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## Abstract

The purpose of this thesis is to examine the impact of CEO characteristics on Financial Conservatism, the moderating role of GDP Growth, and Interest Rate Spread. Financial Conservatism means a firm that is holding both high in cash holdings (cash conservative) and low in debt (debt conservative). 139 listed non-financial firm's annual data, ranging from 2008 to 2017, is extracted from annual reports. The CEO characteristics consisting of CEO Age, CEO Duality, CEO Gender, CEO Tenure, and CEO Ownership are used as independent variables. GDP Growth and Interest Rate Spread are used as moderating variables and leverage is used as the control variable. The dependent variable is Financial Conservatism which is measured with net to debt ratio. The extracted figures are processed using panel data regression analysis under random effect assumptions. We use a logistic regression model for testing the hypothesis. The result shows that CEO Age and Tenure are linked with Financial Conservatism. The moderating effect of GDP Growth is negatively significant and Interest Rate Spread has a positive impact on Financial Conservatism (FC). Evidence shows that CEO Duality and Gender are not linked with Financial Conservatism. The moderating effect of GDP Growth is positively significant with CEO Duality and positively insignificant with CEO Gender but Interest Rate Spread has no relationship with Financial Conservatism. The additional analysis shows that CEO Ownership is negatively insignificant and linked with Financial Conservatism whereas GDP Growth is negatively significant but Interest Rate Spread moderates the link with Financial Conservatism. The current study encourages the benefit of industrial improvement by retaining the best mechanism in corporate governance. Thus, this study is beneficial for firms' owners, managers, and investors, as Financial Conservatism firms are more cost-effective, low-risk investments and pay higher dividends than their non-conservative equivalents.

**Keywords:** CEO characteristics, CEO Age, CEO Duality, CEO Gender, CEO Tenure, CEO Ownership, GDP Growth, Interest Rate Spread, Financial Conservatism, Low debt, High Cash holding

## 1. Introduction

Corporate governance is "the system by which companies are directed and controlled" Shah & Napier (1992). Usually, efficient corporate governance in an organization is assumed to lead to better financial results. Corporate governance depends on internal control and internal control is dependent on attributes of top executives Mihaela and Lulian, (2012). Corporate governance is not new terminology in the business world. However, corporate governance is becoming a buzz word in the corporate world of Pakistan for the last decade. The basic reason for this new terminology and its importance is that SECP has made it compulsory for the listed companies in Pakistan to follow the established standards of corporate and publish it in annual reports for all concerned stakeholders. There is growing interest in the concept of corporate governance in Pakistan, mainly because corporate governance is key to developing the market economy and civil society in transition economies like Pakistan Attiya et al., (2013). CEOs are generally considered the most dominant person in an organization. They exercise authority over the corporate decisions, with financial-related data announcements, molding the board, and afterward, they are responsible for corporate execution Chou and Chan, (2018). According to Agency Theory, shareholders appoint CEOs who are capable of aligning owners' wealth and maximizing corporate goals, and those assigned CEOs make a decision, that maximizes shareholder's wealth through a measure like Compensation policy Jensen (1990); Jensen and Meckling (1976). Therefore, CEOs make decisions on corporate strategies, and they have a strong incentive to maximize the firm's performance to secure their position for a long time Bebchuk and Stole (1993).

CEO characteristics affect the strength of internal controls Fan et al., (2016), Lin et al., (2014). There are some internal mechanisms in a firm. The internal control mechanism in a firm, CEOs are mostly considered as the most powerful person in an organization, whose primary responsibilities include making major corporate decisions, with financial information announcement, shaping the board, etc. Chou and Chan, (2018). Cash is one of the most significant tools as the CEO focuses on business plans and financial management. As chief decision-makers on behalf of the owners, CEOs have the power to control the business operations and organizational output of the company and, as such, they will affect the excessive capital reserves of their businesses.

Jensen (1986) concluded that there is a significant relationship between free cash flow and agency problems induced by the different goals and priorities of the shareholders (principles) and the CEOs (agents). High cash holding for zero leverage of the firm observed by Stone et al., (2018). Lower debt ratios are linked with higher cash holding Graham (2000). The global financial crisis is a major turmoil event that floods all over the world irrespective of developed or emerging developing countries. In the global financial crisis of 2008, there was direct substantiation of corporate governance's deficiency which is also responsible for the crisis and there is a need for reforms in the firm's corporate governance Conyon et al., (2011). Firm Financial Conservatism has two aspects, generally discussed distinctly in the literature: high cash holdings (Cash conservative) and a low debt ratio (Debt conservative). Organizations that purposely keep higher money proportions perform well, put additional in R & D, and also get more advanced development in resources than their partners Mikkelsen & Partch (2003).

The advantages and expenses of cash holding are broadly shown by earlier literature. Financial Conservatism companies are more efficient, retain larger cash assets, produce better cash flows, and pay higher dividends, but have lower capital spending than other companies (Yasmin, A. and Rashid, A. 2019). CEOs and managers may use cash holdings in firms for their private benefits, not for the maximization of shareholder's wealth. Therefore, shareholders have a great interest in excessive cash holdings in the firms. Recently, many studies have found a link between cash holdings policy and low debt ratios. Literature on corporate governance and the value of excessive cash finds that corporate governance has a positive impact on the value of excessive cash Dittmar and Mahrt-Smith (2007); Lee and Lee (2009).

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Dittmar and Duchin (2016) find the effects of the professional experiences of CEOs on corporate debt and cash policies. Huang-Meier et al., (2015) show that the optimism of the CEO significantly affects cash-holding policies. The amount of excessive cash influenced by CEO characteristics could be invested in other usage positively by shareholders, but it brings opportunity cost to retain cash. After all, this causes a problem to depreciate the shareholder value Orens and Reheul (2013).

Older CEOs are regarded as more entrenched Bertrand and Mullainathan, (2003). It is suggested that CEOs become more risk-averse with age. As mentioned, entrenched managers usually undertake conservative investments to ensure that they do not take on too much risk. Older CEOs become more risk averse in their investments because they do not want to take the risk of losing their job over making a risky, bad investment. The older the CEO gets, the harder it will be for them to find a new job after being fired. One of the most enduring findings about executive age is that older executives tend to be more conservative Hambrick and Mason, (1984). Younger CEOs are likely to invest more viciously because they want to enhance their ability and performance in the short period Prendergast and Stole, (1996); Xie, (2015).

CEOs with long tenure have to pay more dividends than to spend in R & D, because of risk aversion, to retain their status Coles et al., (2006). CEOs with a longer tenure in a company establish close social networking links with various financial resources through their knowledge capacity, and this affects their organizational management choices for the enterprise Hartnell et al., (2016). New CEOs have to gain knowledge about the organization and the environment in which the firm operates Richard et al., (2009) are more likely to consider several alternatives, have a more external focus, and are more open to fresh ideas, change, and experimentation than long-tenured CEOs Hambrick et al., (1993). CEO tenure may affect the CEO's leverage decisions. CEO with short tenure has enough time to benefit from long-term planning and taking risks, so the CEO may be more willing to take on more risks. However, as the CEO gets closer to the retirement age, the CEO may be less likely to take risks Chakraborty et al., (2007). When the CEO and Chairperson combine their roles, they will make an effort to build an empire by entering more segments Benston, (1985). CEO Duality will serve the interest of the management team and protect the team by holding an excessive level of cash Dahya and Travlos, (2000). Fosberg (2004) states that CEO duality might efficiently rise firm debt while the stated association is not very substantial. In comparison, Abor (2007) states a significant link between CEO Duality and leverage. Bokpin and Arko (2009) stated a positive but insignificant link between leverage and CEO Duality, disagreeing that, in CEO Duality, firms have a preference to use debt over increasing equity.

