Impacts of CEO Age and Knowledge on Bank Performance in Islamic Perspective

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ABSTRACT

The study of bank performance is a crucial area of research, serving as an indicator of the financial system's health and stability, and having significant implications for the broader economy. Several factors affect bank performance, but previous studies have produced inconclusive results, identifying numerous gaps in the literature. On this note, recent studies have begun to highlight the impact of CEO age and knowledge on bank performance. Given that the CEO is a key factor in enhancing bank performance, thus their age is considered to play a significant role in shaping the success of banks. Therefore, this paper aims to study the influence of CEO age and knowledge on bank performance.

Keywords: CEO Age, Knowledge and Bank Performance.

INTRODUCTION

The role of the Chief Executive Officer (CEO) is pivotal to the overall success of an organization. As the highest-ranking executive, the CEO is primarily responsible for implementing strategic business development initiatives and overseeing the day-to-day operations of the company. The effectiveness of these responsibilities directly influences the organization's performance, making the CEO a critical determinant in its success or failure (Pham, 2023). Hiring the wrong CEO can affect the overall financial performance of the company (Anania, 2020). The Islamic perspective, strongly supported by Imam Al-Mawardi, a prominent Islamic scholar, also supports the notion that leaders must demonstrate ethical behavior.

Imam Al-Mawardi contended that persons who undertake immoral conduct are inherently unsuitable for positions of leadership (Kurnia, 2019). Moreover, a qualified CEO is important for the survival of the firm because it affects the team culture and the productivity of the firm (Chua et al., 2023). In the banking sector, which is vital to the functioning of all other industries, the role of the CEO is particularly critical due to the extensive influence they wield (Pham, 2023). The position demands exceptional leadership qualities to ensure the bank's development, stability, and overall soundness (Elsharkawy et al., 2018). Importance of a CEO in achieving this objective is very important (Dalimunthe & Sabila, 2023). Given the great responsibility of the CEO, every bank must have a CEO with a high level of proficiency and abilities to manage and influence the bank effectively (Soomro & Hanafiah, 2022).

Given the significant impact of the CEO on a company's overall performance, numerous researchers have undertaken studies to examine the relationship between CEO characteristics and business outcomes (Pham, 2023). Beyond personal attributes such as leadership skills and decision-making ability, empirical research has shown that a CEO's age is an important determinant of CEO effectiveness and corporate outcomes (Thi et al., 2020). For example, older CEOs have a competitive advantage over younger CEO because of their greater experience (Dalimunthe & Sabila, 2023). However, older CEOs may affect bank performance if they become conservative and risk-averse when faced with the complexity of the commercial bank environment (Belezon et al., 2019).

It is essential to conduct research that examines the relationship between the age and knowledge of CEOs and bank performance, as leadership is essential for the strategic operation of an organization (Wahab and Razali, 2021). Leadership challenges in diverse sectors, including economics, social affairs, politics, and education, receive significant attention (Wahab and Razali, 2021). Recently, previous studies from Dalimunthe and Sabila (2023), Johan and Sari (2020), Chua et al. (2023), Pham (2023), Gupta and Mahakud (2020), have emphasized the importance of CEO age as a determinant of commercial bank performance in India, Vietnam, Malaysia, and Indonesia respectively.

Therefore, this paper aims to explore the influence of CEO age and knowledge on the performance of banks, with a particular focus on how these factors align with Islamic leadership principles. The study seeks to provide insights into the extent to which a CEO's age and expertise impact the effectiveness and performance of banking institutions. A novel contribution of this research lies in its emphasis on the intersection between CEO age and knowledge and Islamic leadership principles, offering a unique perspective on how these elements collectively contribute to the success and soundness of banks.

LITERATURE REVIEW

Upper Echelons Theory and Islamic Leadership Principles

Upper Echelons Theory (UET), initially established by Hambrick and Mason in (1984), posits that the values, personalities, and cognitive frames of top executives significantly impact their decision-making processes and, consequently, the overall performance of their organizations (Naseem et al., 2020). This theory suggests that the personal characteristics of top executives such as their experiences, values, and personalities play a crucial role in shaping their strategic decisions. As a result, these individual traits influence how organizations respond to challenges and opportunities in their environment (Ismail et al., 2023). In essence, UET emphasizes that the unique attributes of leaders can drive the direction and success of an organization.

