THE RELATIONSHIP BETWEEN THE CEO CHARACTERISTICS AND THE FINANCIAL PERFORMANCE OF THE ROMANIAN BANKING SYSTEM

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Abstract
The main objective of this article is to analyze a possible relationship between the characteristics of the people who hold the CEO position within the banks that operate in the Romanian banking system in Romania and their financial performance indicators. Regarding CEO characteristics, they are analyzed in terms of education, age, gender diversity and the origin country (the nationality).

The indicators regarding the banking financial performance that are used in the analysis are the return on assets (ROA) and the return on capital (ROE). Thus, the authors of this study tried to find answers to the question: Is there or not a relationship between the characteristics of the CEO and the performance of the Romanian banking? To answer this question, the authors used a predominantly quantitative methodology, based on a statistical deductive analysis, identification and testing of cause-effect interdependencies, while assessing the degree of significance of these connections.

Keywords
Profitability, solvency, banking system, CEO, gender diversity, performance.

JEL Classification
M40 , G20, G30

Introduction

The objective of this study is to analyze the possible influence of the CEO‘ characteristics of the operating banks in the Romanian banking system on their financial performance. Thus, within this article, a series of relevant results from previous research are taken over and developed from the perspective of two important areas: corporate governance and banking performance.

Amid recent global financial crisis, the weaknesses in the corporate governance of the banks have been the subject of intense political debate becoming the central point of extensive academic research(e.g., Pathan and Skully, 2010; Aebi et al., 2012; Pathan and Faff, 2013; Liang et al., 2013; Stulz, 2016; Farag and Mallin, 2017; Abou-El-Sood, 2017).

In this context, in the recent years issues related to the influence of executive presidents (CEOs) on the financial performance have become an extremely hot topic in the literature being approached from various perspectives (Garcia-Blandon, Argilés-Bosch and Ravenda, 2019). One of these perspectives addresses the influence of the characteristics of the CEO. Thus, in the specialized literature there are a number of approaches to CEO characteristics from the point of view of financial education (Mintzberg, 2004; Gottesman and Morey, 2015), age (Hambrick and Mason, 1984; Barker and Mueller, 2002; Belenzon et al., 2019), or nationality, respectively the origin country (Crossland and Hambrick, 2011; Ioannou and Serafeim, 2012; Boone, Lokshin, Guenter and Belderbos, 2019).

In terms of gender diversity in the context of corporate governance, this is a very important factor due to regulatory requirements. For example, in the United Kingdom, the idea of greater gender diversity on boards has been presented by Tyson Report (2003), emphasizing the role of women's presence in improving and improving organizational performance. At the same time, Carter et al. (2003) consider that gender diversity is one of the most pressing issues in the context of the large corporate governance. In their research, the authors argue that a higher presence of women on boards can have a decisive influence on their independence, as female representatives, unlike men, are less likely to be exposed to risks, being more critical and more analytical in terms of decisions taken in relationships with business partners and not least in terms of the company's development strategy.

Should CEO's financial education have any influence on the company's financial performance? Gottesman and Morey (2010) found three possible arguments in support of this influence: First, its cognitive ability is affected by the educational background, capacity that can influence performance; secondly, the behavior of the CEO is influenced by his education, behavior that again can have an impact on the performance; and thirdly, CEO credibility is affected by the educational background, with impact on performance.

Regarding the possible influence of CEO' age on the company's performance, Hambrick and Mason (1984), have shown in their research that there is a positive association between young managers and corporate growth. Moreover, senior managers tend to be more conservative, are less open to new (expansion and development projects) and are not willing to take risks (Barker and Mueller, 2002).

Regarding the CEO' nationality or the origin, this could influence the financial performance of the company in several aspects. Thus, Crossland and Hambrick (2011), appreciate that a number of nationality characteristics (the origin country), such as tolerance, individualism, preference for the preservation of property can be associated with that characteristic called the managerial discretion of the general manager. At the same time, the managerial discretion can determine the influence of the CEO on the financial performance of the company. The same idea is also highlighted in the studies of the authors Ioannou and Serafeim (2012) who conclude that the way of the managers training in their origin countries, such as the political environment and the education, work and cultural systems affect their(CEO) influence on the financial and social performances of the managed companies by they.