When the CEO holds the shares, the incentives of all owners and CEOs will be matched to reduce the agency's issues Jensen and Meckling, (1976), Jensen (1986). CEO Ownership is documented as one of the good bases of control both in theory and in practice Finkelstein (1992); Onali et al., (2016); Wu et al., (2011). Korean companies disclose a negative relationship between cash holding and CEOs' share ownership, showing that CEOs reduce the cash holding if increase the shares Kim (2007). Hence, this study expects that excessive cash holding would be increased for CEOs with a higher possibility of agency problems between managers and owners. Compensating CEOs allows them to reduce surplus cash and audit acceptable investment sources. Wright et al., (2007). Without an appropriate investment channel, CEOs are more likely to pay dividends with stock ownership. CEO Ownership as part of managerial ownership shows the share ownership by the CEO as measured by the percentage of shares owned by the company's CEO Bhagat et al., (2010). CEO's ownership significantly and negatively affects the capital structure Bhagat et al., (2010).

Female CEOs have higher Cash holding, lower debt levels, and lower operational performance than male CEOs Adhikari, (2012). Females are more conservative and take less risk than males Charness and Gneezy (2012); Croson and Gneezy (2009). Graham et al., (2013) state that the women CEOs use low debt as compared to the male CEOs, and related results have been shown by Leary and Graham (2011). Moreover, Frank and Goyal (2007) state that CEO gender hurts debt because of financial decision-making. Risk aversion varies among men and women CEOs. Female CEOs are most not likely to capitalize inside funds in ventures. Therefore, women CEOs are linked with fewer agency conflicts and support to decrease over-capitalization. When it is about earning management activities, females are more conservative than male executives Peni et al., (2010). This different approach of females and males is the root of different financing strategies.

Graham and Harvey (2001) in a survey, find that managers are more likely to conduct a debt issue when interest rates are lower, as in document that if the interest rate is higher, the profit of the projects will be lower, because of the higher interest payments, and so the bankruptcy costs will increase Karpavicius and Yu, (2017). U.S. Non-financial firms hold more cash when macroeconomic uncertainty increases Baum et al., (2008). Market forces have been the main determinants of financial stability in these countries. Interest Rate Spread is a key variable in the financial intermediation process Jayaraman and Sharma, (2003). Firms value by having cash on hand as an alternative to borrowing cash or withdrawing it from an investment Baumol (1952). Tobin (1956) extends upon Baumol (1952) and presents a theoretical suggestion that the demand for cash will depend inversely on the rate of interest.

Previous studies do not discuss both dimensions of Firm Financial Conservatism like cash conservative and debt conservative as determinants. There is a strong connection between CEO characteristics and Firm Financial Conservatism. The major contribution of this study is that we are going to examine the effect of CEO characteristics on Firm Financial Conservatism by adding the comparatively limited literature and conducting an ample valuation of Firm Financial Conservatism by both accounts like a low debt ratio and a high cash holding. This link is very important to study because financially conservative firms are highly profitable, less risky investments, and pay higher dividends than non-financial firms Yasmin et al., (2019). In addition, this study also examines the CEO characteristic relationship with Firm Financial Conservatism. In terms of CEO Characteristics, we use CEO Age, CEO Duality, CEO Gender, CEO Tenure, and CEO Ownership as variables. Different firms have different fiscal conservative policies based on their board and ownership structure. Some firms have only an Executive and some have a Chairperson, and their preferences are different; some prefer to hold cash, and some CEOs prefer to borrow. Moreover, the other contribution of this study is to include the moderating effect of GDP Growth and Interest Rate Spread between the relationship of CEO characteristics and Firm Financial Conservatism. Here, we conduct an individual analysis of CEO characteristics variables like CEO Age, CEO Duality, CEO Gender, CEO Tenure, and CEO Ownership with Firm Financial Conservatism.

Firstly, the relationship of CEO Age is found to be positive and significant with Firm Financial Conservatism. Which supports the results of Kuo et al., (2014). The moderating effect of GDP Growth is negatively related to CEO Age and Financial Conservatism but its effect is significant and the moderating effect of Interest Rate Spread is positively related to CEO Age and Financial Conservatism but its effect is significant. The elder CEOs are more traditional as compared to their new CEOs. The elder CEOs are more conventional and prefer fewer risks in making monetary policies. Hambrick and Mason (1984); Serfling

(2014). Secondly, the relationship of CEO Duality is found to be negatively insignificant to Firm Financial Conservatism. CEO Duality hurts Firm Financial Conservatism, indicating that firms without CEO Duality perform better than those with CEO Duality. Fosberg (2004) reports that CEO Duality might meritoriously rise firm debt while the stated association is not highly substantial. Similar results were found in the previous study of Bokpin & Arko, (2009); Kuan et al., (2011). The moderating effect of GDP Growth is positively related to CEO Duality and Financial Conservatism but its effect is significant and the moderating effect of Interest Rate Spread is negatively related to CEO Duality and Financial Conservatism but its effect is insignificant. Thirdly, the relationship of CEO Gender is found to be negatively insignificant with Firm Financial Conservatism. The moderating effect of GDP Growth is positively related to CEO Gender and Financial Conservatism but its effect is insignificant and the moderating effect of Interest Rate Spread is negatively related to CEO Gender and Financial Conservatism but its effect is insignificant. The CEO Gender as a binary variable, and the negative coefficient discloses that the companies with male CEOs execute well about the performance indicators; nevertheless, most of the companies having female CEOs are very less. Male CEOs are keener to use debt as compared to female CEOs in an emerging country. The empirical results evidence is shown in the literature; where the female CEOs execute well than the performance of the male CEOs Vieito and Khan (2013); Peni (2014). Similar results were found in the previous study of Frank and Goyal (2007); Davis et al., (2010). Fourthly, the relationship of CEO Tenure is found to be positively significant with Firm Financial Conservatism. The moderating effect of GDP Growth is negative relative to CEO Tenure and Financial Conservatism but its effect is significant and the moderating effect of Interest Rate Spread is positive relative to CEO Tenure and Financial Conservatism but its effect is significant. Similar results were found in the previous study of Hambrick (1991); McClelland et al., (2010). The longer tenures, the better their self-confidence and control make strategic financial decision-making as the firm value, Hartnell et al., (2016). Fifthly, the relationship of CEO Ownership is found to be negatively insignificant to Firm Financial Conservatism. The moderating effect of GDP Growth is negatively related to CEO Ownership and Financial Conservatism but its effect is significant and the moderating effect of Interest Rate Spread is positively related to CEO Ownership and Financial Conservatism but its effect is significant. We do not find a positive link between CEO Ownership and financial leverage, although we suppose that CEO Ownership would have a positive impact on capital structure because it increases CEOs' inducements to maximize shareholders' wealth and CEOs' undiversified investment in the companies Kim and Lu (2011). Similar results were found in the previous study of Onali et al., (2016); Chen and Chuang (2009). Through this study, firms can practically know how firms will be more financially conservative generate more profit, and avoid risk.

## 2. Literature Review

### 2.1. Agency theory

Mitnick and Ross (2019) Agency theory was introduced by Stephen Ross and Barry Mitnick in 1973. Agency theory fits very well for the subject study because it discusses all aspects related to corporate governance and provides a better understanding of good corporate governance. Hernandez et al., (2018) claim that the agency's theory is appropriate for the subject research, this theory seeks to solve the problem that arises when the objectives of the principal and the agent do not coincide, they have asymmetries of information, and therefore seeks to ensure the loyalty of the agent to the principal in exchange for a fair system of compensation. Jiraporn et al., (2012) according to Agency theory, examine how dominant are the CEO's views on leverage. CEOs at organizations with agency conflicts may not always take on the optimum level of debt financing that takes full advantage of the wealth of shareholders.

Somewhat, these CEOs may select leverage levels that improve their private benefits. CEOs who are more dominant exercise more influence over an organization's policy, they may increase the negative effects of agency conflicts on leverage selections. Cash holdings without any investment raise opportunity costs. Another cost of cash holdings is agency cost Jensen (1986). Board compositions also monitor the CEO's engagements and they are accurately in coordination with the interests of owners. Furthermore, effective monitoring improves the quality and frequency of information to the owners that causes to reduce agency conflict Beekes et al., (2015). Miller (1991) documents that CEOs are permitted to use high cash holdings for their assessment. Young CEOs have more capabilities to get information and make financial decisions Taylor, (1975). Older CEOs are less risk-seeking than those from younger ages as they take on a lower level of financial leverage Bertrand & Schoar (2003). Which creates agency conflicts between the agent and the principal.

