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THE IMPACT OF CEO CHARACTERISTICS ON FINANCIAL PERFORMANCE OF
MALAYSIAN CONSTRUCTION LISTED FIRMS

By

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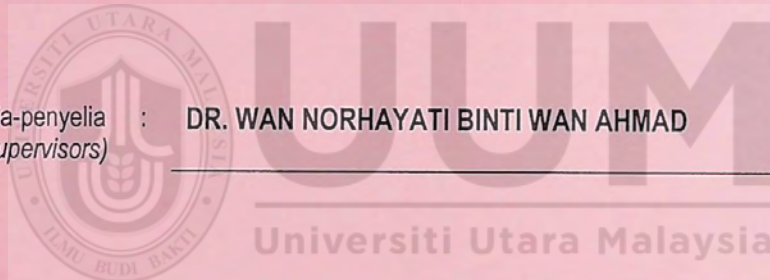
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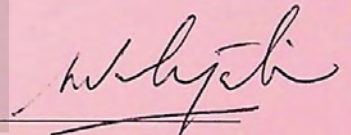
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ABSTRACT

This study investigates the impact of CEO characteristics on the financial performance of companies listed in Bursa Malaysia (Malaysia Stock Exchange) within the construction sector from 2017 to 2019. This study uses descriptive and inferential statistics, to examine the influence of CEO characteristics (CEO ownership, tenure, financial education, and founder) on the dependent variable (return on asset). The findings indicate that CEO financial education and founder CEO have no statistically significant effect on ROA. In contrast, CEO tenure and CEO ownership have a significant positive relationship with ROA. The collected data from annual reports were statistically processed using the program (STATA) to obtain the study's results since the study is based on a panel model. Future research can investigate the exact relationship between CEO characteristics with firm financial performance in other countries. In addition, future researchers can extend the research or studies of CEO characteristics such as CEO gender, power, expertise, et cetera. In addition, the research could be extended to other sectors; therefore, applying the theoretical model to others may be a significant contribution.

Keywords: Governance, Financial performance, CEO characteristics, CEO financial education, Founder CEO, CEO ownership, CEO tenure

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Governance has been discussed in detail in previous literature as it is seen as a lever to create economic efficiency and increase corporate value by ensuring a high level of financial performance and control activity. It is vital in preventing manipulation, financial fraud, administrative corruption, crises, and bankruptcy (Bhagat & Bolton, 2019). Ghardallou, Borgi, and Alkhalifah (2020) have stated that governance topics such as financial performance have been extensively recurring as a research theme. Moreover, the topic of how to improve performance and value creation within companies arises within literatures.

According to Chin et al. (2019), firm performance depends mainly on the decisions taken by the CEO. For example, the most recent case is the CEO of FGV, Zakaria Arshad, who has taken financial wrongs, causing a significant decrease in share price. According to Shen (2021), the Chief Executive Officer, one of the management team members at the top of a company, can actively direct the company to explore possibilities.

The CEO has the highest executive authority in the company and is responsible for managing the business to ensure success and stability because his actions impact the company's future success or failure (Kaur & Singh, 2018). Research has shown that CEO traits and characteristics are among the many elements that impact companies'

performance. Therefore, a company's CEO's personality is likely to significantly influence the company's success (Saidu, 2019).

The construction industry plays a crucial role in many emerging economies, and the government can leverage this to accelerate economic growth (Isa, Saman, & Preece, 2015). Annually, the construction industry in Malaysia contributes between 3 and 6 per cent of the country's gross domestic product (GDP). The value of building work completed in the first quarter (Q1) of 2022 decreased by 6.1% year-over-year to RM29.5 billion, according to the Department of Statistics Malaysia (DOSM).

Despite of the decline of 12.9% in the fourth quarter (Q4) of the previous year (2020), the value of the construction work performed continued to rise, reaching RM27.6 billion. Furthermore, the construction sector has been given RM 260 billion in the 11th Malaysia Plan, which runs from 2016 to 2020 (EPU, 2020). These facts confirm the need to study this sector and how it is protected. Therefore, studying the characteristics of the CEO within this sector is considered a critical issue.

1.2 Problem Statement

Due to a lack of accountability, transparency, and security, poor corporate governance stifles firm growth, lowering shareholder wealth value. This factor raises the question of whether corporate governance improves a company's financial performance or not (Girau, Bujang, Jidwin, & Said, 2021). Previous studies show mixed outcomes regarding corporate governance's influence on firms' financial performance.

