The Impact of Financial Performance, Financial Distress, and Director Compensation on CEO Turnover with Internal Experience as Moderator

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ABSTRACT

CEO as the regulator and controller of the company with the hope of obtaining high profits. However, the CEO will be replaced if shareholders are dissatisfied with his performance. This event will negatively impact the company if there are frequent CEO changes in a short time. This study aims to test financial performance, *financial distress*, and board of directors compensation against CEO turnover with internal experience as a moderator. The object of research is a manufacturing company listed on the IDX 2019-2022. The research sample used a *purposive* sampling technique of 123 samples, and the data analysis technique used logistic analysis. The results of the financial performance study measured using CR, ROA, DER, *economic distress,* and the CEO's internal experience as a moderation did not affect CEO turnover. However, board of directors compensation affected CEO turnover and internal experience, and board of directors compensation moderated the strengthening of CEO turnover. This study found that financial performance and internal experience did not affect CEO turnover, but the amount of CEO compensation and internal experience as considerations would affect the event of CEO turnover.

Keywords: CEO Turnover; Financial Performance; *Financial Distress*; Director Compensation; Internal Experience.

e-ISSN 2302-8556

Vol. 35 No. 3
Denpasar, 31 Maret 2025
Hal. 624-639

DOI:
10.24843/EJA.2025.v35.i03.p03

PENGUTIPAN:
Ardi, H. & Handoko, J. (2025). The Impact of Financial Performance, Financial Distress, and Director Compensation on CEO Turnover with Internal Experience as Moderator. *E-Jurnal Akuntansi*, 35(3), 624-639

RIWAYAT ARTIKEL:
Artikel Masuk:
31 Desember 2024
Artikel Diterima:
27 Januari 2025

Financial Performance, Financial Distress, Board of Directors Compensation On CEO Turnover With Moderation Of Internal Experience

ABSTRAK

The CEO is the organizer and controller of the company in the hope of obtaining high profits. However, the CEO will be replaced if dissatisfied with his performance to shareholders. This event will harm the company if there are frequent changes in the CEO in a short time. This study examines the effect of financial performance, financial distress, and directors' compensation on CEO turnover with an internal experience moderator. The object of research is manufacturing companies listed on the IDX 2019-2022. The research sample used purposive sampling, with as many as 123 samples, and data analysis techniques using logistic analysis. The results of the financial performance research measured using CR, ROA, DER, financial distress, and the CEO's internal experience as moderation showed that it does not affect CEO turnover. However, the compensation of directors affects CEO turnover and internal experience, and the compensation of directors moderates the strengthening of CEO turnover. This study produces findings that financial performance and internal experience do not affect CEO turnover, but the amount of CEO compensation and internal experience as a consideration will affect the event of CEO turnover.

Kata Kunci: *Keyword 1; Keyword 2; Keyword 3; Keyword 4 (menyesuaikan kata kunci)*

Artikel dapat diakses : https://ojs.unud.ac.id/index.php/Akuntansi/index

INTRODUCTION

In running its business, the main goal is to generate profit to maintain the company's survival (going concern). High profit performance is inseparable from the role of the company's Chief Executive Officer (CEO) as the controller and controller of the company. This indicates that the influence of the company's performance will determine the CEO's fate to survive or be replaced. If the CEO can bring the company to obtain high profits, then it is likely that the CEO will remain in his position. According to Leker & Salomo (2000), if there is a decline in company performance, then it is likely that there will be a change or CEO turnover. This is inline with the opinion of Jensen & Wruck (1988) in Jostarndt (2007) that the company is in poor financial condition or in financial distress is an indication that in the company cycle there will be a change in ownership and allocation of rights in managing company resources.

Changing the CEO (CEO turnover) certainly has a high possibility due to applying the agency theory assumption, which states that the change of position in top management, namely the CEO, results from a mismatch in targets expected by shareholders (Leker & Salomo, 2000). Current research suggests several factors influencing CEO turnover in a company, especially those listed on the Indonesia Stock Exchange. According to Yucha (2018), the factors causing CEO turnover are financial distress and financial performance, while Gunawan (2016) states that the factors influencing CEO turnover are financial performance and market performance. According to He et al. (2016), the factors influencing CEO turnover are the provision of salaries that are too low, which will result in voluntary CEO turnover. Chijoke-Mgbame et al. (2023), suspect factors influencing CEO turnover, namely company performance and internal CEO experience, are used as moderating variables.