Thus, generally speaking, the CEO' nationality or the origin country can have an impact on the company's performances through: the political, educational, works and cultural systems (Ioannou and Serafeim, 2012); the managerial style acquired and created by the CEO (Culpan and Kucukemiroglu, 1993) and through the values acquired throughout the life in his origin country by the CEO (Ore, Bergson, and Diver, 2008).

Study on the impact of CEO characteristics on the financial performance of the Romanian banking system

1. The research hypotheses

The purpose of this study is to identify the relationships that may exist, on the one hand, between the characteristics of the persons holding the CEO position (chief executive officer) and the financial performance indicators ROE and ROA at the Romanian banking system. Thus, this article offers an exhaustive analysis of the Romanian banking system, trying to provide answers argued by the results of an empirical research to the question: Is there or not a connection and, if the answer is positive, how and with what intensity is this relation between CEO characteristics and financial performance indicators of the banks from the Romanian banking system?

Thus, based on the evidence from previous research found in the literature, the following hypotheses were formulated:

H1: There is a direct relationship between the CEO education and the banking financial performance?

H2: There is a direct relationship between the CEO age and the banking financial performance?

H3: There is a direct relationship between the CEO nationality (the origin country) and the banking financial performance?

H4: There is a direct relationship between the CEOs gender and the banking financial performance?

2. The research methodology

For the purpose of hypotheses testing, the used research methodology is predominantly quantitative, based on a deductive statistical analysis, which has as its starting point the agency theory. It aims to identify and test possible cause-effect connections, while analyzing their degree of significance.

The characteristics of the CEO are analyzed from the perspectives of education, age, gender diversity and the nationality of the respective country of origin. In the research conducted, the specific tools used were obtained through SPSS software under Windows (regression analysis and correlation tests).

At the end of 2018, the banking system in Romania included 33 banking companies, of which 26 were a number of banks - Romanian legal entities and 7 are branches of foreign banks.

Of the 33 credit institutions, 25 banks were included in the research sample, respectively Romanian legal entities, having published on their official websites the information related to the financial year 2018. The 7 branches of foreign banks were not included in the researched sample, because, according to the NBR Regulation no 25/30/2006 regarding the requirements for presenting information for credit institutions and investment firms, for them there is no obligation to publish information on the territory Romania (these are made public in the country of origin of the group to which the respective branch belongs).

The basis of this research formed exclusively information posted by the banks included in the sample analyzed websites official and those published by the National Bank of Romania or have been extracted from the transparency and disclosure reports of financial year 2018 created in accordance with the BNR regulations.

In order to achieve the objectives of this study, two types of distinct variables were defined, respectively: dependent variables and independent variables, analyzing the connection between them. The situation of the independent variables investigated, their definition and how they were determined is presented in detail in table no. 1.

Table no. 1 The situation regarding the independent variables

The independent variable	The used symbol	The Definition	The Determination
Gender diversity	CEO_Divg	the share of women in the total number of persons holding the CEO positions	number of women / total number of persons holding the CEO positions
Education	CEO_Educ	the share of CEO with financial training in the total number of CEO	CEO number with financial education / Total CEO number
Nationality	CEO_Nat	the share of CEO with Romanian nationality	CEO number with Romania as origin country/ Total CEO number
Age	CEO_Age	the effective age of the persons holding the CEO positions	the effective age of the persons holding the CEO positions

Source: author's own creation

Regarding the dependent variables under investigation, these are the indicators of Return on assets (ROA) and respectively Return on equity (ROE), indicators often used in the specialized literature. ROA - the return on assets is determined by reporting the net result to the total volume of the assets and ROE - the return on capital is calculated as the ratio between the net result and the total of the equity.
Testing the possible correlations between the independent variables and the dependent variable was performed by determining the Pearson coefficient, a commonly used coefficient for evaluating the correlation and the intensity of the linear dependence between two variables.
This coefficient can have values between "1" (in case a perfect direct relation is highlighted) and "-1" (indicating the non-existence of a linear direct relation between the analyzed variables). This analysis of the possible correlations that may exist between the two types of variables offers arguments about the meaning and significance of any links, in this way the research hypotheses formulated are rejected or accepted.

