The Influence of Financial Performance, Financial Distress, and Director Compensation on CEO Turnover: The Moderating Role of Internal Experience

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ABSTRACT

The Chief Executive Officer (CEO) serves as the primary regulator and controller of corporate operations, with the overarching goal of maximizing firm profitability. However, when shareholders perceive the CEO's performance as unsatisfactory, leadership changes may occur. Frequent CEO turnover within a short period can have detrimental effects on organizational stability and performance. This study investigates the impact of financial performance, financial distress, and board of directors' compensation on CEO turnover, while also examining the moderating role of internal experience. The research focuses on manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Using purposive sampling, a total of 123 firm-year observations were selected. Logistic regression was employed as the primary data analysis technique. The empirical findings reveal that financial performance—measured by current ratio (CR), return on assets (ROA), and debt-to-equity ratio (DER)—along with financial distress and the CEO's internal experience, do not significantly influence CEO turnover. Conversely, board of directors' compensation is found to have a significant effect on CEO turnover. Furthermore, internal experience moderates the relationship between board compensation and CEO turnover, amplifying its impact. This study highlights that while financial indicators and internal experience alone do not directly influence CEO turnover, compensation structures and internal experience jointly play a critical role in shaping CEO succession decisions.

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

Pengaruh Kinerja Keuangan, Kesulitan Keuangan, dan Kompensasi Direktur terhadap Pergantian CEO: Peran Moderasi Pengalaman Internal

ABSTRAK

Chief Executive Officer (CEO) berfungsi sebagai regulator dan pengendali utama operasi perusahaan, dengan tujuan utama untuk memaksimalkan profitabilitas perusahaan. Namun, ketika pemegang saham menganggap kinerja CEO tidak memuaskan, perubahan kepemimpinan dapat terjadi. Pergantian CEO yang sering terjadi dalam waktu singkat dapat berdampak buruk pada stabilitas dan kinerja organisasi. Studi ini menyelidiki dampak kinerja keuangan, kesulitan keuangan, dan kompensasi dewan direksi terhadap pergantian CEO, sambil juga memeriksa peran moderasi pengalaman internal. Penelitian ini berfokus pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2019 hingga 2022. Dengan menggunakan purposive sampling, total 123 observasi perusahaan-tahun dipilih. Regresi logistik digunakan sebagai teknik analisis data utama. Temuan empiris mengungkapkan bahwa kinerja keuangan – diukur dengan rasio lancar (CR), pengembalian aset (ROA), dan rasio utang terhadap ekuitas (DER) – bersama dengan kesulitan keuangan dan pengalaman internal CEO, tidak secara signifikan memengaruhi pergantian CEO. Sebaliknya, kompensasi dewan direksi ditemukan memiliki pengaruh yang signifikan terhadap pergantian CEO. Lebih jauh, pengalaman internal memoderasi hubungan antara kompensasi dewan dan pergantian CEO, sehingga memperkuat dampaknya. Studi ini menyoroti bahwa meskipun indikator keuangan dan pengalaman internal saja tidak secara langsung memengaruhi pergantian CEO, struktur kompensasi dan pengalaman internal secara bersama-sama memainkan peran penting dalam membentuk keputusan suksesi CEO.

Kata Kunci: Pergantian CEO; Kinerja Keuangan; Kesulitan Keuangan; Kompensasi Direktur; Pengalaman Internal.

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INTRODUCTION

The primary objective of any business is to generate profit to ensure its sustainability as a going concern. Profitability, in turn, is closely tied to the strategic decisions made by the Chief Executive Officer (CEO), who serves as the central figure in directing and managing company operations. As such, firm performance often determines the CEO's tenure—strong financial results are likely to secure the CEO's position, while underperformance may lead to their dismissal. Leker and Salomo (2000) argue that a decline in firm performance significantly increases the likelihood of CEO turnover. This view aligns with Jensen and Wruck (1988), as cited in Jostarndt (2007), who emphasize that financial distress may signal a shift in ownership structures and resource allocation, prompting leadership change within the firm.

CEO turnover is often analyzed through the lens of agency theory, which posits that a misalignment between the interests of shareholders (principals) and management (agents) may lead to corrective actions, such as replacing the CEO (Leker & Salomo, 2000). Recent studies have identified several key determinants of CEO turnover. Yucha (2018) highlights financial distress and overall financial performance as primary drivers, while Gunawan (2016) emphasizes financial and market performance. He et al. (2016) add that inadequate compensation can lead to voluntary CEO departures. Similarly, Chijoke-Mgbame et al. (2023) propose that internal CEO experience moderates the relationship between firm performance and CEO turnover.