First, prior research shows apparent disagreement and contradictory perspectives regarding the relationship between CEO ownership and a firm's performance. For instance, (R. Fahlenbrach, 2009) stated that CEO ownership negatively impacts firms' financial performance, while (Abdullah et al., 2019) stated that ownership concentration substantially negatively impacts ROA.

Further, most researchers have proven a positive relationship between firms' financial performance and CEO tenure (Emestine & Setyaningrum, 2019). On the other hand, others have argued that, in some cases, tenure could have no or negative effect on performance (Goyal & Park, 2002). As for the CEO, there has been a discussion about the impact of financial knowledge on performance (Darmadi & Management, 2013). In other words, the research on the link between CEO ownership, tenure, financial education, and founder CEO and business success is still lacking. To clarify further, understanding the CEO traits that lead to a company's successful performance has increased due to apparent bad performance and corporate scandals (Rezaei, Mansouri, Faghani, & Applications, 2022).

FGV is a Malaysian firm with a significant share price decrease because of the CEO's decisions (Chin et al., 2019). This scandal has proven that CEO impact the decisions related to customers, financial management, business operation, envisioning, nominating, enabling, and managing a crisis. These decisions could affect the whole process of managing firms and financial performance. That justifies the need to study

the CEO characteristics' impact on performance, including educational level, CEO tenure, gender, experience, et cetera.

Studying the characteristics of the CEO may reduce the chances of the wrong appointment of CEOs, thus reducing the chances of financial and management failure for companies such as Enron and WorldCom (Altarawneh, Shafie, & Ishak, 2020), especially in the construction sector within the state of Malaysia, as the sector is witnessing rapid growth in recent decades. Also, to have tremendous growth opportunities in the coming years, this study may lead to the best proportional characteristics of the executive directors in the construction sector and reduce the chances of any collapse of the FGV scandal.

1.3 Research Questions

Four research questions (RQ) are offered based on the problem statement:

- 1) Is there any significant relationship between CEO share ownership and financial performance?
- 2) Is there any significant relationship between CEO tenure and financial performance?
- 3) Is there any significant relationship between CEO financial education and financial performance?
- 4) Is there any significant relationship between founder CEO and financial performance?

1.4 Research Objectives

The general research objectives (RO) of the study are as follows:

- 1) To investigate the impact of CEO share ownership on financial performance
- 2) To investigate the impact of CEO tenure on financial performance
- 3) To investigate the impact of CEO financial education on financial performance
- 4) To investigate the impact of founder CEO on financial performance

1.5 Significant of the Study

The theoretical significance of this study is that the results will complement existing theory and literatures by examining how CEO characteristics (CEO ownership, tenure, financial literacy, and founder) significantly contribute to improving firm performance in achieving goals and meeting investor expectations, filling a gap in the literature. Furthermore, this study extends the application of agency and resource dependency theory. The practical value of this study is that it provides helpful insights to numerous market participants, such as issuers and investors, who may rely on the characteristics of CEOs when making strategic decisions to issue and invest in the Malaysian market.

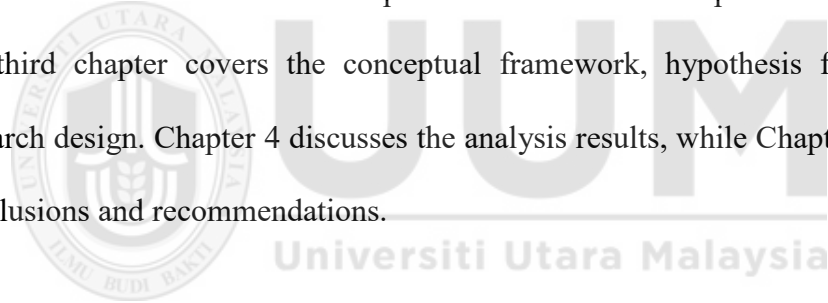
1.6 Scope of the Study

This study examines CEO characteristics' impact on firm performance within 42 out of 73 Malaysian-listed firms on Bursa Malaysia within the construction sector. The information was extracted from the company's annual reports from 2017 to 2019 and

conducted thorough regression analysis. All the data was collected and chosen based on which companies had the most valuable assets. The period selection is due to the availability of yearly report data. Due to time constraints, the researcher could not include the rest of the companies in the sample. Year 2020 was not chosen because the Covid-19 global pandemic may have rendered most firms' annual reports inadequate.