Miller (1991) Older CEOs are longer tenured and also determine more legality in the eyes of internal and external shareholders which improves agency conflicts as professed by directors and shareholders. Therefore, CEOs are permitted to use high cash levels of their own choice. Jurkus et al., (2011) a survey from Catalyst, Inc. analyzes whether female CEOs have fewer agency problems and add value to the firm financial results.

There is a trend that women are more risk-averse than men with companies and a higher number of female CEOs reporting lower agency costs. Furthermore, female executives are less likely to spend internal funds in value-decreasing ventures, and risk-averse women are less likely to benefit from the company than men on average.

Dual CEO organizations also have higher institutional ownership and financial leverage, showing more outside monitoring, which also might be required to decrease agency problems. Adams et al., (2005); Davis et al., (1997); and Finkelstein et al., (1994) conflict with agency theory, that both positions (CEO Duality) held by one person would improve the organization's performance that two positions held by one person can monitor the organizations unequivocally and can have a high command throughout the organizations. Jensen and Meckling (1976) the agency theory argue that when managers hold a significant fraction of a firm's shares, the interests of these managers will become more aligned with those of outside shareholders. Stulz (1988); and Harris and Raviv (1988) raise encroachment, CEOs may take on too much influence to increase their voting power, which is why they can increase investment further than the optimum level and decrease the chance of takeover efforts. It is also probable that rooted CEOs might be more powerful and hereafter prefer high financial control. Mehran (1992); Berger et al., (1997).

Jensen and Meckling (1976) favor managerial ownership for the solution of this agency problem. Kim et al., (2004) highlight that in emerging economies, the significance of managerial ownership considers the high level of information inequality between outsiders and insiders of an organization. Mixed evidence is obtained from cross-sectional analyses between firm performance and managerial ownership. Incentive effects emerge differently to ownership levels. McConnell and Servaes (1990) explain performance tends to decrease at a high level of ownership. CEOs' shareholdings play an important role in reducing agency

conflicts, the CEOs holding stocks and options which affect financial investment and financing decision-making of the firm Agrawal and Mandelker (1987). Nevertheless, CEOs with high control rights may become protected from both internal and external governance mechanisms Stulz (1988); Fama and Jensen (1983); Morck et al., (1988). A high level of managerial ownership is established management which creates agency conflicts DeAngelo and DeAngelo (1985). Executives with significant voting power are likely to take actions beneficial to themselves at the expense of external shareholders. Berley and Means (1932) also argue that there is no certainty that a corporation is primarily executed in the interests of shareholders.

## **2.2. CEO Age and Financial Conservatism**

Serfling (2014); Malmendier et al., (2011) The CEO's age is a significant demographic predictor of firm achievement, and many scholars have used it as a substitute for other metrics, such as maturity and age trust, which used as different attributes and stages of cognitive growth. We should assume that age can have a positive or negative effect on the financial decision-making of CEOs. Serfling (2014); Hambrick and Mason (1984) Young CEOs are likely to use more debt, while older CEOs are likely to use less debt, suggesting that young CEOs are not unwilling to take risky financing decision making. In comparison, older CEOs are more traditional concerning the financing decision-making Schoar and Bertrand (2003). Barkema et al., (1996) explain when small and medium enterprises step into global business, it has to learn new organizational and institutional norms.

CEOs of every newly established firm have to confront new challenges such as peer companies, clients, vendors, and stakeholders Nohria and Ghoshal (1994). Old CEOs have less intellectual and less physical strength, so they are not able to alter their mental maps quickly, resulting in a slow response to information and fewer capabilities than young CEOs (Herrmann and Datta, (2002); Taylor, (1975). Managers with older age have a high inclination to pursue more information and can evaluate it accurately by taking longer time than young managers. Young managers have more ability to coordinate information and make decisions confidently Taylor, (1975). CEOs from older ages are less risk-seeking than those from younger ages as they take on a lower level of financial leverage Bertrand & Schoar, (2003).

Young CEOs are more motivated and keen on reaching such individual and corporate milestones Bertrand and Schoar (2003). The age of the CEO can also influence his / her tendency to engage in risk-taking actions. Older CEOs, in turn, do spend not as much on development and research programs and pursue less risky financial policies. Young CEOs have more potential to drive the business to be a more profitable organization. Serfling (2014) argues that when a CEO's age increases and risk-taking behavior decreases, then CEOs become more conventional in their financial policies. There is a positive relation between the age of a CEO and his/her ability to influence the board of directors Younger CEOs are becoming more risk-averse, which can lead to conservative behavior toward financial policies Signer, (2015).

This risk-averse occurs due to lower reputation rather than older CEOs. Younger CEOs face a higher probability of being punished due to poor performance, which encourages conservative characters to show Serfling, (2014). Older CEOs are more conservative concerning financing decision making Bertrand and Schoar (2003). Elder CEOs are more risk-averse and less violent than newer CEOs Mason and Hambrick (1984). As a result, they would choose to select internal capital as opposed to outside finance. Bertrand and Mullainathan (2003) document that elder CEOs who have regulators over the Board of Directors can be less proactive in financial policy than their capacity to do so. Serfling (2012) additionally confirmed that companies with newer CEOs will spend further and have better potential for expansion.

## **2.3. CEO Duality and Financial Conservatism**

Kuan et al., (2011) find a significant link between cash holding and CEO duality. Shakir (2009); and Kuan et al., (2011) if the CEO and Chairman are the same person, the CEO might clutch more cash to follow private benefits at the expense of shareholders. Fama and Jensen (1983) and Jensen (1976) recommend that CEO Duality may obstruct the board's ability to monitor management and thus increase the agency's cost. Boyd, (1995) probes that the separation of Chairperson and CEO is beneficial for the Board of Directors to monitor and control but at the cost of leadership and effective quick decision making. Rechner and Dalton (1991) document that CEOs and chairpersons lead to better financial performance for several performance measures.

It surveys that shareholder benefits are well secured by the extrication of the position of CEO and that of Board Chairman. In link with this recommendation, most CG codes, containing the ones in Australia & UK, endorse that companies select a Chairman of the board who is separate from the CEO. The CEO Duality effect on firm performance produces controversial issues both in business and academics Dalton et al., (2007); Finkelstein et al., (2009). Few firms backed up the value-enhancing attribute of the unity of leadership which is caused by duality. Boards of directors are nominated to denote principal, and as the legislatures of shareholders, the board has an absolute strict fiduciary duty to ensure that the association is managed in the best interests of the shareholders as per defined purposes. Consequently, the board is a critical part of the corporate governance for corporate resolution Adedokun (2003); Peng et al., (2007). 1992 the first deed Cadbury Code recommended that there should be a parting of the role of the CEO and Chairman for good decision making.

Throughout the years, researchers have shown empirical tests Bergstresser and Thomas, (2006); Elsayed, (2007); Ballinger and Marcel, (2010); Boivie et al., (2011); Bliss, (2011); Yasser et al., (2014) on the occurrence of any association between board independence and parting of the CEO and the Chairperson with firm value in different markets and diverse periods. The outcomes of these studies tend to be mixed and, in some situations, inadequate. Drobetz and Grüninger (2007) find a positive link between CEO Duality and corporate cash holding i.e. CEO Duality leads to significantly higher cash holdings and larger board size does not affect the corporate cash holdings. As a result, the titles of CEO and Chairman of the Board increase the Firm's Financial Conservatism, Interest of the management team, and protection of the team supported by the CEO with excessive cash holding Dahya and Travlos (2000).

