CEO Characteristics and Financial Distress: The Role of CEO Locality and Age

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ABSTRAK

*Penelitian ini menyelidiki korelasi antara lokalitas CEO dan usia sebagai karakteristik CEO serta kaitannya dengan risiko kesulitan keuangan (*financial distress*). Dengan menggunakan analisis regresi linier berganda, penelitian ini mengevaluasi hipotesis berdasarkan 1.417 observasi* firm-year *dari perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia (BEI) antara tahun 2021 hingga 2023. Hasil penelitian mengungkapkan adanya hubungan positif yang signifikan secara statistik antara CEO lokal dan risiko kesulitan keuangan. Risiko kesulitan keuangan cenderung menurun ketika sebuah perusahaan dipimpin oleh CEO lokal (warga negara Indonesia). Temuan ini mengimplikasikan bahwa keberadaan CEO lokal dapat menjadi faktor penting dalam menjaga stabilitas keuangan perusahaan dan mengurangi kemungkinan terjadinya financial distress. Sebaliknya, hasil penelitian menunjukkan bahwa usia CEO memiliki hubungan negatif yang signifikan dengan risiko kesulitan keuangan. Hal ini menunjukkan bahwa semakin tua usia CEO, semakin tinggi risiko kesulitan keuangan yang dialami perusahaan. Penelitian ini memberikan kontribusi teoretis dalam bentuk perluasan* upper echelon theory dan place attachment theory *dengan mengeksplorasi karakteristik CEO seperti lokalitas dan usia terhadap keputusan strategis perusahaan, khususnya dalam mengelola risiko kesulitan keuangan. Secara praktis, temuan ini memberikan informasi bagi pemegang saham, dewan komisaris, dan regulator dalam mempertimbangkan, memilih, dan mengelola kepemimpinan perusahaan untuk meningkatkan stabilitas dan memitigasi risiko keuangan.*

Kata kunci: *Umur CEO, risiko kesulitan keuangan, CEO lokal,* place attachment theory, upper echelon theory

ABSTRACT

This study investigates the correlation between CEO locality and age as characteristics of CEOs and related financial distress risk. Using multiple linear regression analysis, the study to evaluate hypotheses based on 1,417 firm-year observations from non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The findings reveal a statistically significant positive relationship between local CEO and financial distress risk. Financial distress risk tends to decrease when a company is led by a local CEO (an Indonesian citizen). This finding implies that the presence of a local CEO can be an important factor in maintaining corporate financial stability and reducing the likelihood of financial distress. Conversely, the findings reveal that CEO age has a significant negative relationship with financial distress risk. This indicates that the older the CEO, the higher the financial distress risk experienced by the company. This study provides a theoretical contribution in the form of an extension of upper echelon theory and place attachment theory by exploring CEO characteristics such as locality and age of CEO on corporate strategic decisions, especially in managing financial distress risk. Practically, these findings provide information for shareholders, boards of commissioners, and regulators in considering, selecting, and managing corporate leadership to improve stability and mitigate financial risk.

Keywords: CEO age, financial distress risk, local CEO, place attachment theory, upper echelon theory

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INTRODUCTION

The increasingly dynamic and unpredictable global business environment has increased pressure on the continuity of company operations. The economic instability due to the COVID-19 pandemic, worldwide inflation, and other variables has posed considerable problems, particularly for enterprises lacking adaptive management frameworks. This ambiguity might result in financial distress for companies. Financial distress happens when a corporation fails to satisfy its debt obligations as they become due (Farooq et al., 2024). A corporation is considered to be in a difficult financial state when its performance weakens to the level that it can no longer fulfill its financial obligations to preferred shareholders and other stakeholders (Habib et al., 2020).

Recently, Indonesia was shocked by the bankruptcy case of the Indonesian textile giant, PT Sri Rejeki Isman Tbk (Sritex), one of the largest companies in the Southeast Asian textile industry. The news portal Tempo.co (2025) reported that the court declared PT Sritex bankrupt in October 2024. It closed its operations on March 1, 2025, after experiencing cumulative losses of US$1.19 billion and negative capital, especially since the Covid-19 pandemic. Moreover, the Royal Standard Group envelope manufacturer also experienced bankruptcy due to the process of Suspension of Debt Payment Obligations (PKPU) with bills of Rp 351.4 billion (Kontan.co.id, 2018). This phenomenon certainly illustrates the importance of managing a company's finances and debt to prevent an impact on the company's sustainability and resilience. This condition reinforces the urgency to explore the determinants of financial distress from an economic perspective and a strategic leadership aspect, including the CEO's characteristics as the company's highest decision-maker.