(UET) emphasizes that certain characteristics of a CEO, such as age, education, and experience in senior roles, are key factors influencing strategic decision-making and firm performance. These traits help shape how leaders approach complex organizational challenges. However, from an Islamic perspective, Imam Al-Ghazali presents a broader view of leadership. Imam Al-Ghazali argues that an ideal leader should possess qualities that go beyond the ordinary skills and abilities of most individuals. According to Imam Al-Ghazali, a leader worthy of emulation must demonstrate extraordinary abilities, superior strengths, and a level of competence that surpasses the average person. These exceptional qualities, he asserts, are crucial for leaders to efficiently handle tasks and navigate complex situations with a high degree of effectiveness (Afriansyah, 2017).

Imam Al-Ghazali further contends that the highest levels of intellect and wisdom in leadership are not solely the result of inherent talent. Instead, they depend significantly on a leader's cognitive processes, knowledge, and experience. He emphasizes that intellectual development is rooted in the ability to think critically and acquire knowledge, suggesting that a leader’s capacity to reason, learn, and apply information is essential. Moreover, Imam Al-Ghazali highlights the importance of experience in leadership, viewing it as a vital component that shapes a leader’s judgment and decision-making skills. Through experience, leaders gain practical insights and a deeper understanding of the complexities involved in leadership, which ultimately enhances their effectiveness in guiding others (Afriansyah, 2017).

Recent studies by Hakim and Tantri (2023) also Nawaz and Ohlrogge (2023) have empirically demonstrated that certain characteristics of CEOs, such as age, education, and executive experience, play a critical role in predicting organizational performance, particularly in the banking sector. These studies suggest that demographic indicators, such as the age of individuals in leadership roles, can serve as proxies for broader cognitive and experiential traits. Such indicators provide valuable insights into how leaders perceive, understand, and respond to their organizational environments. Older leaders, for instance, often bring with them a wealth of experience and knowledge, which can enhance their ability to navigate complex situations and make strategic decisions that positively impact organizational outcomes.

In alignment with these findings, Islamic teachings also emphasize the importance of specific qualities in effective leadership. Imam Al-Ghazali, a renowned Islamic scholar, articulated that a leader should possess several essential characteristics to fulfill the leadership mandate effectively. These characteristics include being knowledgeable, proactive, and resolute. Al-Ghazali underscored the importance of knowledge, indicating that a leader must be well-informed and wise, drawing on a deep understanding of relevant issues to guide their decision-making processes. Knowledge, in this sense, forms the foundation upon which a leader's intellectual capabilities are built, enabling them to make judicious and informed choices (Afriansyah, 2017).

In addition, Al-Ghazali asserted that leaders should be more prepared to anticipate challenges, identify opportunities, and implement strategies that drive organizational success. This approach is particularly relevant in the dynamic environment of the banking sector, where timely and strategic decisions are essential to maintain competitiveness and ensure stability. Finally, Al-Ghazali emphasized the importance of firm in leadership. A leader must have the ability to stand firm in their decisions and principles, showing consistency and reliability (Afriansyah, 2017). This firm not only reflects the confidence of a leader but also serves to inspire trust and respect among followers.

In organizational settings, such resilience is essential for maintaining direction, achieving goals, and fostering an environment of stability and trust. UET provides a framework for understanding how the personal characteristics of top executives influence their perceptions and cognitions, thereby influencing their strategic decisions (Hambrick and Mason, 1984). This theoretical perspective suggests that by analyzing individual characteristics, such as age it is possible to predict organizational performance. The premise is that these characteristics reflect the cognitive biases and values that drive executive decision making. Research by Hambrick and Mason (1984) supports the assertion that the demographic and psychological characteristics of top management have direct and measurable effects on organizational performance.

Empirical Studies

The bank's strong performance can be partially attributed to the CEO's age, a factor within the bank's control that may vary across banking institutions (Ariyibi et al., 2020). The upper echelon theory, proposed by (Hambrick and Mason, 1984), suggests that a CEO's characteristics are primarily influenced by their age. Chief Executive Officers (CEO) are getting older. While this can enhance CEO performance by providing them with experience, wisdom, and greater knowledge, it can also have a negative impact due to age-related cognitive decline, and an overall decrease in energy (Desir et al., 2024). Given the significant impact of the CEO on overall performance, numerous researchers have undertaken a study to comprehend the characteristics of CEOs that influence bank performance (Pham, 2023).

The age of the CEO may have two distinct effects on the performance of the commercial bank (Chua et al., 2023). According to (Shan et al. 2019), it is suggested that older CEOs can enhance their performance by utilizing the expertise and knowledge they have acquired over time to effectively manage the operations of the company. However, the performance of the bank may be negatively impacted by older CEOs if they exhibit a conservative and risk-averse approach to navigating the intricacies of the commercial banking landscape (Belenzon et al., 2019). The appointment of a CEO should take into consideration the individual's age (Dalimunthe and Sabila, 2023).

