)	-1.159** (-2.05)	-1.161** (-2.07)
GDP	8.897*** (2.62)	8.599** (2.49)	8.553** (2.48)	8.940** (2.61)
INF	-0.0677 (-0.35)	-0.103 (-0.52)	-0.104 (-0.53)	-0.0682 (-0.35)
_cons	-210.4** (-2.34)	-195.4** (-2.14)	-194.5** (-2.14)	-211.3** (-2.33)
r2	0.112	0.0835	0.0841	0.113
N	163	163	163	163

Hausman test results with a prob value below 0.05 were selected as a fixed effect model, *t* statistics in parentheses \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Source: data processed by Stata 17

The results of the regression analysis are presented in Table 4, illustrating the impact of the chairman's characteristics on the performance of Islamic banks. The age of the chairman (*age*) shows a significant positive influence on Return on Assets (ROA) with a coefficient of 0.104 (*t*-statistics: 2.01), indicating that the older the age of the chairman, the better the financial performance of the bank. However, the educational level of the chairman (*edu*) does not show a significant impact on ROA with a coefficient of -0.149 (*t*-statistics: -0.26). Variables such as gender and *ln\_asset* (bank size) also do not have a significant impact, with coefficients of 0.222 (*t*-statistics: 0.15) and -1.161 (*t*-statistics: -2.07), respectively. On the other hand, external variables such as Gross Domestic Product (GDP) exhibit a significant positive impact with a coefficient of 8.940 (*t*-statistics: 2.61), indicating that economic growth has the potential to enhance the financial performance of Islamic banks. The inflation variable (*inf*) does not show a significant impact on ROA with a coefficient of -0.0682 (*t*-statistics: -0.35).

In Table 5, the results of the regression analysis for Indonesia and Malaysia are presented, indicating the influence of the characteristics of the chairman on the financial performance of Islamic banks in both countries. The analysis is conducted because the two countries have different board systems, with Indonesia adopting a two-tier board while Malaysia follows a one-tier board. In Indonesia, the age of the chairman (*age*) has a significant positive impact on Return on Assets (ROA) with a coefficient of 0.167 (*t*-statistics: 1.86), suggesting that the older the age of the chairman, the better the financial performance of the bank. Meanwhile, in Malaysia, the age of the chairman does not have a significant impact on ROA, with a coefficient of 0.00262 (*t*-statistics: 0.18). The educational level of the chairman (*edu*) in both Indonesia and Malaysia does not show a significant influence on

ROA. However, the gender variable shows notable differences. In Indonesia, the gender of the chairman (0.659, t-statistics: 0.15) does not have a significant impact on ROA, while in Malaysia, it has a highly significant negative impact (-0.636, t-statistics: -2.56), indicating that the presence of female chairmen may have a negative effect on the financial performance of Islamic banks in Malaysia.

Table 5. Robustness check Regression Results for Indonesia and Malaysia

	(1) Indonesia ROA	(2) Malaysia ROA
AGE	0.167* (1.86)	0.00262 (0.18)
EDU	-0.536 (-0.42)	-0.0443 (-0.40)
GENDER	0.659 (0.15)	-0.636** (-2.56)
LN_ASSET	-2.386* (-1.90)	0.0356 (0.33)
GDP	15.40* (1.94)	0.360 (0.54)
INF	-0.264 (-0.48)	0.0295 (0.88)
_cons	-360.8 (-1.62)	-9.410 (-0.55)
r2	0.208	0.118
N	80	83

Hausman test results with a prob value below 0.05 were selected as a fixed effect model *t* statistics in parentheses \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Source: data processed by Stata 17

The logarithm of total assets (ln\_asset) in Indonesia has a significant negative impact (-2.386, t-statistics: -1.90), while in Malaysia, it has a non-significant positive impact (0.0356, t-statistics: 0.33). Economic growth (gdp) in Indonesia has a significant positive relationship with ROA (15.40, t-statistics: 1.94), whereas in Malaysia, it does not have a significant impact (0.360, t-statistics: 0.54). Inflation (inf) in both Indonesia and Malaysia does not have a significant impact on ROA. With respective observation numbers of 80 and 83, these findings provide a deeper understanding of the factors influencing the financial performance of Islamic banks in each country.