A Chief Executive Officer (CEO) occupies a crucial role as the leader responsible for establishing the company's policies and guiding its performance path. The CEO's role as a strategic decision-maker is highly relevant because the CEO holds ultimate responsibility for the company's policy direction and business sustainability (Khoirunnisa & Hartoko, 2025). A company's ability to maintain its financial condition and avoid financial distress in an uncertain economic environment is a key measure of leadership effectiveness. CEO demographic characteristics, such as age and locality (nationality), are essential in shaping the company's growth and strategy.

Based on Upper Echelon Theory, an organisation's strategic decisions and performance are a reflection of the characteristics of its top managers (Hambrick & Mason, 1984).This theory emphasises that executives' background, experience, and personal values, including CEOs, will

influence their perception of the situation and ultimately shape the company's strategic choices, including financial risk management. This has sparked questions among academics and practitioners to explore how a CEO's characteristics, such as citizenship (local or foreign) and age, influence a company's vulnerability to financial distress.

Ding & Suardi (2019) define a local CEO as one who originates from the same country (or nationality) as the company's headquarters. According to Place Attachment Theory, people have a stronger attachment to the unique places where they were born and raised (Hernández et al., 2007). Place attachment additionally encourages place identity (Proshansky, 1978), which people use to identify themselves as belonging to their place of origin or where they have spent their lives. Several studies have shown that management styles vary depending on the CEO's emotional attachment to a place (Bolor-Erdene et al., 2024; Lai et al., 2020). CEOs with a profound affiliation to a region, such as local CEOs (who possess the same nationality as the company's location), typically exhibit long-term dedication and enhanced contextual comprehension of the local market. In Indonesia, local CEOs are perceived to possess an edge in comprehending native market dynamics and cultivating social networks that enhance corporate stability.

It is not just local CEOs, but age of the CEO is frequently employed as a proxy to experience and risk tolerance. Younger CEOs are also more likely to take risks, be more innovative, and more aggressive in growth pursuit (Putri & Fahlevi, 2023; Yim, 2013). This aggressiveness may be a two-edged sword; it may raise the profitability to high levels but on the other hand may predispose the company to greater risks and in case the strategy backfires may result in financial distress. On the other hand, as CEOs age, they become more conservative (Putri & Fahlevi, 2023). They also focus on stability and preservation of current successes that may decrease the chances of financial distress, at the cost of growth opportunities (Jenter & Lewellen, 2015)Thus, the study of CEO characteristics can be applied to predict performance and determine a company's possible susceptibility to financial distress.

This study investigates the impact of local CEOs and CEO age on the risk of financial crisis in Indonesian enterprises. It analyzed 1,417 firm-year observations from non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. Using multiple linear regression analysis, the findings demonstrate that firms led by CEOs with Indonesian citizenship are less likely to encounter financial distress. The opposite is true for organizations run by senior CEOs, where the risk of financial distress tends to increase.

This research aims to advance Upper Echelon Theory and Place Attachment Theory by evaluating its applicability in developing nations. The results of this study are anticipated to provide a reference for investors, boards of commissioners, and regulators in evaluating company risk according to leadership profiles. For investors, this serves as an additional consideration in determining the risk of their investments. For boards of directors, it is crucial to consider criteria in the leadership succession process. By integrating these leadership factors, all parties can maximise the available information. Therefore, the results of this study can help improve corporate governance and enable better, data-driven decision-making in anticipating potential financial difficulties.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Distress

Financial distress is a condition wherein a corporation approaches bankruptcy (Annither et al., 2020). On the other hand, Septiani et al. (2021) define financial distress as a situation in which financial performance deteriorates and a company lacks sufficient capital to sustain its operations. Although often temporary, short-term financial distress can become a larger problem if not managed properly. Failure to address liquidity issues can push a company to bankruptcy. Prior research classifies the determinants of financial distress into two categories: internal and external influences (Jati et al., 2021). Internal factors that influence a company's financial distress include corporate governance (Abdulkadir et al., 2025; Tran, 2025; You & Du, 2012), board characteristics (Yousaf et al., 2021), CEO characteristics (Rahim et al., 2024), corporate social responsibility (Farooq et al., 2024). On the other hand, external factors that influence financial distress are economic crises, such as the Covid-19 pandemic (Rodríguez-Reyes & Pasillas, 2025), investor sentiment (Dunham & Garcia, 2021) and macroeconomic factors(Ceylan, 2021).