Abor (2007) states a significant link between leverage and CEO Duality. Bokpin & Arko (2009) state a positive but insignificant link between CEO Duality and leverage; the argument is that firms prefer to use debt over increase equity in the case of CEO Duality. Canada, Gill, and Shah (2012) also find that cash holdings are positively and significantly related to CEO Duality. Further, Lee and Lee (2008) find that the CEO and Chairman have separate positions which leads to lesser cash holdings signifying that separating the positions of CEO and Chairman reduces the propensity to hold extra cash. Lastly, Ozkan and Ozkan (2004) and Chen and Wang (2014) find that cash holdings are not linked with CEO Duality. The data of more than 500 companies listed on the Singapore Stock Exchange and Kuala Lumpur Stock Exchange during 2000-2005 Kusnadi, (2011). He observes that companies with more effective governance attributes are inclined to hold less cash than companies with less

effective corporate governance attributes. CEO Duality and leverage show a positive but insignificant link between each other; the argument is that firms prefer to use debt over increase equity in the case of CEO Duality Bokpin and Arko (2009).

#### **2.4. CEO Gender and Financial Conservatism**

Zeng and Wang (2015) show that CEO Gender affects corporate cash holdings among China-listed firms. In recent years, more and more females become CEOs in Taiwan-listed firms. Zeng and Wang, (2015) since the historical and cultural background of Taiwan but different from China are interested in understanding whether the CEO's gender effect corporate cash holdings and investment decisions or not. We believe that the findings of this study would contribute to the related research issue in emerging economies. Adhikari (2012), using U.S. statistics, shows the firm's female executives have higher Cash holding and lower debt level, risk, and operating performance than male executives, But even though Huang and Kisgen (2013) show that female executives issue debt less commonly than male executives. Graham and Leary (2011); and Graham et al., (2013) explain that male CEOs use more debt options as compared to female CEOs.

On the other hand, Frank and Goyal (2007) narrate that debt choices are not dependent on gender as it is the decision of a team not decided by an individual. Schoar and Bertrand, (2003); Laasch and Conaway, (2009) analyze that risk tolerance differs from gender and demographic attributes. Male CEOs are less likely to analyze risk-taking action than female CEOs and it is also implicit that woman CEOs receive more assistance from male peers. Gupta et al., (2018) examine female CEOs face some other challenges from active investors. Palvia et al., (2015) discuss the gender of the CEO does matter in controlling risk-taking actions, female CEOs are risk avoiders than male CEOs. Barber and Odean, (2001) When it is about financing decisions, it varies according to the confidence of male CEOs are overconfident than female CEOs. Khan and Vietio, (2013); and Peni, (2014) probe that firms with woman CEOs perform better than firms with male CEOs. Peni et al., (2010) narrate that female CEOs are more conservative than male executives. This different attitude of females and males is the root of different financing strategies. Faulkender et al., (2012) Cash-rich companies will adjust equity to target thresholds by opting to repay debt. They want to do so if the CEO wants to slacken or improve profitability, provided that the leverage is negatively linked to profitability Bradley et al., (1984), Harris and Raviv (1991), Rajan and Zingales (1995).

If female CEOs are more risk averse than male CEOs have a higher probability of increasing the rate at which they pay down debt. Francoeur et al., (2008) document that female executives are more effective in critical circumstances. Davis et al., (2010) document that the selection of female CEOs has a significant effect on firm financial Conservative firms, compared with their male counterparts. The empirical outcomes show that female CEOs have better performance. Previous study indicates that CEO Gender impacts organizational decision-making based on individual risk perceptions. Women are more conservative, and they worry more about how corporate money can be invested (see, e.g. Barber and Odean (2001); Bliss and Potter (2002). In addition, earlier findings indicate that female CEOs usually gain less individual benefit from the business and therefore make more virtuous choices in their place of work than male CEOs Ford and Richardson (1994). Female CEOs have better results than male CEOs Gondhalekar and Dalmia (2007); Davis et al., (2010); Khan and Vieito (2013). Provided evidence from many countries that female CEOs have lower debts, lower contingent earnings, and higher growth than male-led businesses Faccio et al., (2014). Prior research shows that females invest in risky investments to make their financial portfolios Agnew et al., (2003); Sunden and Surette (1998).

Gender discrepancy in risky perceptions, we assume female CEOs place more weight on the prudential position of cash, although they don't care much about the opportunity cost. The details are given: firstly, female CEOs are more conservative than male CEOs. They would choose to have a high level of corporate cash investments to protect against future intimidations. Furthermore, these conservative female CEOs may use internal financing over risky external financing, when they have to invest in new projects. We also believe that, relative to male CEOs, the female CEOs are more vigilant and concerned with the protective object for cash, resultant in higher levels of corporate cash holdings.

Secondly, the prior paper recommends that comparative to male CEOs, the female CEOs will run the firm in a reasonable way Boschini and Persson (2012) besides this, pay not as much attention to the opportunity cost, again suggesting a higher degree of corporate cash holdings. Huang and Kisgen (2013) document that companies with female (CEOs) are increasingly less likely to make acquisitions. On the other hand, Barber and Odean (2001) note that males are more optimistic than females. Overconfident male CEOs can over-estimate income and underestimate the risk of investment ventures, resulting in a greater concern for the opportunity and holding less cash.

#### **2.5. CEO Tenure and Financial Conservatism**

Longer-tenured CEOs and elder CEOs establish more acceptability in the judgments of inside and outside shareholders. Yermack (2004); and Kaplan & Minton (1994) longer-tenured CEOs might be observed as imbedded managers therefore leading to not as good firm performance. Hartnell et al., (2016) that longer-tenured CEOs in an organization improve social networking links with diverse financial bases, and this affects the capital structure. A long tenure benefits from his/her capability in a boom or depression phase and keeps the debt-to-equity ratio of firms. The longer a CEO stays with the company indicates his proficiency and high abilities Hermalin et al., (1991). As explained by Hambrick, (1991) tenure of a CEO has positive impacts on firm performance. The long tenure of a CEO is recognized as having a high commitment, more abilities, and experience in making decisions and taking control over issues Sittiponpanich et al., (2012).

On the other hand, Lim et al., (2018) narrate that short-tenured CEOs are more interested in short-term investments and hold excess cash for these investments. In previous studies, we find both positive McClelland et al., (2010) and negative Nadkarni et al., (2010) outcomes of CEO Tenure on firm performance. CEO Age is also correlated with his or her tenure. A CEO who is 60 of age and has five years of tenure is likely to act differently in the same situation as a CEO who is 40 of age and has five years of tenure. Meanwhile, CEO Tenure plays a significant role in decision-making, especially in financial choices. There are opposing views in the debate about the impact of CEO Tenure. Based on the UET, CEOs with longer tenure become more confident in their tasks and take financial decisions that are more challenging Orens and Reheul (2013). On the other hand, Coles et al., (2006) insisted that CEOs with longer tenure tend to pay more dividends than to invest in R&D projects because of their risk aversion, to retain their status.

As CEOs short-tenured recognize further investment chances, we recommend that they be more conscious of the opportunity cost and they do not invest cash in cost-effective plans and assume lower cash levels with CEOs short tenure. Coles et al., (2006) show that CEOs with longer-tenure pay extra dividends than spend on R & D projects, because of their risk aversion, to retain their position. Thus, CEOs with longer tenure pursue stability rather than R&D. CEOs with longer-tenured can also lead to more

conservative and position quo preference. Musteen et al., (2006) explain that CEOs become less sympathetic to changing their tenure. Although there are clear prospective hitches to longer CEO-tenured, there might also be offsetting interests from more experience and knowledge of the firm rising from long tenure alleviating the negative effects. Empirical indication from McClelland et al., (2012) and Miller (1991) recommend that the negatives overshadow the positives as organizations are facing a more undefined and quickly changing environment. Henderson et al., (2006) document that longer tenure CEOs can be valued in a steady environment. But, it becomes injurious when business environments are changing fast.

The Longer tenure CEOs capitalize on risky ventures more than the CEOs who are short-tenured Miller & Shamsie, (2001); Richard, Wu & Chadwick (2009); Finkelstein & Hambrick, (1996); Hermalin & Weisbach, (1991); Mezghanni, (2010). Additional shorter-tenure CEOs capitalize more violently than longer-tenure CEOs. Perhaps, this is the point that the shorter tenure CEOs are more vulnerable to revolutions, variation, and investigation, and robust want to choose short-term results to build their reputation in the firms. The present studies also dispute that longer-tenure CEOs are conservative and hold less information on the changing vicinities, which decreases their capability to increase the organization's investment when there are inadequate inside funds Graham, Harvey & Puri, (2013); Hambrick, Geletkanycz & Fredrickson, (1993); Hambrick & Mason, (1984); Hirshleifer, (1993); Miller, (1991); Miller & Shamsie, (2001); Finkelstein & Hambrick, (1996); Gibbons & Murphy, (1992).