In Indonesia, CEO turnover has been frequent, often resulting from a misalignment between shareholder expectations and the CEO's ability to execute corporate strategy (Leker & Salomo, 2000). For instance, in 2020, PT Garuda Indonesia Tbk and PT Tri Banyan Tirta Tbk experienced CEO changes after three consecutive years of losses. These cases illustrate how poor performance, as perceived by shareholders, may lead to leadership change—consistent with the assumptions of agency theory. According to Schroeder et al. (2020), agency theory frames the CEO as the agent who must act in the interest of the principal by maximizing shareholder value. If performance targets are not met, the principal may replace the agent (Kaplan & Minton, 2006). Chang (2023) further notes that intense market competition also contributes to CEO turnover. As Rusdama (2017) suggests, frequent CEO changes may create instability, signaling management inefficiency and deteriorating firm conditions.

This study focuses on manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022, encompassing both the pre- and post-COVID-19 periods. The selected timeframe serves as a control variable to capture the effects of the pandemic, which significantly disrupted the manufacturing sector. This is evidenced by the decline in Indonesia's Manufacturing Purchasing Managers' Index (PMI), from 51.9 in February 2020 to 45.3 in March 2020, and further down to 27.5 in April 2020 (Kusumah, 2020).

Agency theory positions the CEO as the primary decision-maker, and failure to make sound financial decisions can harm firm performance, ultimately prompting CEO replacement. One dimension of financial performance—liquidity—is measured using the Current Ratio (CR). Sartono (2001), as cited in Dana et al. (2021), argues that a higher CR reflects a firm's ability to meet short-

term obligations, thereby suggesting strong financial health. A strong CR may reduce the likelihood of CEO turnover, as agency conflicts are less likely when financial conditions are favorable. Thus, the following hypothesis is proposed:
H_{1a}: Financial performance measured by the Current Ratio (CR) negatively affects CEO turnover.

Another key indicator of financial performance is profitability, typically measured using Return on Assets (ROA). ROA reflects management's effectiveness in generating returns from company assets and is often used to assess the CEO's performance (Rissi & Herman, 2021). A high ROA indicates good financial health, reducing the probability of CEO dismissal. This inverse relationship also suggests minimal agency conflict between shareholders and management. Chijoke-Mgbame et al. (2023) find that ROA is negatively associated with CEO turnover. Based on this rationale, the following hypothesis is developed:
H_{1b}: Financial performance measured by Return on Assets (ROA) negatively affects CEO turnover.

In contrast, solvency—measured using the Debt-to-Equity Ratio (DER)—captures a firm's capital structure and financial risk. A high DER implies a heavier reliance on debt financing, which may be perceived negatively by investors and creditors (Dana et al., 2021). Yucha (2018) asserts that a high DER reflects poor managerial efficiency. From an agency theory perspective, a high DER increases the potential for conflict between shareholders and the CEO, as financial risk escalates. Accordingly, the following hypothesis is proposed:
H_{1c}: Financial performance measured by the Debt-to-Equity Ratio (DER) positively affects CEO turnover.

Firms experiencing financial distress often face greater agency problems due to conflicting interests between shareholders and creditors. When companies are burdened by debt, especially to finance high-risk ventures, concerns about default become pronounced, potentially prompting leadership changes (Yucha, 2018). Wruck and Weiss (1988) and Evans et al. (2013) argue that financial distress exacerbates agency issues related to asset allocation and decision-making. In such scenarios, the likelihood of CEO turnover increases as shareholders seek more effective management. Therefore, the following hypothesis is developed:
H_2: Financial distress positively affects CEO turnover.

Providing CEOs with substantial compensation is intended to incentivize them to perform effectively in achieving the objectives set by shareholders. Utami et al. (2017) argue that generous compensation packages, including short-term bonuses and long-term incentives such as stock options, are designed not only to attract and retain top executive talent but also to foster a conducive work environment, thereby reducing CEO turnover. These incentives serve as a motivational tool for CEOs in fulfilling their managerial responsibilities.

From the perspective of agency theory, such compensation strategies are associated with bonding costs, which help mitigate agency conflicts between principals (shareholders) and agents (CEOs). Offering higher salaries can reduce these conflicts by aligning the interests of both parties, although this alignment may also lead to reduced flexibility in adjusting compensation downward. Agency conflicts, therefore, play a pivotal role in determining the structure and level of CEO compensation. He et al. (2016) suggest that when CEOs are compensated

below market levels, especially compared to their peers, they may be more inclined to leave the organization voluntarily. Based on this theoretical and empirical context, the following hypothesis is proposed:
H_3: Director compensation has a negative impact on CEO turnover.