Local CEO

The CEO's status as a "local" individual versus a "foreign" (expatriate) is also an important variable, particularly in developing countries like Indonesia. A local CEO is defined as a leader with strong ties to the country where the company operates, whether through birth, education, or career path. Key advantages often associated with local CEOs are superior contextual understanding and social capital. They are considered to have a better understanding of cultural nuances, the political landscape, and informal business networks at the local level (Yonker, 2017). This in-depth knowledge allows them to navigate complex business environments more effectively, build stronger relationships with stakeholders (government, suppliers, communities),

and reduce the uncertainty that can trigger financial distress. Several studies have shown that companies led by local CEOs tend to have better performance and lower audit fees (Bolor-Erdene et al., 2024), engage in more CSR activities (Ren et al., 2023), and are less likely to make pick-and-choose (myopic) decisions (Lai et al., 2020).

CEO Age

The age of a CEO is frequently seen as an indicator of experience, career trajectory, and risk tolerance; yet, its effect on financial distress remains unclear in the literature. With accumulated knowledge and a reputation to maintain, they are more cautious in making strategic decisions, particularly those related to debt and aggressive investments. Such a conservative strategy is considered a factor that can reduce a company's financial risk (Naseem et al., 2020). The view is also supported by Tanjaya dan Santoso (2020), who opine that maturity in decision-making can assist companies to evade financial distress. Conversely, some claim that older CEOs may be less flexible to the fast-changing technological environment or market forces. Such unwillingness to innovate may lead to the threat of financial distress in the long term. On the other hand, younger CEOs are usually linked to risk-taking and innovation. Although this may fuel fast growth, unless countered by effective management, it may also increase the speed of financial distress caused by overly speculative decisions (Li et al., 2020).

Local CEO and Financial Distress

When hiring CEOs from different countries (local vs. foreign), there are some special rules about how to run a business. Local CEOs have natural advantages, such as a deep understanding of the local culture, business networks, and rules and regulations. The advantage, often referred to as local embeddedness, substantially diminishes the information asymmetry between a corporation and external stakeholders, including suppliers, customers, and local financial institutions (Masulis et al., 2012). Also, local CEOs know a lot about the people, culture, and social issues in their companies' areas because they live there and have connections there.

Upper Echelon Theory and Place Attachment Theory can help to understand how local CEOs can affect a company's financial problems. Upper Echelon Theory stresses that CEOs' traits, experience, and background have a big effect on how companies make decisions and set their strategies, including how they handle financial risk. Local CEOs usually know more about their area's business climate, rules, and socio-economic networks, which helps them develop

strategies that work better in that area. Local CEOs can develop strategies that are more adaptable to the situation and that lower the risk of financial problems, especially when there are outside pressures or the economy is uncertain (Chang et al., 2025).

Place Attachment Theory states that human beings form strong emotional bonds with a place based on their experiences and attachments to the place (Chang et al., 2025; Guo et al., 2021; Lai et al., 2020). The country of origin is connected to the citizenship. More to the point, place attachment determines the behaviour. People who are more attached to places invest more time and resources in the places they feel attached to and have much more altruistic behavior and long-term orientations (Ren et al., 2023; Yonker, 2017). Park et al. (2024) found that the psychological ties and desire to maintain a reputation in the community make local CEOs focus on the long-term viability and stability of the company. This commitment facilitates the utilization of local resources, increases cooperation with local stakeholders, and focuses on financial risk management, thereby reducing the risk of financial distress.