The phenomenon of CEO turnover in Indonesia occurs quite often due to the mismatch between the expectations of the company's shareholders and the CEO's ability to execute strategy (Leker & Salomo, 2000). For example, PT. Garuda Indonesia Tbk and the manufacturing company PT. Tri Banyan Tirta Tbk, which occurred in 2020, where these two companies experienced losses for three consecutive years, resulting in a decline in company performance and a change of CEO. The assumption of agency theory can explain this CEO turnover event. According to Schroeder et al. (2020), agency theory is related to two parties, namely agents and principals, where one party, namely the agent, agrees to act on behalf of the other party. The agent (CEO) controls and regulates strategies to benefit the principal (shareholders). This theory is used where the agent (CEO) must meet the target of the principal's interests (shareholders), namely achieving company profits. If the company's performance deteriorates, the CEO can be replaced for this incident (Kaplan & Minton, 2006). Chang (2023) states that CEO changes often occur due to large market competition. Of course, with frequent CEO turnover, the company's condition will be unstable (Rusdama, 2017). This indirectly indicates that the company's condition is not good and inconsistent regarding the management of the company's managers.

This study uses manufacturing industry’s companies that went public on the IDX period 2019-2022, namely the period before and after the COVID-19 pandemic. Therefore, this period will later be used as a control variable in this study. The research object was chosen because this manufacturing company is one of the various fields of companies affected by COVID-19. This can be seen from the weakening of the manufacturing Purchasing Manager's Index (PMI) from 51.9 in February 2020 to 45.3 in March 2020, plummeting to 27.5 in April 2020 (Kusumah, 2020).

In agency theory, the agent as CEO is the decision maker. If the CEO cannot make the right decision, it will result in poor financial performance or losses for the principal (shareholders), and then the principal will tend to change the CEO. In financial performance, liquidity, measured using the Current Ratio (CR), is thought influencing CEO turnover. This is supported by the opinion of Sartono (2001) in Dana et al. (2021) that the higher the CR value, the greater the company in paying off its short-term obligations. Based on this, it indicates that the high CR value means the tendency for CEO turnover is low because financial performance is in good condition and also indicates that the agency conflict between the agent (CEO) and the principal (shareholders) in this condition is also low. Based on the description above, the following hypothesis is obtained:

H_{1a}: Financial performance Current Ratio negatively impacts CEO turnover

The following financial performance measure is profitability using return on asset (ROA). ROA is a ratio used to measure the effectiveness of executives (CEOs), which can be proven by the ability to create company profits (Rissi & Herman, 2021). Based on this, it shows that the higher the ROA value, the company's financial performance is in good condition, so its financial performance will tend to be harmful to CEO changes. In these conditions, this negative relationship indicates low agency conflict between the agent (CEO) and the principal (shareholders). This is in line with the findings by Chijoke-Mgbame et al. (2023), which show that the company's financial performance (measured using the ROA ratio-negative) significantly impacts CEO turnover. Based on the description above, the following hypothesis is obtained:

$H_{1b:}$ Return on Asset financial performance has a negative effect on CEO turnover.

In contrast to previous financial performance, financial performance in the form of solvency and capital ratios measured using Debt To Equity (DER) is a ratio used to explain the composition of debt compared to equity, where if the DER value is high, it will indicate that the composition of debt and the company's burden is large for creditors so that investors will view the company's financial performance as poor (Dana et al., 2021). According to Yucha (2018), the statement that a high DER value indicates that management is not good at managing the company. Based on this, a high DER value indicates that the company's performance is poor, so there is a high possibility of a CEO change. Likewise, the agency theory indicates that high DER conditions will cause an agency conflict between the agent (CEO) and the principal (shareholders) if these conditions are high due to poor performance in the company. Based on the description above, the following hypothesis is obtained:

H_{1c}: Financial performance (DER) positively affects CEO turnover.

Companies experiencing financial distress indicate that the company is performing poorly, so the CEO turnover will tend to be high. In agency theory, the condition of a company experiencing financial distress will give rise to agency costs. This occurs when the company has high debt (especially that which will be used to make high-risk investments); of course, it will worry creditors about the possibility of default. The occurrence of default is thought to result in management turnover. (Yucha, 2018), According to Wruck & Weiss (1988) and Evans et al. (2013), companies experiencing financial difficulties will experience information and agency problems covering which company assets should be maintained and sold. This will indicate that agency conflict between the agent (CEO) and the principal (shareholders) in this condition is also high. Based on this explanation, it is suspected that the influence of financial distress has a positive influence on CEO turnover. Yucha (2018)said that companies experiencing financial distress will have a positive influence on management turnover. Based on the description above, the following hypothesis is obtained:

H_2: Financial distress has a positive effect on CEO turnover.