Investigating the relationship between CEO age and bank performance is essential for understanding its implications within the Malaysian banking sector (Chua et al., 2023). The mandated age for retirement of workers in Malaysia is 60 years; nevertheless, according to recent news reports, employees of commercial banks are entitled to retire after reaching the age of 61 (Parkaran, 2023). Several studies conducted by Chua et al. (2023) have found a direct relationship between the age of the CEO and the performance of commercial banks. This discovery indicates that the CEO's cognitive abilities enhance with age, resulting in a favorable influence on the commercial bank's performance.

During their research in Indonesia, Dalimunthe and Sabila, (2023) discovered that the age of CEOs has a positive influence on bank performance, specifically in terms of net interest margin. However, it has a negative influence on bank performance to the capital adequacy ratio. The selection of CEOs should consider age as a decisive factor. Senior CEOs have a clear advantage in terms of competition compared to their younger counterparts. A recent study conducted by Johan and Sari (2020) in Indonesia investigates the impact of CEO characteristics on the performance of commercial banks in Indonesia between 2014 and 2018. The CEO's age, educational attainment, and association with significant shareholders.

The findings indicate a positive correlation between the age of CEOs and the performance of banks. However, the company's performance is negatively impacted by the age of the CEO, as the elderly CEO frequently prioritizes both financial and career security. Additionally, they are more conservative, risk-averse, and less creative, which is problematic given the increasing strength of the market competition (Phan & Tran, 2017). The performance of a bank led by an older CEO may decline as a result of their increased propensity to advance their interests and objectives and lead a peaceful existence (Gupta & Mahakud, 2020). In summary, Table 1 show underscores the complex relationship between CEO age, knowledge, and their impact on bank performance.

Table 1
Underlines The Complex Relationship Between CEO Age, And Knowledge of Bank Performance

Sources	Positive	Sources	Negative
(Shan et al. 2019)	It is suggested that older CEOs can improve their performance by leveraging their accumulated expertise to manage company operations more effectively.	(Belenzon et al., 2019)	The bank's performance may suffer if older CEOs adopt a conservative, risk-averse approach to navigating the complexities of commercial banking.
(Chua et al., 2023)	This finding suggests that the CEO's cognitive abilities improve with age, positively impacting the bank's performance.	(Dalimunthe and Sabila, 2023)	CEO age negatively impacts bank performance in relation to the capital adequacy ratio.
(Dalimunthe and Sabila, 2023)	It was found that CEO age positively influences bank performance, particularly in net interest margin.	(Phan & Tran, 2017)	The performance of companies tends to decline under older CEOs, who often prioritize financial security and exhibit more conservative, risk-averse behavior, limiting innovation in competitive markets.
Johan and Sari (2020)	The findings indicate a positive correlation between the age of CEOs and the performance of banks.	(Gupta and Mahakud, 2020)	A bank's performance may decline under an older CEO due to their tendency to prioritize personal interests and seek a more stable, peaceful existence.

DISCUSSION

The relationship between CEO age and bank performance has been a subject of considerable debate in academic research. A study conducted by Gupta and Mahakud (2020) reveals that in private banks, the maximum age for a CEO is capped at 70 years, although bank board retain the discretion to set a lower retirement age as part of their internal policies. In contrast, public sector banks in India enforce a stricter maximum retirement age of 60 for CEOs. Furthermore, the Indian Companies Act of 2013 establishes that the minimum age for appointing a CEO is 21 years. The findings from Gupta and Mahakud (2020) suggest that bank performance tends to decline as the CEO's age increases. This observation underscores the potential challenges associated with an aging leadership, possibly due to a decline in adaptability and openness to innovative practices.

However, this view is not universally accepted, as a substantial body of research presents contrary evidence. Many studies have found that CEO age positively and significantly influences company performance. The rationale behind this argument is that older CEOs possess greater experience, which equips them to make more strategic decisions and take actions that are beneficial for the company’s long-term growth. The positive relationship between CEO age and company performance suggests that experience, which is often correlated with age, provides CEOs with a deeper understanding of risk management, and strategic planning. It is also supported by Imam Al-Ghazali, a prominent Islamic scholar, who emphasized the importance of knowledge in leadership (Hakim, 2018).