1.7 Organization of the Study

This report contains five chapters. The introduction provides an overview of the research. The second chapter provides a literature review of the variables and theories of CEO characteristics and their impact on business financial performance. Meanwhile, the third chapter covers the conceptual framework, hypothesis formulation, and research design. Chapter 4 discusses the analysis results, while Chapter 5 presents the conclusions and recommendations.



CHAPTER TWO

LITERATURE REVIEW ANF HYPOTHESES DEVELOPMENT

2.1 Introduction

This study investigates the impact of crucial CEO attributes such as founder CEO, financial education, tenure, and ownership on financial performance. As a result, the following sections examine the current empirical literature to find gaps and gain insight into the numerous variables used in this study using agency and resource dependency theory, which links studies to existing and previous knowledge.

2.2 Firm Performance

Financial performance is the achievement of the firm's economic objectives (Michelberger & Studies, 2016). Financial or firm performance calculates the monetary worth of a company's policies, actions, and activities. The outcome can be expressed in terms of 3 types of indicators—for instance, profitability, liquidity, and leverage. Decision-makers can rely on these ratios for evaluating a company's financial performance (Agrawal & Knoeber, 2012).

Previous studies have employed return on assets (ROA) as a significant financial performance indicator (Zabri, Ahmad, & Wah, 2016) as it illustrates the profits generated from the effective and efficient use of the firm's assets. According to Kurniasari (2017), ROA is a well-understood organisational metric that accurately reflects business performance and is a reliable indicator of a company's financial

performance. ROA is calculated by dividing the tax period's net income before interest expense by the total assets for the same period (Prananingrum, Muthalib, Irfandy, & Rohansyah, 2018).

2.3 CEO Share Ownership and Firm performance

The link between executive ownership and financial performance is responsible for assuring that a company's worth is defined by the stock ownership split between management and shareholders (Shan, 2019). CEO ownership refers to the percentage that the CEO owns of the company's total shares (Wongakaradeth, Maneenop, & Journal, 2021). Various research approaches have been proposed to explain the impact of CEO ownership on financial performance.

Most researchers have discovered a correlation between CEO ownership and company financial performance. According to agency theory, CEO ownership can reduce conflicting interests between management and shareholders (Chen, Hexter, Hu, & economics, 1993). As a result, CEO ownership can reduce agency issues between management and investors and direct managers' behaviour to optimise company value (Palia & Lichtenberg, 1999). Bhagat and Bolton (2008) have examined the relationship using ROA in USA firms and found a positive relationship between the two variables. They recommended increasing the share option to higher-level management in order to increase their managerial ownership for them.

At the same time, Kapopoulos and Lazaretou (2007) used Tobin's Q as a measure for the relationship in selected Greek firms. They found that the increase in managerial and executive ownership will lead to a higher performance due to the fear that a decrease in a firm's performance will lead to a decrease in stock value. That means more loss will occur when the stock price declines to higher-level management. In agreement with the above, other studies (Florackis, 2005; Kapopoulos & Lazaretou, 2007; Sánchez-Ballesta & Garca-Meca, 2007; Sing & Sirmans, 2008) also concluded that there is a positive relationship between these two variables.

On the contrary, Fama and Jensen (1983) have argued that a high degree of ownership by the CEO leads to extensive control over firms without monitoring, which can negatively affect performance. Furthermore, tiny shareholders may be unable to supervise management operations because controlling expenses are usually high. In this aspect, minority stockholders gain from large owners' motives and power to minimise executives' moral hazard behaviour (Al-Matari, Al-Swidi, & Fadzil, 2013). Additionally, Belkhir (2009) found a negative relationship in their findings using Tobin's Q analysis. Further, other researchers (Ivashkovskaya & Zinkevich, 2009; Juras & Hinson, 2008; Liang, Lin, Huang, & Trade, 2011; Mandacı, Gumus, & Business, 2010; Muravyev, Talavera, Bilyk, & Grechaniuk, 2010) have concluded to a negative association using both Tobin's Q and ROA.

On the other hand, Siala, Adjaoud, and Mamoghli (2009), who have used Tobin's Q as a measure, concluded that there is no clear direction in the empirical research on the

link between CEO ownership and business financial success in industrialised nations such as Canada. Similarly, research conducted by Nuryanah and Islam (2011) in Indonesia also shows that CEO ownership does not affect business financial performance.