There are two views about the CEO's Age and CEOs who are newly appointed. On the one hand, from the perspective of short-term career concerns Prendergast and Stole (1996); Xie (2015), younger or newly appointed CEOs tend to invest more violently because they want to be recognized by showing their ability and performance in the short term. Therefore, they are willing to develop new products and take risks in bold new investments. On the other hand, from the perspective of long-term career concerns, younger or newly appointed CEOs behave more cautiously because they strive hard to keep their positions and build their reputations for the future Xie (2015).

## **2.6. CEO Ownership and Financial Conservatism**

Daily and Johnson (1997) document that CEO Ownership is regarded as a vital source of power. According to Boeker (1992), CEOs with ownership power can and do hold on to their positions beyond their point of effectiveness. Kalcheva and Lins (2007) documents a positive link between financial decision-making and cash holding levels. If the state-level shareholder shield is poor, the positive link between financial decision-making and cash holding level is more distinct. Ownership is a good source of power in theory as well as in practice, identified by studies by Wu et al., (2011). CEO can affect the board of director's collection once he or she gets significant ownership of stocks Mio et al., (2016). Adams et al., (2005) and Onali et al., (2016) probe the outcome of CEO power on the inconsistency of firm performance and show a positive direct link between CEO Ownership and firm performance. CEO Ownership is documented as one of the good sources of control both in practice and theory Finkelstein (1992); Wu et al., (2011); Onali et al., (2016). The main factor of agent-principal association in the agency theory is the CEO's Ownership in the company. Zhang et al., (2016) explain that CEO Ownership in the firm is related to some vital board decisions such as selections, determination of the member's reimbursements, and many other verdicts.

The agency interest arrangement hypothesizes that when a CEO heads a company, there is a high propensity that he will work to attain the goal of the company. Adams et al., (2005) examine the effect of CEO control on a firm's performance changeability. The findings from the study show that CEO Ownership has a significant effect on firm performance. Chen and Chuang (2009) document steady outcomes with interest procedure hypothesis by finding a significant link among CEO Ownership, project financier directors' independent directors, and cash holding. Paskelian et al., (2010) determine the effect of ownership on the level of cash holdings and cash evaluation for Chinese and Indian companies. Wright et al., (2007) compensating CEOs in stocks gives them the encouragement to cut excessive cash and examine the suitable investment channels. Kim and Lu (2011) explain CEOs incline decision-making in the most influencing and if insider ownership has an identifiable effect, the impact should be more observable with CEO Ownership. More importantly, within the organization, dissimilarity in total insider share ownership is affected by differences in numbers, and in the composition, of insiders over time, which might have less to do with ownership. These confusing impact biases towards finding no effect, as documents in regressions with firm fixed effects derive from within-firm variation in ownership. CEO Ownership is comprised of no such misperception and is free of this bias. No other portion of the literature uses CEO ownership as a factor of cash management to measure the effect of agency problems on the cash holding levels of the companies. Kalcheva and Lins (2007) document a significant link between managerial encroachment and cash holding levels. If the country-level shareholder shield is poor, the positive link with high cash holding. Chen and Chuang (2009) examine reliable outcomes with interest arrangement hypothesis by finding a positive link among CEO Ownership.

## **2.7. Moderating Relationship of GDP Growth and Interest Rate Spread with CEO Characteristics and Financial Conservatism**

Gross Domestic Product (GDP) Growth is a key indicator of economic health. Frank and Goyal (2009) show a significant link between GDP Growth and leverage. Frank and Goyal (2009) show a significant link between GDP and leverage. One of the most used external determinants of capital structure is Gross Domestic Product Bastos, Nakamura & Basso, (2009); Bokpin, (2009); Dincergok & Yalciner, (2011); Camara, (2012). They examine that there is a negative and positive relationship between corporate capital structure and GDP (as well as GDP Growth). The GDP Growth is a measure of the whole economic performance of the country. Several studies show at the economic level to determine the effect of a country's GDP Growth on the capital structure. Gajurel (2006) also argues that there is a negative relation between the total debt ratio and the short-term debt ratio, but there is a positive influence on the long-term debt ratio. The boost in the economy and consequently growth in GDP leads to an increase in companies' profits.

Tobin (1956) extends upon Baumol (1952) and presents theoretical evidence that the rate of interest will depend inversely on the demand for cash. He recommends that interest rates of firms will increase holdings of more cash investments that earn higher rates and shift into cash. Meltzer (1963) found that changes in a firm's internal rate of return and interest rates are capable of explaining most of the detected changes in the velocity of corporate cash balances. Miller and Orr (1966) recommend that earlier models apply reasonably well to households, but are less than satisfactory when applied to corporate companies.

Jayaraman and Sharma (2003), define Interest Rate Spread (IRS) as the variation between the average interest rate earned and the average interest paid on deposits. Commercial banks can generate income for their stakeholders. They always add a premium to the rate. They charge depositors and this difference is called interest rate spread. Robinson (2002), documents that loan rates charged by commercial banks can be separated into two main components. One is the interest rate paid to depositors and the

other rate is risk premium. The difference between the deposit rate and the loan rate is commonly referred to as the spread. Financial intermediation largely depends on IRS in that, if it is too big it may discourage depositors from saving in banks and hence reduce the amount of funds available to borrowers Khalid *et al.*, (2002). He argues that this leads to low economic investments which in the end leads to slow economic growth.

### 3. Conceptual Framework

The diagram shows the conceptual framework of this Thesis. On the left side, the CEO Characteristic variables are listed, which are CEO Age, CEO Duality, CEO Gender, CEO Tenure, CEO Ownership and all these are independent variables. This is linked with the Firm's Financial Conservatism on the right side. In this Diagram, the dependent variable is Financial Conservatism, which is measured by the net-to-debt ratio.

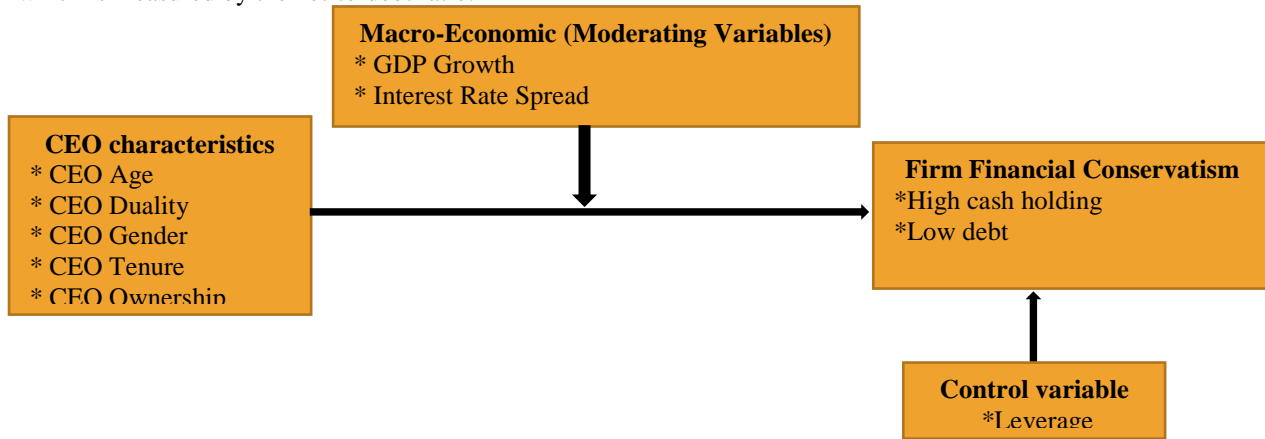


Figure 1: Research Framework

To find the link between the study variables, this study uses panel data as logistic regression, and a further random effect model is used in this study which takes into account the company-year data. To estimate the relation between Firm Financial Conservatism and CEO characteristics, the model below is calculated. It is necessary to extract the econometrical model from a mathematical model for empirical analysis which is given below:

Model 1

$$\text{Logit FC}_{i,t} = \alpha + \beta_1 \text{CEO A}_{i,t} + \beta_2 \text{CEO D}_{i,t} + \beta_3 \text{CEO G}_{i,t} + \beta_4 \text{CEO T}_{i,t} + \beta_5 \text{CEO O}_{i,t} + \beta_6 \text{LEV}_{i,t} + \mu_{i,t}$$

Model 2

$$\text{Logit FC}_{i,t} = \alpha + \text{GDP} * \beta_{1a} \text{CEO A}_{i,t} + \text{GDP} * \beta_{2a} \text{CEO D}_{i,t} + \text{GDP} * \beta_{3a} \text{CEO G}_{i,t} + \text{GDP} * \beta_{4a} \text{CEO T}_{i,t} + \text{GDP} * \beta_{5a} \text{CEO O}_{i,t} + \beta_6 \text{LEV}_{i,t} + \mu_{i,t}$$

Model 3

$$\text{Logit FC}_{i,t} = \alpha + \text{IRS} * \beta_{1a} \text{CEO A}_{i,t} + \text{IRS} * \beta_{2a} \text{CEO D}_{i,t} + \text{IRS} * \beta_{3a} \text{CEO G}_{i,t} + \text{IRS} * \beta_{4a} \text{CEO T}_{i,t} + \text{IRS} * \beta_{5a} \text{CEO O}_{i,t} + \beta_6 \text{LEV}_{i,t} + \mu_{i,t}$$

$\mu_{i,t}$  = error term

CEO A = CEO Age

CEO D = CEO Duality

CEO T = CEO Gender

CEO O = CEO Tenure

CEOG = CEO Ownership

GDPG = GDP Growth

IRS = Interest Rate Spread

LEV = Leverage

T = Time Period (2008-2017)

Table 1: Measurement of Variables

Type	Name	Measurement	References
Dependent	Financial Conservatism	NDR = (Total Debt-Cash)/Total Asset	Bigelli et al., (2014) & Yasmin et al., (2019).
Independent	CEO Age	CEO's Age in years	Naseem, M. A., Lin, J., ur Rehman, R., Ahmad, M. I., & Ali, R. (2019)
Independent	CEO Duality	CEO's and the Chairman of the Board of Directors are the same person. "1" in case CEO is also Chairman, otherwise "0"	Sheikh et al., (2015).
Independent	CEO Gender	"1" if CEO of the firm is male otherwise "0"	Liang et al., (2018)
Independent	CEO Tenure	The number of years, the CEO has held the position in that company	Orens et al., (2013).
Independent	CEO Ownership	CEO's share over total share of company	Dowell et al., 2011; Duru et al., (2016); Luo (2015).
Moderating	GDP Growth	(GDP t - GDP t-1) / GDP t-1	Yasmin et al., (2019)
Moderating	Interest Rate Spread	Lending rate minus deposit rate	Were, M., & Wambua, J. (2014).
Control	Leverage	Total debt divided by total asset	Khan, A., Bibi, M., & Tanveer, S. (2016)

The data for this study comes from multiple sources of secondary data. The base data comes from the company's annual reports. The annual reports for the ten years (2008-2017) are downloaded. The sample size of the research consists of 139 non-financial firms in which period form the year 2008 to 2017 listed on the Pakistan Stock Exchange. The final sample consisted of 1,390 company observations for the year of 139 firms.

#### 4. Result and Discussion

Descriptive statistics in Table 2 shows the summary of descriptive statistics including the maximum, minimum value, average, and standard deviation of both dependent as well as explanatory variables. CEO Age indicates the age of CEOs in Non - Financial firms, CEOs age ranges from 35 to 77 in the figure, and on average CEO Age is 52 and standard deviation of 7.90 in Pakistani firms in non-financial sectors. Linked to the developed world (USA), the CEO's age group is 34 to 75 years old, and the average age of CEOs is 55 year's Vintila and Gherghina (2012). The range of CEO tenure is found to be from 1-10 years, with an average of 4 years working in the current company and a standard deviation of 2.7 in Pakistani companies in non-financial sectors. Vintila and Gherghina (2012) state that an average CEO tenure of 10 years for the companies registered in New York Stock Exchange, indicates that companies are reluctant to hire the CEOs for longer periods. Similarly, the range of CEO Ownership ranges from 0 to 41. The average ownership is 0.578 which indicates the proportion of direct and indirect voting rights. CEO holds 57% of shares, according to which CEO Ownership and standard deviation value is represented as 3.391 in Pakistani firms in non-financial sectors. Alternatively, this average indicates that Pakistani Non- Financial firms are dominated by families. Contrasting the relationship of the agency, the CEO who has a good shareholding in a company becomes an agent-cum-principal. It provides reasonable ground for the CEO to influence activities in the company (Mio et al., 2016). GDP Growth ranges from 1.6 to 5.7% and average Pakistani firms in non-financial sectors have 3.7% GDP Growth with a 1.409 standard deviation. Interest Rate Spread ranges from 3.7 to 6.1% and average Pakistani firms in non-financial sectors have a 5%, Interest Rate Spread with 0.895 standard deviation.

**Table 2: Descriptive Statistics**

Variables	Obs.	Mean	Std. Dev.	Min	Max
CEO Age	1,390	52.30	7.90	35	77
CEO Tenure	1,390	4.04	2.722	1.00	10.00
CEO Ownership	1,390	0.578	3.391	0	41.94
GDP Growth	1,390	3.744	1.409	1.67	5.70
Interest Rate Spread	1,390	5.06	0.895	3.733	6.19
Leverage	1,390	0.601	0.311	-0.642	2.46

**Table 3: Correlation Matrix**

Variables	FC	CEO Age	CEO Duality	CEO Tenure	CEO Gender	CEO Owns	GDP Growth	IRS	LEV
FC	1.0000								
CEO Age	0.0736*	1.0000							
CEO Duality	-0.0007	0.0501	1.0000						
CEO Tenure	0.0831*	0.3338*	-0.1020*	1.0000					
CEO Gender	-0.0275	-0.0579*	-0.0178	0.0160	1.0000				
CEO Ownership	-0.0116	-0.0087	-0.0060	-0.0721*	0.0198	1.0000			
GDP Growth	0.1554*	0.2547*	-0.2099*	0.5876*	0.0242	0.0193	1.0000		
IRS	-0.1132*	-0.2487*	0.2230*	-0.5717*	-0.0254	-0.0176	-0.9445*	1.0000	
LEV	-0.1173*	-0.0371	0.0998*	-0.0714*	0.0313	-0.0774*	-0.0403*	0.0390	1.000

Correlation analysis to determine the relationship between Firm Financial Conservatism and CEO characteristics. In table 3, we examine the correlation analysis among all CEO characteristics variables and dependent variables to check the strength of the relationship among variables with the direction of positive and negative measures through a correlation matrix. There is a positive and significant strong correlation between CEO Age and Firm Financial Conservatism. The estimated outcomes reveal that CEO Duality has a negative and significant strong correlation with Firm Financial Conservatism and a positive and significant strong correlation with CEO Age. The results show that CEO Tenure has a positive and significant strong correlation with Firm Financial Conservatism and CEO Age has a positive and weak correlation with CEO Tenure. The results explain that CEO Gender has a negative and strong correlation with Firm Financial Conservatism, CEO Age, and CEO Duality but also has a positive and strong correlation with CEO Tenure. The estimated results of the study show that CEO Ownership has a negative and strong correlation with Firm Financial Conservatism a negative and strong correlation with CEO Age, CEO Duality, and CEO Tenure, and a positive and strong correlation with CEO Gender. The estimated findings of the correlation matrix describe that most of the variables have significant correlations with each other, but all explanatory variables do have not a very strong correlation and all values are below 1, so there is no issue of multicollinearity among explanatory variables.