H1: Local CEO influences financial distress risk

CEO Age and Financial Distress

Upper Echelon Theory, developed by Hambrick dan Mason (1984). It highlights that senior executives' personal characteristics, such as the CEO's age, significantly impact a company's strategic decisions and the level of financial risk predicted. Mahardini dan Bandi (2023) discovered that the age of the CEO has a significant impact on financial research questions. Younger CEOs often make bolder and riskier choices to spur growth, but these choices can also make it more likely that a company will run into financial distress. Conversely, older CEOs are more experienced and careful, which usually lowers the company's risk of financial distress. However, they may not be as quick to take advantage of new opportunities or changes in the market. Younger CEOs are more likely to be open to new ideas and big plans, but this can make it more likely that the plan will fail if it doesn't work (Beber & Fabbri, 2012; Naseem et al., 2020). Conversely, older CEOs are oriented toward stability and prudence, thus better able to mitigate the company's financial risk. However, several studies have also found that the effect of CEO age on financial distress can vary depending on the business context and environment, as experience and caution can significantly benefit or hinder the innovation companies need to face competition.

H2: CEO age influences financial distress risk

RESEARCH METHOD

Data and Samples

This research utilizes secondary data obtained from annual reports and corporate financial statements. This study's population comprises 2,307 non-financial firms registered on the Indonesia Stock Exchange (IDX) from 2021 to 2023. This study excludes companies in the financial, banking, and insurance sectors classified as SIC 6. This is due to differences in standards, regulations, and financial structures (Kahle & Walkling, 1996). Furthermore, a purposive sampling technique was used to exclude companies with incomplete information in the sample selection stage. The calculation results indicate that the final sample is 1,417 firm-year observations. A summary of the sample selection calculations can be seen in Table 1.

Table 2 summarizes the distribution of data based on the Standard Industrial Classification (SIC) for 1,417 observations in the research sample. Table 2 shows that the largest sample size comes from the raw material processing or component assembly manufacturing industry (SIC 2), with 354 observations (24.98%). Conversely, the smallest sample size comes from the services or health and social services sector, with 49 observations (3.46%).

Table 1. Sample Selection

Total populations	2,307
(-) Incomplete data: CEOLOCAL	(742)
(-) Incomplete data: CEOAGE	(49)
(-) Incomplete data: ZSCORE	(16)
(-) Incomplete data: DER	(83)
Final observations	1,417

Source: processed data (2025)

Table 2. Data Distribution Based on SIC

SIC	Frequency	Percent	Cumulative
0 (Agriculture, Forestry, and Fishing)	75	5.29%	5.29%
1 (Mining and Construction)	202	14.26%	19.55%
2 (Manufacturing 1)	354	24.98%	44.53%
3 (Manufacturing 2)	213	15.03%	59.56%
4 (Transportation, Communications, and Utilities)	242	17.08%	76.64%
5 (Wholesale and Retail Trade)	139	9.81%	86.45%
7 (Service 1)	143	10.09%	96.54%
8 (Service 2)	49	3.46%	100.00%
Total	1,417	100.00%	

Source: processed data (2025)

Operational Definition and Measurement of Variables

In this study, financial distress risk serves as the dependent variable. The company's financial distress risk is measured by referring to the research of Aminatuzzuhro et al. (2024) and Shan et al. (2024), who measured the risk of financial distress using the Altman Z-Score. The Altman Z-Score formula employs five financial parameters derived from the balance sheet and income statement—encompassing liquidity, profitability, leverage, solvency, and activity—to provide a singular score that forecasts the likelihood of a company's bankruptcy. The Altman Z-score model was developed by Altman (1968) and is considered an effective predictor in determining financial distress experienced by (To, 2025). In this study, the variable representing financial distress risk is denoted as ZSCORE. An elevated Altman Z-score signifies a diminished likelihood of financial distress (Aminatuzzuhro et al., 2024; Shan et al., 2024). All variable measurements used in this study are summarized in Table 3.

The independent variables in this study are characteristics of the CEO, specifically local CEO (CEOLOCAL) and CEO age (CEOAGE). The local CEO indicates whether or not an Indonesian citizen leads the company. Ding dan Suardi (2019) define a local CEO as a CEO from the same country as the company's headquarters. In addition, a local CEO can also be interpreted as a company leader who has a geographic relationship with the region where the company operates, for example, being born there, growing up in the region, or having other close ties to the region (Ren et al., 2021). The CEOLOCAL variable is quantified using a dummy variable, with a value of 1 signifying that the CEO's country of birth or citizenship aligns with the country of the company's headquarters, and 0 otherwise (Lai et al., 2020). This study uses the CEO age as a CEO characteristic suspected of influencing the risk of corporate financial distress. Mahardini & Bandi (2023) define CEO age as the biological age of the company's CEO (in years). The CEO's age is an important indicator reflecting experience and behavioural tendencies in decision-making. Age also correlates with a leader's willingness and ability to face risks. The measurement of CEO age in this study adopts research from Mahardini & Bandi (2023) and Putra & Setiawan (2024).