CEOs with extensive internal experience are typically more knowledgeable about the firm's operations, which can contribute to lower turnover rates. Chijoke-Mgbame et al. (2023) found that internal experience moderates the relationship between financial performance and CEO turnover. CEOs with substantial internal experience are more likely to earn the trust and loyalty of the board, making their replacement less likely. This experience is often reflected in the CEO's ability to manage the company's financial performance effectively. Edi and Cristi (2022) support this view, noting that experienced CEOs are better positioned to make sound strategic decisions compared to their less experienced counterparts. Based on this rationale, the following hypotheses are proposed:
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 role of internal experience becomes even more critical when a company is experiencing financial distress. Yucha (2018) posits that financial distress often indicates ineffective management of loan obligations, including defaults on debt and interest payments—an indication that the CEO may lack the requisite experience to navigate such challenges. However, as Chijoke-Mgbame et al. (2023) observe, CEOs with greater internal experience not only possess operational familiarity but also foster trust and loyalty among board members, which can serve as a protective factor against dismissal during periods of distress. These relational dynamics suggest that internal experience may moderate the impact of financial distress on CEO turnover. Accordingly, the following hypothesis is proposed:
H_5: CEO internal experience moderates the effect of financial distress on CEO turnover.

CEO compensation is also shaped by external factors related to the broader market for managerial talent. As noted by Haynes and Hillman (2010) and He et al. (2016), the managerial labor market values a range of attributes, including expertise, experience, reputation, and social capital. In this context, internal experience emerges as a key moderator in the relationship between compensation and CEO turnover. Brockman et al. (2019) emphasize that CEOs with significant internal experience are less likely to be replaced due to their deeper understanding of the firm and their access to critical resources. Based on this reasoning, the following hypothesis is proposed:
H_6: Internal experience moderates the effect of compensation on CEO turnover.

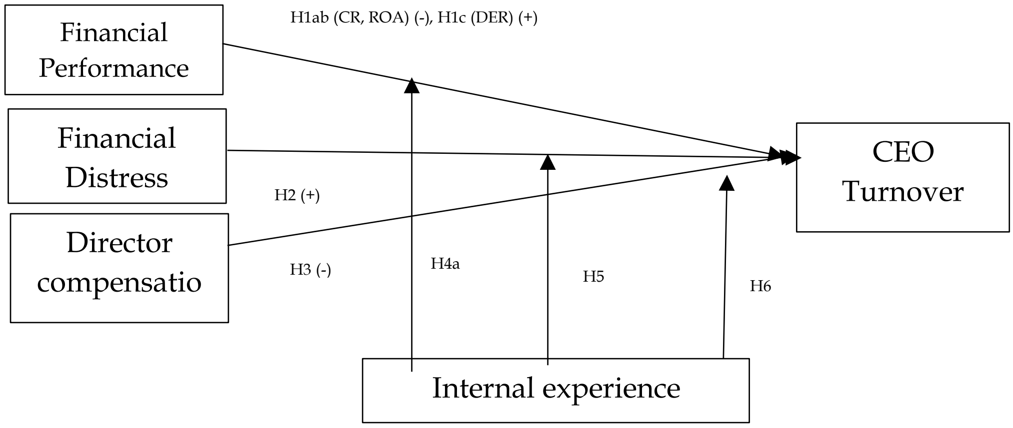

Figure 1. Research Model

RESEARCH METHODS

This study employed a documentation method for data collection. The required data—comprising financial performance metrics, CEO compensation details, and CEO histories—were obtained from annual reports available on the official websites of the respective companies or via the Indonesia Stock Exchange (IDX) portal at www.idx.co.id/id. The population consists of companies listed on the IDX from 2019 to 2022. A purposive sampling method was applied to select relevant manufacturing firms that met the research criteria. Based on this method, the final sample comprised 123 firm-year observations from manufacturing companies during the 2019–2022 period.

The dependent variable, CEO turnover, is measured using a binary (dummy) variable. A value of "1" indicates a CEO change within a given year, while "0" denotes no change (Jatana, 2022). The independent variable of financial performance is proxied by three measures: Current Ratio (CR), Return on Assets (ROA), and Debt to Equity Ratio (DER) (Faisal et al., 2017). Financial distress is measured using the Interest Coverage Ratio (ICR), calculated as earnings before interest and taxes divided by interest expenses (Azky et al., 2021). Director compensation is represented by the total compensation received by the board of directors, measured in natural logarithmic form (Utami et al., 2019). Internal experience is quantified based on the CEO's tenure in years (Chijoke-Mgbame et al., 2023). The control variable, the COVID-19 pandemic, is included as a dummy: observations from 2020 and 2021 (during the pandemic) are coded "1", while those from 2019 and 2022 (pre-pandemic and transition to the new normal) are coded "0". 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.