Table 4 represents the results of the random effect model. The dependent variable is Firm Financial Conservatism which is measured by binary digits 0 and 1. Model 1 shows the linkage between dependent and independent variables. In model 1, the relationship of CEO Age is found to be positive and significant with Firm Financial Conservatism ( $\beta = 0.0597$ ,  $p$ -value = 0.000) regarding the required standard level of ( $p > 0.01$ ,  $p > 0.05$ ,  $p > 0.1$ ). The older age of CEOs is more conservative as compared to newer CEOs. The elder CEOs are more traditional and take less risks regarding financial policies Mason and Hambrick, (1984);



Serfling, (2014). If we used leverage as the control variable, then leverage is found to have a negative and significant relationship with Firm Financial Conservatism ( $\beta = -0.910$ , p-value = 0.021). As a whole, model 1 overall is good because our p-value is significant which is 0.000. Similar results are found in the previous study of Signer, (2015); Serfling, (2014). Model 2 shows the moderating effect of GDP Growth between dependent and independent variables. The moderating effect of GDP Growth is negatively related to CEO Age and Financial Conservatism but its effect is significant ( $\beta = -0.019$ , p-value = 0.004). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.728$ , p-value = 0.055). As a whole, model 2 is overall good because our p-value is significant which is 0.000. Model 3 shows the moderating effect of Interest Rate Spread between dependent and independent variables. The moderating effect of Interest Rate Spread is positively related to CEO Age and Financial Conservatism but its effect is significant ( $\beta = 0.020$ , p-value = 0.053). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.830$ , p-value = 0.029). As a whole, model 3 is overall good because our p-value is significant which is 0.000.

**Table 4: Random Effect Model**

CEO Age with Firm Financial Conservatism and the moderating effect of GDP Growth and Interest Rate Spread with CEO Age and Firm Financial Conservatism

Variables	Model 1	Model 2	Model 3
CEO Age	0.0579*** (0.000)	0.104*** (0.000)	-0.057 (0.291)
LEV	-0.910** (0.021)	-0.728** (0.055)	-0.830** (0.029)
GDP Growth * CEO Age	-	-0.019*** (0.004)	-
Interest Rate Spread * CEO Age	-	-	0.020** (0.053)
Log Likelihood	-770.82	-754.06	-766.22
Number of Obs	1,390	1,390	1390
Number of groups	139	139	139
Prob > Chi2	0.000***	0.000***	0.000***

**Table 5: Random Effect Model**

CEO Duality with Firm Financial Conservatism and moderating effect of GDP Growth and Interest Rate Spread with CEO Duality and Firm Financial Conservatism.

Variables	Model 1	Model 2	Model 3
CEO Duality	-0.317 (0.218)	-1.016* (0.072)	1.667 (0.253)
LEV	-1.008*** (0.010)	-0.870** (0.021)	-0.954*** (0.011)
GDP Growth * CEO Duality	-	0.350** (0.028)	-
Interest Rate Spread * CEO Duality	-	-	-0.315 (0.229)
Log Likelihood	-779.023	-758.282	-772.11
Number of Obs	1,390	1,390	1390
Number of groups	139	139	139
Prob > Chi2	0.000***	0.000***	0.000***

Table 5 represents the results of the random effect model. The dependent variable is Firm Financial Conservatism which is measured by binary digits 0 and 1. Model 1 shows the linkage between dependent and independent variables. In model 1, the relationship of CEO Duality is found to be negatively insignificant with Firm Financial Conservatism ( $\beta = -0.317$ , p-value = 0.218) regarding the required standard level of (p>0.01, p>0.05, p>0.1). CEO duality hurts Firm Financial Conservatism, showing that organizations without CEO duality perform better than those with CEO duality. In Pakistan, Corporate Governance is in its growth stage and yet does not have a strong appliance for board monitoring. If we use leverage as a control variable then leverage is found to have a negative and significant relationship with Firm Financial Conservatism ( $\beta = -1.008$ , p-value = 0.010). As a whole, model 1 is overall good because our p-value is significant which is 0.000. Similar results were found in the previous study of Bokpin & Arko, (2009); Kuan et al., (2011). Model 2 shows the moderating effect of GDP Growth between dependent and independent variables. The moderating effect of GDP Growth is positively related to CEO Duality and Financial Conservatism but its effect is significant ( $\beta = 0.350$ , p-value = 0.028). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.870$ , p-value = 0.021). As a whole, model 2 is overall good because our p-value is significant which is 0.000. Model 3 shows the moderating effect of Interest Rate Spread between dependent and independent variables. The moderating effect of Interest Rate Spread is negatively related to CEO Duality and Financial Conservatism but its effect is insignificant ( $\beta = -0.315$ , p-value = 0.229). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.870$ , p-value = 0.021). As a whole, model 3 is overall good because our p-value is significant which is 0.000.

Table 6 represents the results of the random effect model. The dependent variable is Firm Financial Conservatism which is measured by binary digits 0 and 1. Model 1 shows the linkage between dependent and independent variables. In model 1, the relationship of CEO Gender is found to be negatively insignificant with Firm Financial Conservatism ( $\beta = -0.108$ , p-value = 0.894) regarding the required standard level of (p>0.01, p>0.05, p>0.1). The CEOs' Gender is denoted as a binary variable, and

the negative coefficient discloses the companies with the man CEOs do well with the enactment indicators; nevertheless, the percentage of woman CEOs is very low in firms. Male CEOs are keener to use debt as associated with female CEOs in an emerging state. This consequence is inconsistent with the experiential suggestion shown in the literature; in which women CEOs do better than the men CEOs Vieito and Khan, (2013); Peni, (2014). The core cause for this consequence is the social gender discernment in emerging states. In different countries like Pakistan, women typically have fewer chances to boost their career opportunities, specifically in the business zone. If we use leverage as the control variable, then leverage is found to have a negative and significant relationship with Firm Financial Conservatism ( $\beta = -1.029$ , p-value = 0.009). As a whole, model 1 is overall good because our p-value is significant which is 0.000. Similar results were found in the previous study of Frank and Goyal, (2007); Davis et al., (2010). Model 2 shows the moderating effect of GDP Growth between dependent and independent variables. The moderating effect of GDP Growth is positively related to CEO Gender and Financial Conservatism but its effect is insignificant ( $\beta = 0.0208$ , p-value = 0.547). If we used leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.859$ , p-value = 0.021). As a whole, model 2 overall is good because our p-value is significant which is 0.000. Model 3 shows the moderating effect of Interest Rate Spread between dependent and independent variables. The moderating effect of Interest Rate Spread is negatively related to CEO Gender and Financial Conservatism but its effect is insignificant ( $\beta = -0.663$ , p-value = 0.263). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -0.948$ , p-value = 0.011). As a whole, model 3 is overall not good because our p-value is significant which is 0.000.

**Table 6: Random Effect Model**

CEO Gender with Firm Financial Conservatism and moderating effect of GDP Growth and Interest Rate Spread with CEO Gender and Firm Financial Conservatism

Variables	Model 1	Model 2	Model 3
CEO Gender	-0.108 (0.894)	-0.903 (0.511)	3.472 (0.299)
LEV	-1.029*** (0.009)	-0.859** (0.021)	-0.948*** (0.011)
GDP Growth * CEO Gender	-	0.208 (0.574)	-
Interest Rate Spread * CEO Gender	-	-	-0.663 (0.263)
Log Likelihood	-779.77	-760.62	-772.22
Number of Obs	1,390	1,390	1390
Number of groups	139	139	139
Prob > Chi2	0.000***	0.000***	0.000***

**Table 7: Random Effect Model**

CEO Tenure with Firm Financial Conservatism and moderating effect of GDP Growth and Interest Rate Spread with CEO Tenure and Firm Financial Conservatism

Variables	Model 1	Model 2	Model 3
CEO Tenure	0.137*** (0.000)	1.178*** (0.000)	1.231*** (0.000)
LEV	-0.838** (0.030)	-0.746** (0.059)	-0.770** (0.046)
GDP Growth * CEO Tenure	-	-0.234*** (0.000)	-
Interest Rate Spread * CEO Tenure	-	-	0.303*** (0.000)
Log Likelihood	-769.45	-722.61	-739.42
Number of Obs	1,390	1,390	1390
Number of groups	139	139	139
Prob > Chi2	0.000***	0.000***	0.000***