Table 3. Variable Measurement

Variable	Symbol	Measurement	Source
Dependent Variable			
Financial Distress	ZSCORE	Altman's Z – Score = 1.200 (net working capital / total assets) + 1.400 (retained earnings / total assets) + 3.300 (EBIT / total assets) + 0.600 (market value of	(Aminatuzzuhro et al., 2024; Farooq et al., 2024)

		equity / book value of liabilities) + 0.999 (net sales / total assets)	
Independent Variable			
Local CEO	CEOLOCAL	Scored 1 if the country where the CEO was born is the same as the country where the company's headquarters are located, and scored 0 otherwise.	(Lai et al., 2020)
CEO Age	CEOAGE	CEO age in years	(Putra & Setiawan, 2024)
Control Variable			
Profitability	ROA	$\frac{Net\ Profit}{Total\ Assets}$	(Aminatuzzuhro et al., 2024)
Firm Size	FSIZE	Natural Logarithm of Total Assets	(Farooq et al., 2024)
Leverage	DER	$\frac{Total\ Liabilities}{Total\ Equity}$	(Farooq et al., 2024)
Liquidity	SLACK	$\frac{\text{Cash and Cash Equivalents}}{\text{Total Assets}}$	(Aminatuzzuhro et al., 2024)

Source: processed data (2025)

This study also examines the influence of control variables, which are believed to affect the likelihood of financial distress in organizations, in addition to the independent variables employed in this research. Control variables mitigate bias and guarantee that alterations in the dependent variable are genuinely attributable to the independent variables, rather than extraneous factors outside the study's focus. The control variables in this study are profitability, as measured by return on assets (ROA), company size (FSIZE), the company's debt or leverage ratio, as measured by the debt-to-equity ratio (DER), and the liquidity ratio, as measured by financial slack (SLACK).

Research Design

This study aims to analyse the relationship between nationality (local CEO) and CEO age on the risk of financial distress. The gathered data will be analyzed using STATA software to accomplish this objective. This research uses multiple linear regression as the analytical method. In this research model, CEOLOCAL and CEOAGE serve as independent variables. ZSCORE functions as the dependent variable, representing the measurement of financial distress risk. In addition, ROA, FSIZE, DER, and SLACK serve as control variables in this research model. The control variables in this research model serve to neutralize the influence of other factors that may also affect the risk of financial distress, ensuring that the relationship between the independent variables (CEOLOCAL and CEOAGE) and the dependent variable (ZSCORE) can be measured more accurately. This study integrates year and industry fixed effects to address variations in

observational features and mitigate potential bias in the results stemming from the diverse attributes of various years and industries (Harymawan et al., 2023). This study use the subsequent regression equation:

$$ZSCORE_{i,t} = \beta_0 + \beta_1 CEOLOCAL_{i,t} + \beta_2 CEAGE_{i,t} + \beta_3 ROA_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 DER_{i,t} + \beta_6 SLACK_{i,t} + \beta_7 Industry\ FE_{i,t} + \beta_8 Year\ FE_{i,t} + \varepsilon_{i,t} \quad (1)$$

RESULTS AND DISCUSSION

Descriptive Statistics

This study's descriptive statistical analysis presents the mean, median, minimum, maximum, and standard deviation for the complete sample. Table 4 summarizes the results of the descriptive statistical testing. The results show that in the observation, there is a company with a minimum ZSCORE value of -13.305. This indicates that the company has a higher risk of financial distress than other observations because it has the lowest ZSCORE value. Conversely, some companies have a lower risk of financial distress because they have the highest ZSCORE value, namely 95.484. This wide gap highlights the heterogeneity of financial health among non-financial companies listed on the IDX, which may be influenced by differences in business models, market competition, and operational efficiency across industries such as manufacturing, trade, mining, and services. Furthermore, the findings reveal that 92.1% of companies are led by Indonesian CEOs, which underscores the dominance of local leadership in the non-financial sector and suggests that cultural familiarity and local market knowledge play a central role in shaping corporate strategies. In terms of CEO age, the average of 54 years with the youngest CEO at 30 years and the oldest at 80 years This illustrates the diversity of leadership in non-financial industries, where younger CEOs may bring innovation and risk-taking behavior, while older CEOs often provide stability and experience, each of which can differently impact financial distress risk depending on industry characteristics.