## Discussion

### Age

The age of the chairman of the board has a significant positive influence on the Return on Assets (ROA) of Islamic banks. **Hypothesis 1 is accepted.** This result confirms that the older the age of the chairman of the board, the better the financial performance of Islamic banks, as indicated by the positive and significant coefficient on the age variable in the regression model. The same research results as Gupta & Mahakud (2020) show that CEO duality and age have a positive influence on bank performance. Pham (2023) also found that Chariman's age had a positive effect; older age brings several benefits, such as extensive experience in risk management, wisdom in decision-making, and stability in long-term banking strategies. Leadership based on this experience can create a conducive environment for the growth and sustainability of Islamic banks (Amran et al., 2014).

In Malaysia, where a one-tier board system is implemented, the age of the chairman of the board may not be a major factor influencing the ROA performance of Islamic banks. This could be due to the integration of management and oversight functions in one board, where strategic decisions can



be made more swiftly, regardless of age. On the contrary, in Indonesia, with a two-tier board system that separates supervision and management functions, the age of the chairman of the board may be a more relevant factor. As explained earlier, older age can be associated with experience, leadership maturity, and long-term vision.

### **Education**

The regression analysis results indicate that the level of education of the chairman of the board does not have a significant impact on the Return on Assets (ROA) of Islamic banks. **Hypothesis 2 is rejected.** In the world of Islamic banking, the level of education may not always be the primary indicator of qualification or success. This industry requires a combination of practical skills, experience, and a deep understanding of the principles of Islamic banking that may not be fully reflected in formal education levels (Al-Matari, 2022; McNulty et al., 2011). In this case, factors such as work experience, understanding of financial markets, and the ability to manage risk may be more relevant in predicting the financial performance of Islamic banks. The research aligns with the study by Bhagat et al. (2010), which found that education does not influence company performance in terms of ROA. This is attributed to the interdisciplinary nature of the education level, rendering it inconsequential to company performance.

### **Gender**

The gender of the chairman of the board does not have a significant impact on the Return on Assets (ROA) of Islamic banks. **Hypothesis 3 is rejected.** The number of women serving as the chairman of the board may be very limited or even non-existent. If the number of women in the highest leadership roles is extremely limited, it can impact the statistical significance of the relationship between gender and financial performance in Islamic banks. The research findings align with Campbell & Mínguez-Vera (2008) and (Sila et al., 2016), who found that the presence of women on the board does not affect performance.

### **Conclusion**

Based on the results of the regression analysis, significant findings indicate that the characteristic of the chairman, specifically the age of the chairman, has a significant positive impact on the Return on Assets (ROA) of Islamic banks, suggesting that the older the age of the chairman, the better the financial performance of the bank. However, variables such as the educational level of the chairman gender and do not show a significant impact on ROA. Control variables such as economic growth (GDP) have a significant positive impact, while inflation does not play a significant role. The findings suggest that Islamic banks might benefit from appointing older individuals as chairmen, as their experience and maturity could positively influence financial performance. This insight can guide the selection and development of leadership within Islamic banks. Regulators and policymakers in the banking sector could consider creating guidelines that encourage the inclusion of experienced leaders in executive positions. This could enhance the overall stability and performance of Islamic banks.

This study has limitations related to the focus on specific characteristics of the chairman, and the study was conducted in only two countries. Other variables not included in this study, such as industry experience or leadership style, may also play a role in determining the performance of Islamic banks. Additionally, the limited research period may not capture long-term dynamics that could affect the relationship between the chairman's characteristics and the performance of Islamic banks. Future research could broaden the scope by considering more variables of chairman characteristics, such as industry experience, integrity, or social commitment, to gain a more comprehensive picture. Moreover, research could involve more countries to explore differences and similarities in a global context.

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