Giving high compensation value to the CEO will encourage them to do their job well to achieve the goals desired by the company's shareholders. According to Utami et al. (201), high compensation packages such as short-term bonuses and long-term incentives in stock options are made to attract and encourage managerial effort and provide a comfortable working environment so that CEO turnover will be smaller. This can undoubtedly be motivation for CEO in carrying out their duties. According to agency theory, giving this compensation will increase bonding costs, which helps reduce agency conflict. This happens when giving a high salary to the CEO, which will reduce agency conflict between the agent (CEO) and principal (shareholder) so that compensation will tend to be negative. This agency conflict certainly has a significant influence on the amount of compensation given to the CEO. According to He et al. (2016, giving a low CEO salary to colleagues in the labor market can motivate executives to leave the company voluntarily. Based on the explanation above, the hypothesis is obtained as follows:

H_3: Compensation directors have a negative impact on CEO turnover

The assumption that CEOs with good internal experience have more information than those with little internal experience will undoubtedly reduce CEO turnover. This is in line with research by Chijoke-Mgbame et al. (2023)that states that internal experience moderates the relationship between financial performance and CEO turnover, which is because the internal experience of the CEO can create a sense of trust and loyalty with board members, making it challenging to be dismissed. This internal experience of the CEO tends to be more about his experience as a CEO; if the CEO has much experience, he will have good skills in managing the company's financial performance. This is in line with the opinion put forward by Edi & Cristi (2022)that the amount of experience the CEO has will allow the CEO to make better decisions compared to less experienced CEOs. Based on the explanation above, the hypothesis will be formulated as follows:

H_{4a}: Internal experience moderates the effect of financial performance (CR) on CEO turnover.

H_{4b}: Internal experience moderates the effect of financial performance (ROA) on CEO turnover.

H_{4c}: Internal experience moderates the effect of financial performance (DER) on CEO turnover.

The CEO's internal experience is critical in replacing CEOs with financial distress conditions. According to Yucha (2018, companies experiencing financial distress show that management has not been able to manage loan funds, resulting in default on debt and loan interest. This shows that the CEO does not have substantial experience in dealing with financial distress. Chijoke-Mgbame et al. (2023)stated that CEO internal experience not only leads the CEO to familiarity with the company's operations but also creates a level of trust and loyalty between the CEO and board member, making it difficult for CEO turnover. The trust and loyalty factors are the basis that CEO internal experience will tend to moderate CEO turnover in financial distress conditions.

Based on the explanation above, the hypothesis will be formulated as follows:

H_5: CEO internal experience moderates the effect of financial distress on CEO turnover.

The amount of CEO compensation given is undoubtedly based on external factors that influence expertise in the profession of a CEO. According to Haynes & Hillman (2010) and He et al. (2016), products traded in the managerial human capital market consist of expertise, experience, knowledge, reputation, managerial skills, and social capital that managers widely own. Internal experience is an important factor that can moderate the relationship between CEO compensation and turnover. According to Brockman et al. (2019, the amount of CEO experience will make him less likely to be dismissed because he has better knowledge of the company and access to resources.

Based on the explanation above, the hypothesis will be formulated as follows:

H_6: Internal experience moderates the effect of compensation on CEO turnover.

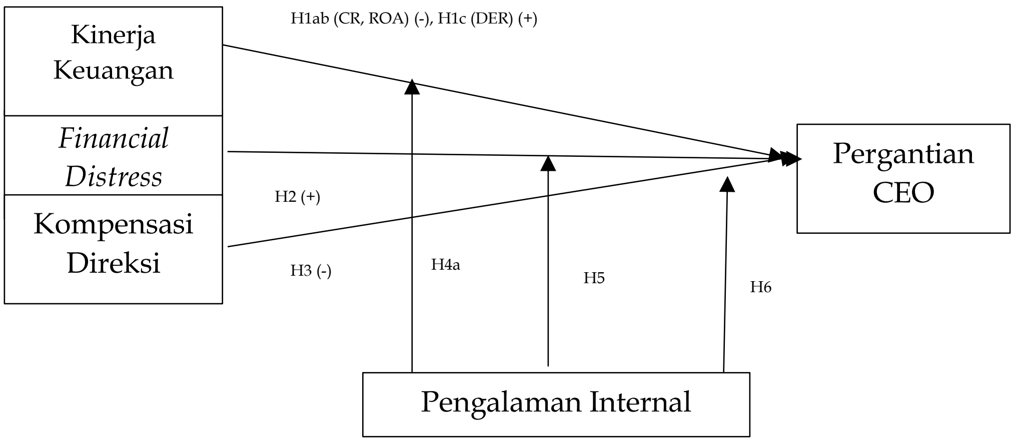

Figure 1. Research Model

Source: Research Data, 2023

RESEARCH METHODS

Data collection conducted in this study used documentation. The required documents are *annual reports* consisting of financial data, data on compensation and the history of the company's CEO, which can be obtained from the website www.idx.co.id/id or the company's official *website*. The population in this study were companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022. The purposive sampling method was used in this study. The observation sample in this study obtained as many as 123 data samples from samples of manufacturing companies that met the requirements for research from 2019-2022.