3. The research results and discussions

In this research, the study of each possible influence of the independent variables on the dependent variables is based on a series of results of a linear regression analysis (the multiple regression model under SPSS or the Backward method). For testing each hypothesis, the results are detailed described in the Annex 2 "Partial correlation matrix" and respectively 3 "ANOVA results", obtained through SPSS software).
Regarding the **H1**hypothesis testing***: There is or is not a significant association between CEO education and financial performance of banks***, the results of the research regarding the influence of the independent variable on the dependent ones are detailed in Table no. 2a (Corellations) and Table no. 3a (ANOVA).

Table no. 2 a- Correlations

		CEO_EDUC	ROA	ROE
Pearson Correlation	CEO_EDUC	1.000	.149	.627
	ROA	.149	1.000	.898
	ROE	.227	.898	1.000
Sig. (1-tailed)	CEO_EDUC	.	.039	.009
	ROA	.239	.	.000
	ROE	.138	.000	.
N	CEO_EDUC	25	25	25
	ROA	25	25	25
	ROE	25	25	25

Source:the authors' own work using SPSS soft

Table no. 3a - ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.064	2	.032	.788	.467[b]
	Residual	.896	22	.041		
	Total	.960	24			
2	Regression	.049	1	.049	1.246	.276[c]
	Residual	.911	23	.040		
	Total	.960	24			
3	Regression	.000	0	.000	.	.[d]
	Residual	.960	24	.040		
	Total	.960	24			

a. Dependent Variable: CEO_EDUCb. Predictors: (Constant), ROE, ROA

c. Predictors: (Constant), ROE

Source: the authors' own work using SPSS soft

The table "Correlations" presents the Pearson correlation coefficients (Pearson Correlations), the significance value (Sig.) For each correlation coefficient and the number of cases considered in the study (N). Thus, it is observed that the value of the diagonal coefficients is equal to 1, because each variable is perfectly correlated with itself. It is found that the most significant link is between CEO education and ROE. Between the dependent variable CEO education and the independent variable ROE there is a direct, relatively significant link. The value of the Pearson correlation coefficient equals 0.627, with a value Sig. lower than 0.05. The same conclusion can be drawn from the ANOVA results, according to which the best predictor (the independent variable that best estimates the dependent variable) is the variable "ROE".

Thus, the research result indicates that there is a positive association between CEO education and indicator of return on equity (ROE) in the banking system in Romania.

Regarding the second hypothesis testing, respectively **H2**: ***Whether or not there is a significant relationship between CEO age and financial performance of banks?,*** the

results of the research regarding the influence of the independent variable on the dependent ones are detailed in Table no. 2b (Corellations) and Table no. 3b (ANOVA).

Table no2b - Correlations

		CEO_AGE	ROA	ROE
Pearson Correlation	CEO_AGE	1.000	.405	.432
	ROA	.405	1.000	.898
	ROE	.432	.898	1.000
Sig. (1-tailed)	CEO_AGE	.	.022	.016
	ROA	.022	.	.000
	ROE	.016	.000	.
N	CEO_AGE	25	25	25
	ROA	25	25	25
	ROE	25	25	25

c. Predictors: (Constant), ROE

Source:the authors' own work using SPSS soft

According to the results of testing this hypothesis, it can be observed that the Pearson correlation coefficient is close to the level of 0.500 with Sig values. slightly above 0.05 (0.22 and 0.16 respectively). However, according to the information presented in the ANOVA table, it can be found that the best predictor, the independent variable that can best estimate the dependent variable, but of low intensity can be considered the capital return (ROE).). Considering these results of the research we cannot say that there is a significant direct link between the CEO age and the financial performance indicators, through the prism of ROA and respectively ROE, at the level of the Romanian banking system.
Thus, regarding the testing of the second hypothesis, we can say that there is ***a weak link between*** the CEO age and the return on capital (ROE), without having a significant intensity.