Table 7 represents the results of the random effect model. The dependent variable is Firm Financial Conservatism which is measured by binary digits 0 and 1. Model 1 shows the linkage between dependent and independent variables. In model 1, the relationship of CEO Tenure is found to be positively significant with Firm Financial Conservatism ( $\beta = 0.137$ , p-value = 0.000) regarding the required standard level of ( $p > 0.01$ ,  $p > 0.05$ ,  $p > 0.1$ ). The long-tenure of the CEOs, better self-assurance and make better financial decisions that can rise the firm value, Hartnell et al., (2016). The consequence of the study confirms the empirical suggestion on the emerging country framework as shown in the literature. If we use leverage as a control variable then leverage is found to have a negative and significant relationship with Firm Financial Conservatism ( $\beta = -0.838$ , p-value = 0.030). As a whole, model 1 is overall good because our p-value is significant which is 0.000. Similar results were found in the previous study of Hambrick, (1991); McClelland et al., (2010). Model 2 shows the moderating effect of GDP Growth between dependent and independent variables. The moderating effect of GDP Growth is negatively related to CEO Tenure and Financial Conservatism but its effect is significant ( $\beta = -0.234$ , p-value = 0.000). If we use leverage as a control variable, then leverage is found to be negative and significant ( $\beta = -0.746$ , p-value = 0.059). As a whole, model 2 is overall good because our p-value is significant which is 0.000. Model 3 shows the moderating effect of Interest Rate Spread between dependent and independent variables. The moderating effect of Interest Rate Spread is positively related to CEO Tenure and Financial Conservatism but its effect is significant ( $\beta = 0.303$ , p-value = 0.000). If we use leverage as a control variable then leverage is found to be negative

and significant ( $\beta = -0.770$ , p-value = 0.046). As a whole, model 3 is overall good because our p-value is significant which is 0.000.

**Table 8: Random Effect Model**

CEO Ownership with Firm Financial Conservatism and moderating effect of GDP Growth and Interest Rate Spread with CEO Ownership and Firm Financial Conservatism

Variables	Model 1	Model 2	Model 3
CEO Ownership	-0.002 (0.949)	0.158* (0.069)	-0.241** (0.032)
LEV	-1.033*** (0.009)	-0.926*** (0.014)	-1.009*** (0.007)
GDP Growth * CEO Ownership	-	-0.033** (0.033)	-
Interest Rate Spread * CEO Ownership	-	-	0.054** (0.029)
Log Likelihood	-779.78	-758.31	-769.91
Number of Obs	1,390	1,390	1390
Number of groups	139	139	139
Prob > Chi2	0.000***	0.000***	0.000***

Table 8 represents the results of the random effect model. The dependent variable is Firm Financial Conservatism which is measured by binary digits 0 and 1. Model 1 shows the linkage between dependent and independent variables. In model 1, the relationship of CEO Ownership is found to be negatively insignificant with Firm Financial Conservatism ( $\beta = -0.002$ , p-value = 0.949) regarding the required standard level of ( $p > 0.01$ ,  $p > 0.05$ ,  $p > 0.1$ ). We do not find a significant association between CEO Ownership and financial leverage, although we suppose that CEO Ownership would have a significant effect on capital structure because it increases CEOs' encouragement to increase shareholders' wealth and CEOs' undiversified investment in the companies Kim and Lu (2011). If we use leverage as the control variable, then leverage is found to have a negative and significant relationship with Firm Financial Conservatism ( $\beta = -1.033$ , p-value = 0.009). As a whole, model 1 is overall good because our p-value is significant which is 0.000. Similar results were found in the previous study of Onali et al., (2016); Chen and Chuang, (2009). Model 2 shows the moderating effect of GDP Growth between dependent and independent variables. The moderating effect of GDP Growth is negatively related to CEO Ownership and Financial Conservatism but its effect is significant ( $\beta = -0.033$ , p-value = 0.033). If we use leverage as the control variable, then leverage is found to be negative and significant ( $\beta = -0.926$ , p value = 0.014). As a whole, model 2 is overall good because our p-value is significant which is 0.000. Model 3 shows the moderating effect of the Interest Rate Spread between dependent and independent variables. The moderating effect of Interest Rate Spread is positively related to CEO Ownership and Financial Conservatism but its effect is significant ( $\beta = 0.054$ , p-value = 0.029). If we use leverage as a control variable then leverage is found to be negative and significant ( $\beta = -1.009$ , p-value = 0.007). As a whole, model 3 is overall good because our p-value is significant which is 0.000.

## 5. Conclusions

This study investigates the relationship between CEO attributes and conservative financial policy as well as the moderating effect of GDP Growth and Interest Rate Spread of non-financial firms in Pakistan for the period of 2008-2017. This outcome supports the agency perspective that ownership organization and administration should be alienated to increase the firm enactment, Fama and Jensen, (1983). The results of this study are associated with CEO duality, stated by Bokpin & Arko, (2009); Kuan et al., (2011). The hypothesis associated with the outcome of CEOs' gender on Financial Conservatism is also empirically supported. The outcomes show that the male CEOs have an insignificant effect on Financial Conservatism as linked with the female CEOs. Moreover, in the Pakistani corporate sectors, it is revealed that the number of female CEOs is steadily increasing. The moderating effect of GDP Growth is positively insignificant with CEO Gender but Interest Rate Spread has no link with Firm Financial Conservatism. The results of this study are associated with CEO Gender stated by (Frank and Goyal, (2007); Davis et al., (2010). The hypothesis associated with the effect of CEOs Tenure on Financial Conservatism is also empirically supported. CEO Tenure affects Financial Conservatism positively, the moderating effect of GDP Growth is negatively/significant and Interest Rate Spread has a positive impact on Firm Financial Conservatism, presenting the role of CEOs in financial decision-making and that CEOs are more powerful people in Non-Financial firms. The positive effect of CEO Tenure may be due to the inspiration, high reimbursement package, and decision-making capabilities, which lead to a firm's positive link with Financial Conservatism Kuo et al., (2014); Hambrick, (1991); McClelland et al., (2010). Evidence also shows that CEO Ownership does not interact with Firm Financial Conservatism and GDP Growth is significant and also Interest Rate Spread moderates the link with Firm Financial Conservatism. In the next, it confirms that results accuracy exists because control variable leverage is significantly linked with Firm Financial Conservatism. Onali et al., (2014) document that Ownership has been used as a proxy for CEO power. The CEO becomes more powerful due to increased voting power if the number of shareholders increases. The CEO replacement becomes less to be likely, and he is expected to be more imbedded.

### 5.1. RECOMMENDATIONS

In Pakistan, the monitoring bodies have taken substantial procedures to improve the corporate governance codes in the country. Our findings could be valuable for several users of financial information, such as regulators, investors, auditors, and lenders, assisting them to make the right decisions about the firm's future performance. For the best improvements in corporate governance, CEOs & boards of directors should bring transparency, accountability, and fairness in financial reporting. The study recommends that the Security Exchange Commission of Pakistan should take a reasonable step for the transparency of annual reports for listed companies in the Pakistan Stock exchange because there are many issues regarding financial statement analysis.

Private firms seem to pile up cash and their leverage potential to finance future investment, therefore indicating financial flexibility is one of the major determinants of conservative financial

The current study encourages the benefit of industrial improvement by retaining the best mechanism in corporate governance. Thus, this study is beneficial for firms' owners, managers, and investors, as Financial Conservatism firms are more cost-effective, low risky investments and pay high dividends than their non-conservative equivalents. The investors and the other decision-makers should incorporate the net debt ratio for decision-making. This study offers vital consequences for an emergent economy, in which corporate risk is relatively high and financial markets are very impulsive. Financial decision-making is even more substantial for persistence in such an environment. This study provides excellent benefits to the Security Exchange Commission of Pakistan, the Federal Board of Revenue, and small & large size firms that how they can bring improvement in their cash and debt level. This study guides the managers to keep a suitable amount of cash which increases the firm value of the corporate governance mechanism situation.

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