2.4 CEO Tenure and Firm performance

The term "CEO tenure" relates to how long a person has been in charge of a company. In management and accounting/finance, CEO tenure is a crucial observable trait of the CEO that has gotten much attention (Darouichi, Kunisch, Menz, & Cannella Jr, 2021). Numerous studies have examined the effect of a CEO's tenure on a business's success. Some researchers think CEO tenure and business performance have a positive link, while others say the association is harmful or even non-significant (Allgood & Farrell, 2000).

The rationale that long-serving CEOs increase their performance is that CEOs who stay in their positions longer acquire more experience and managerial and financial knowledge, which is consistent with resource dependence theory. A study by Dikolli, Mayew, and Nanda (2014) with a sample of 1725 firms in the United States which examined the relationship between firm performance and CEO tenure using ROA, found a positive relationship, suggesting that the longer a CEO has been in office, the better the firm's financial performance.

Wulf, Stubner, Miksche, and Roleder (2010) used the same metric of ROA have achieved the same results in 174 German companies. Similarly, Al-Homaidi, Al-Matari, Tabash, Khaled, and Senan (2021) found a positive but non-significant relationship between firm performance and CEO tenure using ROA. They have used stewardship theory, which assumes a situational and psychological aspect in increasing stewardship behaviour. Henderson, Miller, and Hambrick (2006) evaluated the link in two industries: the first was the food business, which used three measures: ROA, ROE, and ROIC. They discovered a positive relationship, but when they tested it on the computer industry, they discovered a negative one, indicating that the longer a CEO stays in his post, the lower the firm's performance.

Other than the above, other research has shown an inverse or negative relationship between firm performance (ROA) and CEO tenure (Al-Matari, Al-Swidi, Fadzil, Al-Matari, & Reporting, 2012); Allgood and Farrell (2000). Using agency theory, both concluded that the more prolonged the tenure, the less in terms of firm financial performance because that will lead to a significant increase in the CEO's power, which can maintain his interests and benefits. According to Al Farooque, Van Zijl, Dunstan, and Karim (2007), who used the PE ratio (price to earnings ratio) instead of ROA as a metric, the association is negative. Alshafi (2017) obtained the same results using Tobin's Q as a measure; his study has concluded that the longer the tenure, the more CEO will gain control over the firm. In this case, the CEO can make decisions that can be described as harmful to the company, leading to a weaker performance.

Others argue that there is no relationship between firm performance and CEO tenure. Chang and Wong (2009) applied ROE (return on equity) to examine the relationship and concluded that there is no relationship between firm performance and CEO tenure. Arosa, Iturralde, and Maseda (2013) applied ROA and found the same results, supporting the argument of the nonexistence of a relationship between firm performance and CEO tenure.

2.5 CEO financial education and firm performance

According to (Bertrand & Schoar, 2003), the education of senior executives, especially financial education and its influence on financial performance, has been the topic of several studies. CEO financial education refers to a CEO with a business degree such as an MBA, bachelor's in the field of accounting, finance, or management, and professional certifications such as ACCA, CMA, and CPA (Abad-Segura & González-Zamar, 2019). CEOs with a business education have a proven track record of financial success in terms of performance. Evidence shows that managers who have received financial education help develop better financial budgeting and planning skills (Bhagat, Bolton, & Subramanian, 2010).

Further, Ali, Rehman, Suleman, and Ntim (2022) propose that a CEO's financial skills and education are related to a greater return on equity (ROE). An analysis of the impact of the CEO's and BOD members' education on the performance of Indonesian companies has revealed that the educational credentials of BOD members and the CEO are essential, where CEOs with business degrees from prominent domestic colleges

outperform those without such credentials by a wide margin (Darmadi & Management, 2013).

Some researchers have criticised the above findings, demonstrating that companies led by CEOs with an MBA degree do not surpass those led by CEOs without financial expertise or background (Gottesman & Morey, 2010). On the other hand, the research employed an MBA as the sole measure of CEO education and dividends, return and share price movements as success indicators, and this may be contested because an MBA is merely a part of broader business education.

Other studies have found that CEOs with technical expertise outperform CEOs with financial education (Ugras et al., 2010). Lindorff and Jonson (2013) have explored CEO financial education's effect on performance. According to their research, CEO business education has no impact on financial performance, and the research went on to say that business education is overvalued. Earlier (Fujianti, 2018; Kimberly & Evanisko, 1981) also found no association between firm financial performance and the financial education of CEOs and top management.