CEO turnover as a dependent variable in this study is measured using a *dummy variable*. If a company experiences a CEO change, it will be given a value of "1", while a company that does not experience a change of CEO will be given a value of "0". (Jatana, 2022). The independent variable measures financial performance in 3 proxies: c*urrent Ratio, Return On Asset,* and *Debt To Equity* (Faisal et al., 2017). Financial distress is measured using ICR, namely profit before tax and interest compared to interest expense (Azky et al., 2021). Director compensation is measured using the total compensation received by directors (Utami et al., 2019), in internal experience it is measured based on the length of service as CEO (Chijoke-Mgbame et al., 2023), while in the control variable, the COVID-19 pandemic event uses a *dummy variable* for the period 2019 and 2022 will be given a value of "0" because in the 2019 period there was no COVID-19 pandemic in Indonesia. In 2022, the period towards *the new* normal after the COVID-19 pandemic and the period 2020 and 2021 will be given a value of "1" because, in that event, there was a COVID-19 pandemic in Indonesia.

This study used logistic analysis techniques with the help of the SPSS program.

$$Ln\left(\frac{\mathrm{PCEO}}{1-\mathrm{PCEO}}\right) = \alpha - \beta 1CR - \beta 2ROA + \beta 3\ DER + \beta 4\mathrm{FD} - \beta 5KD - \beta 6\mathrm{CR} * \mathrm{PI} - \beta 7\mathrm{ROA} * \mathrm{PI} - \beta 8\mathrm{DER} * \mathrm{PI} - \beta 9\mathrm{FD} * \mathrm{PI} - \beta 10\mathrm{KD} * \mathrm{PI} + \mathrm{PPC19} + \varepsilon \quad (1)$$

Information:

PCEO = Change of *Chief Executive Officer*
α = Constant
β = Regression Coefficient
CR = *Current Ratio*
ROA = *Return On Asset*
DER = *Debt To Equity*
FD = *Financial Distress*
KD = Directors Compensation
PI = Internal Experience
PPC-19 = COVID-19 Pandemic Event
ε = *Error*

RESULTS AND DISCUSSION

The object of this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022. The number of companies listed on the IDX is 825 companies. However, in this study, there are five assessment criteria used in selecting samples, namely non-manufacturing companies listed on the IDX in 2019-2022 (598), manufacturing companies that did not experience a change of CEO in 2019-2022 (173), manufacturing companies that did not present *an annual report* in the period December 31 (4), manufacturing companies that did not experience *financial distress* at least 1x in the period 2019-2022 (16), and manufacturing companies that did not provide information related to the value of director compensation in 2019-2022 (1). Based on these criteria, the number of samples for 4 years was 132, with nine *outlier data, so the total number of samples that could be processed was 123*.

Table 1. Sample Determination Results

Information	N
Population of Companies Listed on the IDX 2019-2022	825
Companies that do not meet the criteria:	
1. Non-manufacturing companies listed on the IDX in 2019-2022	-598
2. Manufacturing companies that did not experience CEO changes in 2019-2022	-173
3. Manufacturing companies that do not present *annual reports* in the period ending December 31	-4
4. Manufacturing companies that did not experience *financial distress* at least once in the 2019-2022 period	-16
5. Manufacturing companies that do not provide complete information regarding the value of director compensation for 2019-2022	-1
Total Companies that meet the criteria	33
Observation Period	4 years
Total Sample	132
Outlier Data	9
Total Samples To Be Processed	123

Source: Research Data, 2023

Table 2. Results of Descriptive Statistical Tests

	N	Minimum	Maximum	Mean	Std. Deviation
CR	123	0.057	10,252	1,613	1,402
ROA	123	-0.631	0.343	-0.012	0.106
DER	123	-30,153	114,290	1,894	11,253
FD	123	-216,905	131,527	-0.044	30,324
Ln_KD	123	19,609	25,300	23,125	1,223
PI	123	0,000	27,833	4,266	5,471
Valid N (listwise)	123				