Table 4. Descriptive Statistics

	Mean	Median	Minimum	Maximum	Standard Deviation
ZSCORE	5.807	2.741	-13.305	95.484	12.785
CEOLOCAL	0.921	1.000	0.000	1.000	0.270
CEOAGE	54.270	54.000	30.000	80.000	10.213

ROA	0.032	0.032	-0.662	0.428	0.108
FSIZE	28.164	28.086	22.937	33.182	1.899
DER	1.311	0.690	0.000	22.321	2.398
SLACK	0.129	0.080	0.000	0.735	0.142

Source: STATA data processing results (2025)

Pearson Correlation

Table 5. Pearson Correlation

	ZSCORE	CEOLOCAL	CEOAGE	ROA	FSIZE	DER	SLACK
ZSCORE	1.000						
CEOLOCAL	0.050*	1.000					
	(0.058)						
CEOAGE	-0.082***	-0.055**	1.000				
	(0.002)	(0.040)					
ROA	0.117***	0.014	0.068**	1.000			
	(0.000)	(0.594)	(0.010)				
FSIZE	-0.165***	-0.063**	0.209***	0.213***	1.000		
	(0.000)	(0.017)	(0.000)	(0.000)			
DER	-0.161***	-0.035	0.006	-0.251***	0.057**	1.000	
	(0.000)	(0.184)	(0.818)	(0.000)	(0.033)		
SLACK	0.252***	-0.010	0.050*	0.231***	0.070***	-0.099***	1.000
	(0.000)	(0.721)	(0.058)	(0.000)	(0.008)	(0.000)	

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: STATA data processing results (2025)

Table 5 presents the outcomes of the Pearson correlation test, a type of univariate analysis. This test demonstrates the strength and direction of the linear relationship between two quantitative variables. The results indicate that when the test was conducted solely by examining the relationship between the local CEO variable (CEOLOCAL) and financial distress risk (ZSCORE), without considering other variables, a statistically significant positive relationship was found. The Pearson correlation coefficient is 0.050, accompanied by a p-value of 0.058, indicating significance at the 10% level. This indicates that a company run by an Indonesian CEO will have a reduction in financial distress risk. In contrast, the Pearson correlation findings, excluding other variables, reveal a statistically significant negative association between CEO age and the chance of financial hardship. This is indicated by a coefficient value of -0.082 with a p-value of 0.002 (significant at the 1% level). This means that the older the CEO leads the company, the higher the financial distress risk. Furthermore, Table 5 shows no variance inflation factor (VIF) values exceeding 5, thus concluding that there is no multicollinearity among the study variables. This

refers to previous research, which states that the maximum VIF value is 5 (Farooq et al., 2024; Ullah et al., 2023). Nonetheless, additional testing is required, namely multivariate analysis employing multiple linear regression to ascertain the link between this study's independent and dependent variables, while accounting for the control factors.

Regression Analysis

Table 6 presents the outcomes of multiple linear regression analysis conducted to empirically ascertain the relationship between CEO locality and age with financial distress risk, while accounting for control variables including profitability ratio (ROA), firm size (FSIZE), leverage (DER), and liquidity (SLACK). The findings suggest that firms managed by Indonesian CEOs generally exhibit a reduced likelihood of financial distress risk. As seen in Table 6, CEOLOCAL is empirically proven to have a significant positive effect on ZSCORE with a coefficient value of 1.812 and a t-value of 3.01 (significant at the 1% level). These results support hypothesis 1, so that H1 is accepted. Furthermore, based on the results of multiple linear regression testing, it can also be concluded that the older the CEO leads the company, the higher the level of financial distress risk tends to increase. These results can be seen in Table 6, where CEOAGE is empirically proven to have a statistically significant negative effect on ZSCORE with a coefficient value of -0.078 and a t-value of -2.28 (significant at the 5% level). This follows hypothesis 2 in this study, so H2 is accepted. The Pearson correlation (univariate analysis) and multiple linear regression (multivariate analysis) results showed the same results.