2.6 Founder CEO and firm performance

Founder CEOs are the people who created and found the firm and are responsible for being the CEO of the company they created. Founders have a unique relationship with their companies, and because of their privileged position, they may be able to derive more private benefits from control. Because they are not well-diversified, founder-

CEOs may potentially influence investing decisions (Fahlenbrach & Rüdiger, 2009). Founders may no longer have the competence to operate their businesses as they grow, yet they may be unwilling to surrender control. When they do relinquish authority, they may prefer to pass it on to family members who may be unqualified.

In contrast, founders' motivations may be better aligned with those of external shareholders than professional managers due to their larger ownership shares and longer investment horizons. They may be more committed to a particular incentive structure because they care about their company (Adams, Almeida, & Ferreira, 2009). According to these theories, the relationship between corporate performance and founder-CEO status differs from that between professional managers. Firm performance may not only change when the founder is in charge, but performance may also affect founder-CEO turnover differently than professional CEO turnover.

Denis and Denis (1994) investigated the association between firm financial success and CEO stock holding. They found no indication that majority-owned firms perform better than firms with widely distributed ownership using accounting performance metrics. This ownership is fundamentally linked to whether or not the company is managed by its founder. On the other hand, founder-managed companies have been shown to have a better return on investment than other companies. The founder CEO's presence will likely contribute to or detract from firm performance. The impact of founder management on stock performance is more significant for smaller companies than for larger companies.

Although founder CEO status is not significantly associated with stock performance, founder management has a more favourable effect on stock performance for smaller and younger firms than for more extensive and older firms (Jayaraman, Khorana, Nelling, & Covin, 2000). Ullah, Zhang, and Finance (2016) have found that founder-managed enterprises underperform and outlive their competitors. The relevant transaction hypothesis suggests that founder-managers may operate for the controlling family and are more concerned with the linked private income stream than with increasing the firm's value, which explains the negative impact of founder status.

2.7 Chapter Summary

This chapter provides a basic idea and notion of this research. The second chapter identifies CEO characteristics (founder CEO, financial education, tenure, and ownership) and discusses existing literature internationally and from the Malaysian context. This chapter provides an overview and relevant literature and how CEO characteristics (founder CEO, financial education, tenure, and ownership) affect a firm's financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research framework for this study is in the first portion of this chapter. The following section shows the research hypothesis development. Following that, this chapter delves into the study's methodology. This chapter serves as a foundation for answering the study's research questions. Following that, there is a review of the research design and the instruments employed in this study. The following section discusses the data gathering method and operational definition. This chapter then discusses the data analysis technique, followed by a chapter summary.

3.2 Theoretical and Research Framework

The following two theories are used in this study to investigate the association between CEO characteristics (founder CEO, financial education, tenure, and ownership) and financial performance:

3.2.1 The Agency theory

The role of management, i.e., monitoring the activity of boards of directors, is a crucial subject of study in corporate governance. Agency theory is the foundation for linking this monitoring role to firm performance. According to agency theories, poor corporate governance systems negatively impact a company's financial performance. On the

other hand, managers may have personal ambitions and compete with owners, which is covert action and can lead to moral hazard. As a result, both the principal and the agent are rational individuals seeking to maximise their gains. When there is a separation of ownership, control, and the problem of hidden information, also known as information asymmetry in an organisation, this can lead to a potential conflict of interest between the two groups, as managers may pursue their interests at the expense of the shareholders, resulting in agency costs. As a result, board-level monitoring may lower the agency costs associated with ownership and control separation and enhance firm financial performance (Vitolla, Raimo, & Rubino, 2020). Ownership concentration can help mitigate the agency problem between managers and shareholders, it can lead to another type of agency problem between majority and minority shareholders (Burkart, Gromb, & Panunzi, 1997). According to agency theory, a longer CEO tenure leads to an increase in the CEO's power which can be used to obtain more private interests (Hill & Phan, 1991).

3.2.2 Resource dependency theory

The resource dependency concept is another often utilised theoretical approach when studying the impact of board composition on business performance. These theories suggest that firms are open systems with interdependent relationships with external enterprises and constituencies and that the success of organisations is highly dependent on interconnections with those resources and enterprises. This view shows that executives' significance to the organisation comes from their interconnections with external parties. In other words, a critical function of a board is the provision of

resources related to resource dependence and stakeholder traditions. When an organisation selects an independent non-executive board of directors, it anticipates the individual to come out and support the organisation, be concerned about its issues, invariably communicate it to others, and strive to help the organisation (Ozturk, 2021). From a different angle, the resource dependence theory postulates that increased ownership concentration can improve company performance. Concentrated owners can provide their companies with significant benefits in terms of managerial and financial resources, such as the state and family (Bouwman, 2011).