Source: Research Data, 2023

Table 2 shows that the number of samples studied was 123 samples obtained during the 4-year research period. In the financial performance variable, the *Current Ratio* (CR) proxy has a maximum value of 10.252 and is owned by the company PT sample. Mandom Indonesia Tbk in 2020, while the lowest value of 0.057 is owned by the sample at the company PT. Argo Pantes Tbk starting from 2020. This CR has an average value of 1.613, which means that the average company has a CR of 1.613, and the distribution of CR values between company samples is 1.402. In the financial performance proxy, *Return On Asset* (ROA) has a maximum value of 0.343 and is owned by the company PT. The company obtained Central Proteina Prima Tbk in 2021, and the lowest value at PT. Garuda Maintenance Facility Aero Asia Tbk in 2020 of -0.631. This ROA value has an average value of -0.012, which means that the condition of most companies has an average ratio of -0.012, and the distribution of ROA values between company samples is 0.106. In financial performance, the *Debt To Equity* (DER) proxy has a maximum value of 114,290 owned by PT. Asia Pacific Investama Tbk in 2020, while the lowest value is -30.153 in PT. Asia Pacific Investama Tbk in 2021. This DER value has an average value of 1.894, meaning that most companies have an average DER value of 1.894, and the distribution of DER values between company samples is 11.253.

The financial distress variable using the ICR measure has a maximum value of 131.527 obtained from PT. Lotte Chemical Tbk in 2021, while the lowest value was obtained from PT. Keramika Indonesia Assosiasi Tbk was -216.905 in 2019. The ICR value has an average value of -0.044, meaning that most companies have an ICR ratio of -0.044, and the distribution of ICR values between company samples is 30.324. The director compensation variable uses the Ln scale, where the highest Ln value is 25.300, equivalent to IDR 97 billion from the company PT. Waskita Karya Tbk in 2019, and the lowest value with an Ln value of 19.61 or IDR 328,187,115 at the company PT. Lotte Chemical Titan Tbk in 2021. The average value of this director's compensation is Ln 23.125 or IDR 18 billion, with a distribution of Ln_KD values between company samples of 1.223.

Regarding internal experience, the CEO has the highest value, indicating that the CEO has the most experience as a CEO, 27.83 years, as the CEO of PT. Chitose Tbk was still in office in 2019 before being replaced in 2020, while the lowest value, the CEO with the shortest experience, is from the CEO of PT—Bentoel Internasional Investama Tbk in 2019, which is 0.000 years. The average value of internal experience is 4.498, which indicates that the internal experience as a CEO in the company is an average of 4.266 years, with a large distribution of PI values between company samples of 5.471. Based on the results of this test indicate that the influence of financial performance and *financial distress* is not a benchmark for CEO turnover because the average value of each proxy is close to the value at the minimum condition so that the condition of the majority of manufacturing companies at that time was in a reasonable downward trend. However, the influence of compensation affects CEO turnover because the average compensation received is close to the highest value so that the small compensation received affects CEO turnover and is supported by a large amount of internal experience possessed.

Table 3. ***Dummy*** **Variable Frequency Test**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No CEO Change	90	73.2	73.2	73.2
	CEO Change	33	26.8	26.8	100.0
	Total	123	100.0	100.0	
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No COVID-19	60	48.8	48.8	48.8
	COVID-19	63	51.2	51.2	100.0
	Total	123	100.0	100.0	

Source: Research Data, 2023

Table 3 shows that 33 samples or 26.8% of the total 123 samples, are included in the category of companies that experienced CEO changes. The remaining 90 or 73.2% of the total samples are included in the category of companies that did not experience CEO changes throughout 2019-2022. The successfully studied samples were 123 data with details of 60 companies studied before the COVID-19 incident, namely in 2019 and 2022, and 63 samples of companies studied during the COVID-19 incident, namely in 2020-2021.

Table 4. Results of ***Hosmer and Lemeshow's Goodness of Fit Test***

Step	Chi-square	df	Sig.
1	15,047	8	0.058

Source: Research Data, 2023

Table 4 shows that the sig value is 5.8% >5%, which indicates that in this test, there is no difference between the model and its observation value, and this model is said to be able to predict its observation value.

Table 5. Hypothesis Test Results (t)

		B	S.E.	Wald	df	Sig.
Step 1 [a]	PPC-19	1,009	0.769	1,721	1	0.190
	CR	-0.037	0.514	0.005	1	0.943
	ROA	-11,796	11,127	1,124	1	0.289
	DER	0.070	0.214	0.107	1	0.744
	FD	0.096	0.060	2,555	1	0.110
	Ln_KD	-1,883	0.856	4,839	1	0.028
	PI	-43,706	17,227	6,437	1	0.011
	CR_PI	0.290	0.449	0.416	1	0.519
	ROA_PI	6,646	7,915	0.705	1	0.401
	DER_PI	0.037	0.041	0,800	1	0.371
	FD_PI	-0.039	0.028	2,032	1	0.154
	Ln_KD_PI	1,689	0.691	5,975	1	0.015
	Constant	47,085	20,861	5,095	1	0.024

Source: Research Data, 2023

In the results of hypothesis testing, if the sig value is ≤ ≤ 0,05 or 5%, then the independent variable affects the dependent variable, but if the sig value is above > 0.05 or 5%, then the independent variable does not affect the dependent variable.