Table 6. Multiple Linear Regression Results

	(1) ZSCORE	VIF
CEOLOCAL	1.812***	1.03
	(3.01)	
CEOAGE	-0.078**	1.09
	(-2.28)	
ROA	10.715**	1.20
	(2.02)	
FSIZE	-1.046***	1.16
	(-5.41)	
DER	-0.540***	1.10
	(-5.03)	
SLACK	20.873***	1.07
	(4.98)	
_cons	36.239***	
	(5.84)	
Year Fixed Effect	Yes	
Industry Fixed Effect	Yes	

R^2	0.139	
R^2_Adjusted	0.130	
N	1,417	
Mean VIF		2.07

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: STATA data processing results (2025)

RESULT AND DISCUSSION

This research shows that local CEOs positively influence the chance of financial trouble. Companies helmed by Indonesian CEOs are less prone to financial distress than those led by foreign CEOs. The upper echelon theory argues that the traits of CEOs might impact company strategy and decision-making. An example of a trait of a CEO is their background (local versus international). Local CEOs generally possess a more profound comprehension of business circumstances, rules, and socio-economic networks in their vicinity, allowing them to formulate strategies that are better suited to the local setting. Local CEOs are generally associated with reduced financial distress risk through a strong contextual understanding, commitment to corporate sustainability, and local social networks that support adaptive decision-making. However, a balance with a global perspective is necessary to make the company more resilient to economic uncertainty. Local CEOs can design adaptive strategies and more contextual risk mitigation, reducing the potential for financial distress, especially when facing external pressures or economic uncertainty (Chang et al., 2025). This opinion is also supported by Place Attachment Theory, which states that place attachment can shape a person's behaviour. Local CEOs have a psychological bond and a desire to maintain their reputation within the community, making them more oriented toward the company's long-term sustainability and stability (Park et al., 2024). This commitment encourages the utilisation of local resources, strengthens collaboration with local stakeholders, and pays special attention to financial risks, thereby mitigating the risk of financial distress.

The study findings indicate a substantial adverse impact of CEO age on the chance of financial difficulty. The competencies of elder CEOs can result in increased financial distress for firms. These results support previous literature conducted by Mahardini & Bandi (2023). Upper echelon theory suggests that age can measure a person's maturity level. This makes them more cautious and takes longer to evaluate information to make strategic decisions. Age is also related to a leader's (in this case, the CEO) ability to face risks, one of which is the risk of financial distress. CEO age can influence financial decision-making, both positively and negatively

(Mahardini & Bandi, 2023; Naseem et al., 2020). Older CEOs are often associated with experience and perspective, allowing them to take more risks (Graham et al., 2023). This can also increase the risk of company failure if risks are not managed properly. This is an implication of the term high risk, high return. This result contrasts with the findings of Putri & Fahlevi (2023), who found that older CEOs often choose to save their long-established careers, thus avoiding risky decisions.

CONCLUSION, IMPLICATIONS, LIMITATIONS, AND RECOMMENDATIONS

This study provides empirical information concerning the impact of CEO attributes on financial distress, especially local CEO status and CEO age. The findings indicate that firms handled by CEOs of Indonesian nationality are likely to encounter reduced financial distress risk. In contrast, older CEOs' organizations reveal a higher likelihood of financial difficulty. The theoretical implications of this study provide new insights into upper echelon theory and place attachment theory by indicating that CEO characteristics, such as local CEO and age, can influence a company's strategic decisions related to the possibility of financial distress. Practically, these findings have useful implications for shareholders, boards of commissioners and directors, and regulators regarding the selection and management of company leadership, particularly appointing a CEO who is expected to increase stability and reduce the company's financial risk. This research recommends that companies consider domestic CEO candidates because they tend to reduce the risk of financial distress, but pay attention to the age factor to minimize the risk of financial distress due to the leader's increasing age, thus enabling more effective financial risk management. However, this study is not without limitations. This study only used the Altman Z-score as an indicator for measuring corporate financial distress. Next research may employ alternative metrics to assess financial distress, including the Zmijewski Score or the Ohlson O-Score. The CEO characteristics used in this study were also limited to the CEO's location and age. Future research could explore the role of other CEO characteristics, such as CEO busyness, CEO duality, and other factors. This could enrich the application of upper echelon theory and expand the understanding of the causes of corporate financial distress risk.

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