According to Al-Ghazali, a leader must have a deep understanding of a matter to carry out the responsibilities of their position effectively (Hakim, 2018). Pham (2023) further contributes to this study by examining the effect of CEO age on the performance of commercial banks. His research, conducted in Vietnamese banks, found a positive relationship between CEO age and bank performance, measured through various financial metrics such as return on equity (ROE). In Vietnam, the youngest observed CEO is 34 years old, while the oldest is 64 years old, highlighting the wide range of leadership experience in the sector. Pham (2023) findings suggest that CEOs with longer tenure and older age tend to have a more comprehensive understanding of bank operations, which allows them to make faster and more accurate decisions.

This in-depth experience is beneficial to improve the operational efficiency and financial stability of the bank. This coincides with Imam Al-Ghazali who thinks that with knowledge, a leader can understand and implement the principles of government correctly, ensuring that their actions are in line with the justice and well-being of their people. This awareness covers the rights and obligations of leaders not only towards the position they hold but also towards those they govern. By knowing their duties, a leader can understand the rights of their subordinates, and can maintain justice and advance the common good. In addition, longer serving CEOs are better positioned to establish efficient management which can further improve bank performance (Hakim, 2018).

Johan and Sari (2020) provide additional evidence supporting the positive influence of CEO age on bank performance. Their empirical research indicates that older CEOs are associated with better performance outcomes for banks. In Indonesia, CEO ages range from 41 to 65 years, with an average age of 54. These statistics imply that the majority of Indonesian bank CEOs are in their mid-career stage, where they can effectively combine experience with a still-active engagement in leadership roles. Similarly, a study by Chua et al. (2023) in Malaysia indicates that the average CEO age is 53 years, suggesting that Malaysian commercial banks are often led by CEOs who are within the peak age range for executive leadership. This age distribution aligns with the mandatory retirement age policies of Malaysian banks and further supports the notion that experienced; older CEOs are capable of maintaining high performance levels in the banking sector.

The findings from Chua et al. (2023) reinforce the idea that age, which correlates with experience and tenure, plays a crucial role in the leadership effectiveness and decision-making quality of bank CEOs. In conclusion, the age of a CEO is a significant factor influencing bank performance, with many studies suggesting a positive correlation. While some research, like that of Gupta and Mahakud (2020), points to a potential decline in performance with increasing CEO age, the majority of the empirical evidence from studies conducted in various countries such as those by Pham (2023), Johan and Sari (2020), and Chua et al. (2023) demonstrates that older CEOs are often associated with better performance metrics in the banking sector.

This is mainly due to the extensive experience, strategic decision-making ability and ability to build efficient teams possessed by older CEOs. Therefore, CEO age should be considered a critical reference point for companies when selecting candidates for leadership roles, especially in sectors where experience and deep understanding of industry-specific challenges are critical to success. As shown in Table 2 the age category of CEOs on bank performance in Malaysia, Indonesia, Vietnam, and India.

Table 2
Discussion Of CEO Age on Bank Performance (Ranging)

Malaysia	Indonesia	Vietnam	India
Average CEO aged 53 years old	Ranging from 41 years to 65 years. An average age of 54 years.	The CEO in the study range in age from 34 to 63 years.	The minimum age for appointment CEO is 21 years. Private bank: Maximum age is 70 years. Public bank: The maximum age for retirement of CEO is 60 years.

CONCLUSION

A study by Chua et al. (2023) identified a positive relationship between CEO age and the performance of commercial banks in Malaysia, suggesting that as CEOs grow older, bank performance improves. Senior CEOs contribute valuable expertise, which enhances the bank's overall performance. With age, CEOs gain greater knowledge and insight, enabling them to make more effective strategic decisions. From an Islamic perspective, older CEOs embody the qualities of experience and wisdom, which are crucial for effective leadership. Their careful approach to decision-making aligns with Islamic principles of ethical and prudent leadership, leading to better long-term outcomes for banks. Dalimunthe and Sabila (2023) emphasize that a CEO's increasing age reflects a broader, more comprehensive perspective, which is vital for navigating the difficulties of the banking sector.

Older, more experienced CEOs are likely to have encountered various economic cycles, regulatory shifts, and market dynamics throughout their careers. This experience equips them with the knowledge and foresight needed to anticipate and mitigate potential risks. Their accumulated expertise is a valuable asset in making informed decisions that align with the company's objectives and promote sustainable growth and stability. Therefore, CEO age can be seen as a key factor in selecting executive leaders for commercial banks. The combination of age, which contributes experience and wisdom, and knowledge, which guarantees informed and ethical decision-making, is essential in improving the functioning of Islamic banks. These elements enhance the bank's capacity to meet its religious and financial responsibilities, assuring long-term viability and fostering confidence among stakeholders.

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