So, for the independent variables of financial performance (CR, ROA, DER), *financial distress,* and the role of internal experience moderating financial performance (CR, ROA, DER), and *financial distress,* and the control variable of the COVID-19 pandemic event (PPC-19) does not affect CEO turnover. In contrast, the variables of director compensation and the role of internal experience affect CEO turnover.

Based on the results of the hypothesis test, the following regression equation is produced:

$$Ln\left(\frac{\text{PCEO}}{1-\text{PCEO}}\right) = 47{,}085 - 0{,}037CR - 11{,}796\,ROA + 0{,}070\,DER + 0{,}096\ \text{FD} - 1{,}883KD + 0{,}290\ \text{CR} * \text{PI} + 6{,}646\ \text{ROA} * \text{PI} + 0{,}037\ \text{DER} * \text{PI} - 0{,}039\text{FD} * \text{PI} + 1{,}689\text{KD} * \text{PI} + 1{,}009\text{PPC19} + \varepsilon \quad (2)$$

At a constant value of 47.085. This indicates that the independent variables (CR, ROA, DER, FD, KD, CR_PI, ROA_PI, DER_PI, FD_PI, and KD_PI) have a regression coefficient of 0, then PCEO will be worth 47.085.

In the financial performance variables measured by the proxy, *Current Ratio* (CR), *Return On Asset* (ROA), and *Debt To Equity* (DER) do not affect CEO turnover. This study's results contradict the hypothesis, which states that financial performance (CR and ROA) negatively affects CEO turnover and financial performance (DER) positively affects CEO turnover, so H1a, H1b, and H1c are rejected.

Based on the results obtained, it is certainly in line with the opinion put forward by Sartono (2001) in Dana et al. (2021)that the higher the CR value, the greater the company in paying off its short-term obligations so that it has a negative effect, but the financial performance measure is not related to decision making on CEO turnover. These results also align with research conducted by Gunawan (2016), which found that the CR ratio does not affect CEO turnover. This is suspected due to other factors, such as decreasing consumer purchasing power and increasing inflation, which are not caused by poor CEO performance. The results of this study are not in line with agency theory because, according to this theory, the CEO is unable to make the right decision, which results in poor company performance, so the principal (*shareholders*) will be harmed, and the principal will likely tend to change the CEO. In the results of this study, financial performance as measured by the CR ratio does not affect or is not a factor considered in CEO replacement. In addition, the study's results are not in line with the findings of previous studies conducted by Yucha (2018), which found that financial performance (CR) affects *turnover management.*

In financial performance, the ROA ratio is not related to CEO turnover decisions. This is supported by the research conducted by Katana (2022), which shows a weak relationship between financial performance measured using ROA and CEO turnover. In addition, it is also supported by the findings of Radjen & Stanisic (2017) that the company's financial performance does not have a negative relationship with top management turnover. This could happen because the research conducted in Serbia showed an inefficient corporate governance mechanism. In agency theory, it is not in line with the findings in this study that the financial performance factor in the ROA proxy is not the basis for determining *shareholders* in determining CEO turnover. This basis is suspected to have other factors that influence CEO turnover. The study's results are also not in line with the findings obtained from Chijoke-Mgbame et al. (2023), which state that financial performance measured using ROA affects CEO turnover. This indicates that CEO turnover will be highly likely if ROA's financial performance decreases.

In financial performance, the DER ratio is not related to CEO turnover decisions. The results of the study are also in line with the findings obtained fromGunawan (2016) that DER does not influence because the more significant the company's debt does not indicate that the company is in a loss condition but is used to fund activities that can provide benefits to the company in the future. Yucha (2018)also found the same thing: that DER does not affect turnover management, and this can happen even though the high DER value is the result of inappropriate decision-making. In agency theory, looking at the results of this study indicates that the theory is not in line. This can happen because poor financial performance at a high DER ratio is not a determining factor for CEO replacement. In agency theory, if the company experiences poor financial performance, there is a high possibility of a replacement for the CEO. This can happen because there are other factors that shareholders consider to make a CEO replacement.