3.2.3 Research Framework

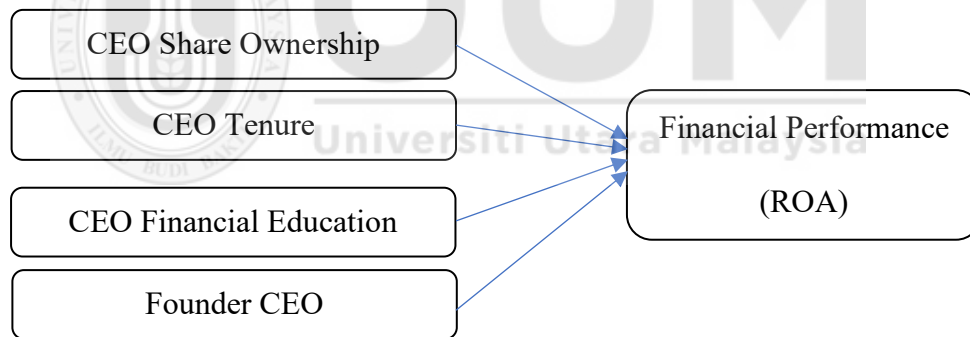


Figure 3:1
The framework of The Impact of CEO Characteristics on Financial Performance

3.3 Hypothesis Development

3.3.1 CEO share ownership and firm performance

According to agency theory, CEO ownership can help reduce conflicts of interest between managers, owners, or shareholders (Panda & Leepsa, 2017). As a result,

CEO involvement can serve as a mechanism to reduce agency problems between management and shareholders and guide managers' actions to increase firm value (Almudehki & Zeitun, 2012). High managerial ownership results in a management entrenchment that might cause significant agency issues. When managers own a substantial stake in a company, they are insulated from shareholder control and can engage in non-value-maximising activities (Himmelberg, Hubbard, & Palia, 1999).

Zhang, Ma, Wang, Li, and Huo (2016) have found that CEO ownership affects board member selection and compensation, and the business interest alignment hypothesis says an owner-manager is likelier to pursue the company's goal. Given the disparities in the previous study's findings, it is essential to broaden the scope of this analysis to a different context, as differences in culture, norms, and practices may change depending on the situation. Similarly, CEO ownership varies by industry; hence, this study focuses on the financial performance within the construction sector. Therefore, the proposed hypothesis is as follows;

H1: CEO shares ownership has a significant impact on firm performance.

3.3.2 CEO Tenure and firm performance

CEO with a reasonably lengthy tenure possesses unique firm- and industry-specific expertise that aids in managing a company's resources more effectively and efficiently. According to this notion, the CEO's tenure is a crucial situational and psychological component that influences how stewardly they operate (Castanias & Helfat, 1991). While resource dependence theory asserts that CEO tenure favours

business performance, agency theory believes the opposite. Agency theory states that a longer CEO tenure increases their authority to enforce special private interests (Hill & Phan, 1991). According to the resource dependence theory, the CEO will develop more expertise and experience the longer he or she holds the role. As a result, a long-tenured CEO results in better overall business success (Wulf et al., 2010). CEO tenure is a critical observable characteristic that has received much attention in management, accounting, and finance (Darouichi et al., 2021). Many studies have examined the CEO's impact on corporate performance. The first theory investigates the connection between the length of time a CEO has held their position and the company's performance. According to this theory, longer tenure results in an improved CEO's understanding of the strategic approach taken by the company, which in turn leads to improved firm performance. Schwenk (1993) also has found that longer tenure or experience helps CEOs understand the firm's strategy and that CEOs may have a broader understanding, power, and competence, leading to more robust control in a riskier environment.

Some scholars say that the link between the length of time a CEO has been in charge and how well a company does is positive, while others say it is weak or does not matter (Allgood & Farrell, 2000). For instance, Ahmad, Prasetyo, Bchdadi, Wudyastuti, and Kurniawati (2022) examined the notion that executive tenure correlates significantly with firm value. According to Dikolli, Mayew, and Nanda (2014), the relationship between business performance and CEO tenure found a positive correlation. The findings of studies that used ROA to investigate the

association between company performance and CEO tenure came to this conclusion. The impact of CEO tenure on corporate profitability shows inconsistent results. Hence, the proposed hypothesis is as follows;

H2: CEO tenure significantly impact firm performance.