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

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 study comprises manufacturing companies listed on the IDX from 2019 to 2022. Of the 825 listed companies, several exclusion criteria were applied: 598 non-manufacturing firms were removed; 173 manufacturing firms without CEO turnover during the period were excluded; four firms lacking December 31 annual reports were omitted; 16 firms that never experienced financial distress were excluded; and one firm lacking compensation data was removed. This yielded 132 observations, from which nine outliers were excluded, resulting in 123 usable firm-year samples.

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

Descriptive statistics are presented in Table 2. For the financial performance variables, the Current Ratio (CR) ranged from a maximum of 10.252 (PT Mandom Indonesia Tbk, 2020) to a minimum of 0.057 (PT Argo Pantes Tbk, 2020), with a mean of 1.613 and a standard deviation of 1.402. ROA reached a high of 0.343 (PT Central Proteina Prima Tbk, 2021) and a low of -0.631 (PT Garuda Maintenance Facility Aero Asia Tbk, 2020), with an average of -0.012 and a standard deviation of 0.106. The DER varied significantly, with a peak of 114.290 (PT Asia Pacific Investama Tbk, 2020) and a minimum of -30.153 for the same firm in 2021. The average DER was 1.894, and the standard deviation was 11.253, reflecting high volatility in capital structure.

Financial distress, as measured by ICR, showed substantial dispersion, with a maximum of 131.527 (PT Lotte Chemical Tbk, 2021) and a minimum of -216.905 (PT Keramika Indonesia Assosiasi Tbk, 2019). The mean ICR was -0.044, indicating that most companies were experiencing financial strain during the study period, and the standard deviation was 30.324.

Director compensation, transformed using the natural logarithm, ranged from a maximum of 25.300 (equivalent to IDR 97 billion, PT Waskita Karya Tbk, 2019) to a minimum of 19.610 (IDR 328 million, PT Lotte Chemical Titan Tbk, 2021). The average logged compensation was 23.125, equivalent to approximately IDR 18 billion, with a standard deviation of 1.223.

Regarding internal experience, the highest tenure was 27.83 years (CEO of PT Chitose Tbk, who stepped down in 2020), while the lowest was 0.000 years (CEO of PT Bentoel Internasional Investama Tbk, 2019). The average CEO tenure across the sample was 4.498 years, with a standard deviation of 5.471. These descriptive results suggest that financial performance and distress were not primary indicators of CEO turnover, as average values across proxies were closer to their respective minimums, reflecting a broader downturn in manufacturing sector performance during the period. In contrast, compensation levels were near the upper bound, indicating that lower compensation may have driven CEO turnover, particularly among CEOs with significant internal experience.

As shown in Table 3, 33 of the 123 companies (26.8%) experienced CEO turnover, while the remaining 90 (73.2%) did not. Of the total observations, 60 occurred in pre-pandemic and post-pandemic transition years (2019 and 2022), while 63 were recorded during the COVID-19 pandemic period (2020–2021).

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 4 presents the model fit results, with a significance (sig.) value of 5.8%, which exceeds the conventional 5% threshold. This indicates no significant deviation between the model's predictions and the observed values, suggesting that the model adequately explains the data.

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 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

Hypothesis testing results reveal that when the significance value is less than or equal to 0.05, the independent variable has a statistically significant effect on the dependent variable. Otherwise, it does not. Accordingly, financial performance (CR, ROA, DER), financial distress, the interaction between internal experience and financial performance, and the COVID-19 pandemic dummy did not significantly influence CEO turnover. However, director compensation and the moderating effect of internal experience were found to have a statistically significant impact on CEO turnover.

Based on these findings, the following regression model was generated:

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

At a constant value of 47.085, the regression intercept indicates that when all independent variables—Current Ratio (CR), Return on Assets (ROA), Debt to Equity Ratio (DER), Financial Distress (FD), Director Compensation (Ln_KD), and their respective interaction terms with internal experience (CR_PI, ROA_PI, DER_PI, FD_PI, and KD_PI)—are held at zero, the predicted value of CEO turnover (PCEO) is 47.085.

The findings reveal that the financial performance variables—CR, ROA, and DER—do not have a significant effect on CEO turnover. These results contradict the study's hypotheses, which proposed that CR and ROA would negatively affect CEO turnover, while DER would have a positive effect. As such, hypotheses 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.