Based on the tests conducted, *financial distress* (FD) measured using *the Interest Coverage Ratio* (ICR) does not affect CEO turnover. This study's results contradict the hypothesis, which states that *financial distress* has a positive effect on CEO turnover, so H2 is rejected. In this case, it indicates that the company's *financial distress* on the ICR proxy is unrelated to decision-making on CEO turnover, even though it has a positive effect. The results of these tests indeed contradict the agency theory, where companies that experience *financial distress* will incur *agency costs, indicating that the company uses debt to carry out high-risk projects, resulting in a high potential for default and* CEO turnover. This is very contrary to the study's results, which state that the *financial distress factor* is not a factor influencing the occurrence of CEO turnover. The results of this study are also not in line with the findings of previous studies conducted by the Yucha (2018). The *financial distress* factor has a positive effect on management turnover. This can happen because the low ICR value indicates that the company's ability to pay interest is decreasing. This shows that the management has not been able to manage loan funds, which will later result in default on debt and interest, so the risk of management turnover will be significant.

Based on the results of the tests that have been conducted, the compensation of directors (Ln_KD) negatively affects CEO turnover. The study's results certainly align with the hypothesis in this study, which states that compensation harms CEO turnover, so H3 is accepted. In this case, it indicates that the amount of compensation obtained is related to decision-making regarding CEO turnover. Previous research also found supporting results related to the influence of compensation on CEO turnover. This is evidenced by He et al., (2016) finding that low salaries received by CEOs will result in voluntary turnover. The salary gap causes this turnover to lack salary payments below market prices, increasing the CEO's motivation to leave the company. According to agency theory, CEO compensation will give rise to *bonding costs* from providing managerial compensation, stock options, and bonuses that will bind the CEO's wealth to the shareholder's wealth to reduce agency conflicts. According to Bebchuck & Fried (2003) and Utami et al. (2019, this agency theory explains the use of compensation as a managerial mechanism in maximizing the interests *of shareholders*. Based on this, of course, the findings of this study show that the provision of large or small compensation is a factor that influences the CEO turnover process. If the *shareholders* want better company performance, then the *shareholders* must provide higher CEO compensation. If the CEO's compensation is low, it will affect the company's performance, which will decline, making it possible for CEO turnover. The results of this study are not in line with research conducted by Utami et al. (2019), which states that the amount of compensation received by the CEO does not affect CEO turnover. This can happen because of its uniqueness, namely the harmony between the board of directors and the organizational culture and high loyalty to the company so that the compensation received does not become a factor in the CEO leaving the company.

Based on the results of the tests that have been carried out, the financial performance is measured using *the Current Ratio* (CR), *Return On Asset* (ROA), *and Debt To Equity* (DER), which is moderated by internal experience (PI) and does not affect CEO turnover. The results of this study certainly do not follow the hypothesis of this study, which states that internal experience moderates financial performance (CR, ROA, and DER) against CEO turnover so that H4a, H4b, and H4c are rejected. In this case, it indicates that the company's financial performance (CR, ROA, and DER) with internal experience (PI) as moderation is unrelated to CEO turnover. The results show that the role of internal experience as moderation has no effect in strengthening or weakening financial performance on the CR ratio to CEO turnover. This shows that the size of the CEO's internal experience is not a requirement for assistance in poor CR conditions to make a CEO change. According to Srimindarti (2009, a low CR value will create a bad *image* for the company and reflect liquidity problems. This shows why shareholders want real action from the CEO's strategy on financial performance, especially good CR, without looking at the CEO's background experience. The results of this study show that there is no conformity with the upper echelon theory, where the characteristics of the CEO, namely the CEO's experience, cannot influence the decisions to be taken. Where the influence of internal experience as a moderation on financial performance with CR proxy is unable to influence the occurrence of the CEO change, this indicates that the characteristics of internal experience as a moderation on financial performance with CR proxy are unable to influence the decision that will be given by *shareholders* to make a CEO change.

The role of moderation in the ROA_PI variable is unrelated to CEO turnover. The results show that the role of internal experience as moderation has no effect in strengthening or weakening financial performance on the ROA ratio to CEO turnover. This can happen because financial performance, especially ROA, is unrelated to the CEO's internal experience. Financial performance on this ROA ratio tends to look more at company performance in terms of profitability without looking at the background of the CEO's many experiences. The results of this study show that there is no conformity with the upper echelon theory, where the characteristics of the CEO, namely the CEO's experience, cannot influence the decisions to be taken. Where the influence of internal experience as moderation on financial performance with the ROA proxy is unable to influence the occurrence of CEO turnover, this indicates that the characteristics of internal experience as moderation on the financial performance of the ROA proxy are unable to influence the decisions that shareholders will give to make a CEO change. This is certainly different from the findings obtained from Chijoke-Mgbame et al. (2023)that the CEO's internal experience and the CEO's financial performance with the ROA proxy together will reduce the occurrence of CEO turnover because the CEO's experience itself is a valuable asset for the company.