3.3.3 CEO financial education and firm performance

A high degree of education is essential for enhancing the managers' status and helping them make optimal decisions (Altuwauri & Kalyanaraman, 2020). A CEO with a business degree such as MBA, bachelor's in accounting, finance, or management, and professional certifications like ACCA, CMA, and CPA is financially educated (Abad-Segura & González-Zamar, 2019). Ali et al. (2022), in an analysis of CEO education and BOD members, suggest that a CEO's financial expertise and education are associated with a higher return on equity (ROE). Huang (2013) discovered that a firm's environmental performance is highly linked to the education of the CEO, particularly a master's degree such as an MSc or an MBA.

A study by (Gottesman & Morey, 2010) concluded that there was no meaningful correlation between the two variables. This finding supported that hiring a CEO with a background in operational processes was significantly more likely to be successful. If a company's primary competitive strategy is to develop new ideas for its products, it should be a top priority to choose upper executives with operational and technical knowledge (Daellenbach, McCarthy, Schoenecker, & Management, 1999). Based on the above discussions, the following hypothesis is derived:

H3: The CEO's financial education significantly impacts firm performance.

3.3.4 Founder CEO and firm performance

Founder-CEOs can influence critical decisions, including financial, investment, and others. According to Randøy and Goel (2003), the founder CEO creates a particular governance environment where the issue of agency takes a back seat to the issue of resource access. As a result, governance systems intended to cut agency expenses may be superfluous in establishing family enterprises. Founders may have more external shareholder-oriented incentives than professional managers because they have more extensive ownership interests and longer investment horizons. Because they care about their companies, they may be more committed to an incentive structure (Adams et al., 2009). According to these concepts, founder-CEOs and professional managers have different relationships with business success. Performance may affect founder-CEO turnover differently than professional CEO turnover. Denis and Denis (1994) studied the correlation between firm performance and CEO stock ownership. They found no indication that majority-owned enterprises perform better using accounting performance metrics, and founder-managed enterprises have a superior asset return. According to Jayaraman et al. (2000), being a founder CEO does not significantly affect how well the stock does, but founder management has a more considerable effect on smaller and younger companies than on larger and older ones. Ullah et al. (2016) state that founder-managed organisations underperform while outliving their rivals. The relevant transaction hypothesis says that founder-managers may work for the controlling family and care more about their income stream than increasing the

firm's value, and this explains why the founder's position has a negative effect. Hence, the following is the hypothesis

H4: The founder CEO has a significant impact on firm performance.

3.4 Research Method and Sample Selection Procedures

This study explores the impact of CEO characteristics on financial performance in 42 out of 73 Malaysian construction firms listed on bursa Malaysia. The data was taken from the company's annual reports from 2017 to 2019 and analysed using multiple regression techniques. The selected period is based on the availability of annual report data. All the information was gathered and selected depending on which businesses had the most valuable assets. Time constraints prevented the researcher from including the remaining companies in the sample. The global pandemic will likely have rendered the majority of companies' annual reports inadequate by early 2020.

Descriptive analysis is one of the essential methods for presenting standard data. It gives preliminary indications of the nature of variables over time using the most common descriptive methods: arithmetic mean, standard deviation, most negligible value, and most significant value (George & Mallery, 2018). Descriptive statistics describe the data and include methods to describe the data arithmetically by finding some averages and measures of dispersion.

Due to the nature of the study, the objectives sought, and the research question, this study will rely on the quantitative approach through longitudinal data analysis methods.

Panel Data is the most appropriate way for studying the phenomenon under investigation by utilising the following two methods: The first way is to rely on prior research and studies that directly or indirectly addressed the context of the research, as well as booklets and pamphlets to cover the theoretical side, and annual reports to cover the practical side. The second approach of the study is statistical analysis. The researcher will use the STATA program to analyse the data and test hypotheses.