Table no. 3 b- ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.114	2	.057	2.544	.101[b]
	Residual	.493	22	.022		
	Total	.607	24			
2	Regression	.113	1	.113	5.269	.031[c]
	Residual	.494	23	.021		
	Total	.607	24			

a. Dependent Variable: CEO_AGE b. Predictors: (Constant), ROE, ROA

Source:the authors' own work using SPSS soft

Regarding the testing of **H3** hypothesis***: Is there or not a significant association between the nationality of the CEO (the origin country) and the financial banking performance***?, the results of the research regarding the independent variable influence on the dependent ones are detailed in the Table no. 2c (Corellations) and the Table no. 3c (ANOVA).

Table no. 2c - Correlations

		CEO_NATION	ROA	ROE
Pearson Correlation	CEO_NATION	1.000	.216	.159
	ROA	.216	1.000	.898
	ROE	.159	.898	1.000
Sig. (1-tailed)	CEO_NATION	.	.150	.225
	ROA	.150	.	.000
	ROE	.225	.000	.
N	CEO_NATION	25	25	25
	ROA	25	25	25
	ROE	25	25	25

Source:the authors' own work using SPSS soft

Given the obtained values of both the Pearson correlation coefficient and the significance of the F statistic, although according to the ANOVA test, it turns out that the best predictor is the return on capital (ROE) indicator***, we cannot accept the H3 hypothesis***, respectively that between the nationality (country of origin) of the CEO and indicators on financial performance at the level of the banking system in Romania there is a directly significant association.

The fourth and last of the hypotheses that have been the subject of this study is **H4**: ***Whether or not there is a significant relationship between the gender of CEOs and the financial banking performance?***

Tabelul 3c-ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.327	2	.164	.617	.549[b]
	Residual	5.833	22	.265		
	Total	6.160	24			
2	Regression	.287	1	.287	1.125	.300[c]
	Residual	5.873	23	.255		
	Total	6.160	24			

a. Dependent Variable: CEO_NATION b. Predictors: (Constant), ROE, ROA

c. Predictors: (Constant), ROA

Source:the authors' own work using SPSS soft

Regarding the acceptance or rejection of this hypothesis, considering, on the one hand, that out of the total of the 25 banks included in the studied sample, the CEO position is occupied by only one female representative as well as, on the other part, the results of the correlation tests, the values of the Pearson correlation coefficient in conjunction with the indicators in the ANOVA test, ***the H4 hypothesis*** regarding the existence of a significant direct correlation between the sex of the person occupying the position of CEO and the financial performance indicators at the level of the Romanian banking system ***cannot be accepted, it is rejected.***

Conclusions

The main objective of this research was to analyze the potential connections between CEO characteristics (age, gender, education, nationality) and financial performance (ROA and

ROE) at the Romanian banking system level. Testing of the possible links between the boards of directors characteristics and implicitly the CEO and the financial performances has been the subject of extensive research so far. The similar results were recently obtained by the authors Garcia-Blandon al (2019), who demonstrated in their research the connections between the CEO characteristics and the financial performance. The originality of this work is that it has tried to include these associations related to a field less subject to research, respectively the financial-banking field.

At the Romanian banking system level, this paper is the first research that attempts to capture the relationship between the CEO characteristics and the financial performance. However, the paper presents a series of limits generated, firstly, by the small number of banks included in the researched sample, the situation of banks operating in the Romanianbanking system, having known a downward evolution in recent years. We appreciate that, with all these limitations, the present paper is a challenge for the future research in this field, being an important source of information and reflection for practitioners and not only.

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