In (DER_PI), it shows no effect on CEO turnover. This shows that the role of internal experience as moderation has no impact on strengthening or weakening financial performance on the DER ratio to CEO turnover. This happens because financial performance on the DER ratio does not see the interaction factor on the amount of internal experience owned by the CEO. The results of this study show that there is no conformity with the upper echelon theory, where the characteristics of the CEO, namely the CEO's experience, cannot influence the decisions to be taken. Where the influence of internal experience as a moderation on financial performance with the DER proxy is unable to influence the occurrence of CEO turnover, this indicates that the characteristics of internal experience as a moderation on the financial performance of the DER proxy are unable to influence the decisions that shareholders will give to make a CEO change.

Based on the results of the tests that have been conducted, *financial distress* using the ICR proxy moderated by internal experience (FD_PI) does not affect CEO turnover. This study's results certainly do not follow the hypothesis, which states that internal experience moderates financial performance (DER) on CEO turnover, so H5 is rejected. In this case, it indicates that *financial distress* moderated by internal experience is unrelated to CEO turnover.

The results indicate that the role of internal experience as moderation has no relationship with strengthening or weakening the condition of *financial distress* toward CEO turnover. Based on that, it can happen because the CEO's lack of internal experience, trust, and loyalty factors cannot guarantee that the company's finances are safe from *financial distress.* The results of this study show that there is no conformity with the upper echelon theory, where the characteristics of the CEO, namely the CEO's experience, cannot influence the decisions to be taken. Where the role of internal experience as moderation in *financial distress* cannot influence the occurrence of CEO turnover, this indicates that the characteristics of internal experience as a moderation are not a determining factor in making CEO changes. In addition, there was also a discrepancy in the opinion of Edi & Cristi (2022)that CEOs with much experience will be more successful when compared to CEOs who are less experienced.

Based on the results of the tests that have been carried out, compensation moderated by internal experience (Ln_KD_PI) positively affects CEO turnover. This study's results certainly follow the hypothesis, which states that internal experience moderates compensation for CEO turnover, so H6 is accepted. In this case, it indicates that compensation for directors moderated by internal experience is related to CEO turnover.

The results indicate that the role of internal experience as moderation can strengthen the board of directors' compensation against CEO turnover. This suggests that the amount of experience owned by the CEO and the compensation given will strengthen the occurrence of CEO turnover. This is suspected because CEOs with much experience know the salary that must be obtained. If an experienced CEO is paid relatively low, the CEO tends to leave the company. In addition, there is also a conformity with the upper echelon theory, where the characteristics of the CEO, namely the CEO's experience, can significantly influence the decisions that will be taken. The influence of internal experience as a moderation on the board of directors' compensation strengthens the occurrence of CEO turnover. This indicates that the characteristics of internal experience, such as moderation on the board of directors' compensation, can influence the decisions that will be made. However, there is a discrepancy with the opinion of Brockman et al. (2019) that the CEO's extensive experience will make him less likely to be dismissed because he has better knowledge of the company and access to resources. This is suspected of being another factor, one of which is the political factor influencing CEO turnover. CEO turnover is influenced by political factors that indirectly refer to *stakeholders,* especially in government-owned companies with political and social goals and the personal interests of bureaucrats& Leung., (2012).

CONCLUSION

In the study of financial performance, *financial distress,* the role of internal experience as moderation, and the COVID-19 pandemic event as a control variable did not affect CEO turnover. This shows that many sample companies did not change CEOs. This is suspected to be due to the majority ownership factor that occurs in manufacturing companies in Indonesia, so for further research, consider using ownership variables suspected of influencing CEO turnover in Indonesia. The variable of director compensation and the role of the amount of internal experience as a moderation influence the occurrence of CEO turnover.

However, there is limited data in the study of CEO compensation, so the researcher decided to show the results of the total compensation value of the company's board of directors and board of commissioners. The total compensation includes the CEO compensation obtained, so for further research, consider using other variables, considering that the amount of compensation obtained in manufacturing companies tends to be a combination of director and commissioner compensation. In the moderating variable, namely internal experience, there is incomplete disclosure of the CEO's internal experience in *the annual report* regarding his work history as CEO at the previous company, so further research is expected to consider the use of the CEO's internal experience variable because of the difficulty of obtaining data. However, the results of this study are expected to provide an initial picture regarding the influence and role of the CEO's internal experience.

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