Similarly, financial distress (FD), measured using the Interest Coverage Ratio (ICR), does not significantly influence CEO turnover. This result is inconsistent with the expectation outlined in hypothesis H2, which posited a positive relationship between financial distress and CEO turnover. Although theoretically, financial distress increases agency costs—since firms in distress are more likely to engage in riskier projects, heightening the risk of default and potentially prompting leadership changes—this expected relationship was not supported by the empirical evidence. These findings also diverge from agency theory, which suggests that financial difficulties should prompt board intervention and managerial turnover. Additionally, the results contrast with previous studies such as Yucha (2018), who found that financial distress, as indicated by declining ICR values, increased the likelihood of management turnover due to a deteriorating ability to service debt and interest obligations.

In contrast, director compensation (Ln_KD) exhibits a statistically significant negative effect on CEO turnover, supporting hypothesis H3. This suggests that compensation levels are indeed associated with decisions related to CEO retention. These findings align with those of He et al. (2016), who argue that CEOs receiving salaries below market levels are more inclined to leave voluntarily, driven by dissatisfaction with perceived compensation inequities. In line with agency theory, higher compensation introduces bonding costs through mechanisms such as stock options and bonuses, effectively aligning the interests of CEOs and shareholders. Bebchuk and Fried (2003) and Utami et al. (2019) similarly note that compensation functions as a governance mechanism to mitigate agency conflicts. These findings highlight the importance of adequate CEO remuneration in retaining top executives and suggest that insufficient compensation may jeopardize firm stability. However, this study’s results differ from those of Utami et al. (2019), who found no significant effect of compensation on CEO turnover. It happens assumed 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.

Regarding the moderating role of internal experience (PI), the results indicate that it does not significantly influence the relationship between financial performance—CR, ROA, and DER—and CEO turnover. Consequently, hypotheses H4a, H4b, and H4c are rejected. These results suggest that internal experience neither strengthens nor weakens the effect of financial performance on CEO turnover. Specifically, in the case of CR, the data imply that low liquidity, reflected by a low CR, does not necessitate a CEO change regardless of the CEO's experience level. Srimindarti (2009) notes that a low CR may negatively affect the firm's image by signaling liquidity issues, but shareholders may still demand performance improvements without necessarily attributing poor performance to the CEO's background. Thus, internal experience does not appear to serve as a buffer against turnover when liquidity is weak.

For ROA, internal experience again fails to moderate the relationship with CEO turnover. This suggests that profitability—typically a critical performance indicator—is assessed independently of the CEO's tenure or background. Contrary to upper echelon theory, which posits that executive characteristics influence strategic decision-making, these findings indicate that internal experience does not sway shareholder decisions related to CEO turnover in contexts of profitability performance. These results are inconsistent with those of Chijoke-Mgbame et al. (2023), who found that internal experience, in conjunction with strong financial performance, can reduce CEO turnover, positioning CEO experience as a valuable organizational asset.

Similarly, the interaction between internal experience and DER does not affect CEO turnover. This result implies that capital structure performance does not significantly interact with CEO tenure in influencing turnover decisions. Again, these findings contradict upper echelon theory, suggesting that the CEO's experience is not a decisive factor in how boards interpret debt-related financial performance when considering executive succession.

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.

Financial distress, when moderated by internal experience (FD_PI), also does not have a significant effect on CEO turnover, leading to the rejection of hypothesis H5. This result suggests that even under conditions of financial strain, a CEO's internal experience does not impact the likelihood of their replacement. Thus, both the direct effect of financial distress and its interaction with CEO tenure appear insufficient to drive turnover decisions.

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

The findings of this study indicate that financial performance, financial distress, internal experience as a moderating variable, and the COVID-19 pandemic as a control variable do not significantly influence CEO turnover. This may be attributed to the ownership structure of Indonesian manufacturing firms, where majority ownership by controlling shareholders may limit board independence and reduce turnover responsiveness to performance indicators. Future research is encouraged to incorporate ownership structure as an explanatory variable in examining CEO turnover dynamics in Indonesia.

Director compensation and the moderating role of internal experience, however, were found to significantly influence CEO turnover. Due to limitations in the availability of CEO-specific compensation data, this study relied on total compensation figures for the board of directors and commissioners, which included CEO remuneration. Future studies should aim to isolate CEO compensation figures to improve measurement accuracy. Additionally, incomplete disclosure regarding CEO work histories in annual reports posed challenges in measuring internal experience. Despite these limitations, the study offers initial insights into the influence of CEO internal experience and compensation on executive turnover decisions, contributing to the literature on corporate governance in emerging markets.

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