3.5 Research Models and Regression

The study model measures the impact of independent variables (CEO share ownership, CEO tenure, CEO financial education, founder CEO) on the dependent variable (financial performance).

$$ROA = c + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

In which:

X: Independent variables

ROA: Return on Assets

X1: CEO shares ownership

β : Regression coefficients

X2: CEO tenure

c: Constant

X3: CEO financial education

ε : Random variables

3.6 Operational Definition

Table 3.1 shows the operationalisation of the analysis factors, which represents how the dependent and independent (CEO expertise, CEO ownership, CEO tenure, and founder CEO) and financial performance (ROA) factors are measured in this research and the standard sign for every factor.

Terms	Definition
Financial performance	Financial performance is defined as the achievement of the firm's economic objectives. FP is represented as ROA in, which is calculated as the following equation (net income / total assets)
CEO tenure	The term "CEO tenure" relates to how long a person (in years) has been in charge of a company.
CEO ownership	The percentage that is owned by the CEO in the firm's total shares
CEO financial education	Whether the CEO holds a business degree such as an MBA, a bachelor's in the field of Accounting, finance, and management, and professional certifications such as ACCA, CMA, and CPA or not.

Indicator: 0 - Represent do not have financial education, 1 -
Represent have financial education

Founder CEO

Whether the person who created and found the firm also holds
the responsibility of being the CEO of the company he created.

Indicator: 0 – Not a founder, 1 - Founder

3.7 Summary of the chapter

Chapter three discusses the conceptual framework and hypotheses based on the independent variables of the investigation. This chapter also addresses the research techniques used in this study, including research design, data collection, sampling procedures, and analysis to produce meaningful results. Chapter Four presents the study's results, followed by the analysis, findings, and a discussion of the results for the research questions and hypotheses established in the study. Finally, Chapter Five discusses the study's conclusions and possible future research opportunities.

CHAPTER FOUR

RESULT AND ANALYSIS

4.1 Introduction

This chapter presents the data analysis and hypothesis testing results of the study by answering the study questions and using the results of the hypothesis testing. Therefore, the collected data were statistically processed using the program (STATA) to obtain the study's results since the study is based on a panel model. The data and methods described in this chapter also include the definition of the study variables, the definition of the data used to estimate the models, and the specification of the statistical methods used for estimation. The cross-sectional time and estimation of the regression coefficients for the standard models using the best suitable method were investigated, as were the implications and economic dimensions of these results.

4.2 Evaluation of the statistical quality of the estimated model:

4.2.1 Heteroskedasticity Test

H_0 : Constant variance

H_a : Not Constant variance

Table 4.1:
Heteroskedasticity Test Results

Test	Chi-square	P-Value
Heteroskedasticity Test	0.19	0.65

Table (4.1) shows that the test value is (0.19) and the probabilistic value is (0.65), which is more than (0.05), which means that the null hypothesis is accepted.

4.2.2 Autocorrelation Test

H_0 : No first – order autocorrelation

H_a : first – order autocorrelation

Table 4.2:
Autocorrelation Test Result

Test	Coefficient F	P-Value
Autocorrelation Test	0.521	0.47

Table (4.2) shows that the test value is (0.521) and the probabilistic value is (0.47), which is more than (0.05), which means that the null hypothesis is accepted, which means that the no first-order autocorrelation.

4.2.3 Variance Inflation Factor

Table 4.3:
VIF Results

Variable	VIF
Founder CEO	1.11
CEO financial education	1.07
CEO tenure	1.15
CEO share ownership	1.12
Mean VIF	1.28

Table (4.3) shows the test value VIF, as all values are less than 5, which means there is no Multicollinearity problem.

4.3 The Findings

4.3.1 The findings from regression analysis

How do the characteristics of CEO shares (CEO share ownership, CEO tenure, CEO financial education, founder CEO) as a governance mechanism affect the financial performance (ROA) of companies listed on Bursa Malaysia within the construction sector?

Does variance affect the financial performance (ROA) of companies listed on Bursa Malaysia within the construction sector?

$$ROA = c + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$ROA = 2.832 - 2.699 (\text{founder CEO}) - 1.868 (\text{CEO financial education}) + 0.038 (\text{CEO tenure}) + 0.162 (\text{CEO share ownership})$$

4.3.2 Descriptive statistics analysis

Table 4.4 shows some statistical measures for each variable, which can be measured to what extent it can be relied upon as a reasonable basis for reaching the parameters of the community and also to test their statistical suitability using moral tests.

Table 4.4
Descriptive statistics for the study variables

Variables	Mean	Std. Dev.	Minimum	Maximum
Financial performance	3.35	7.047	-35.410	42.310
Founder CEO	0.190	0.394	0.0000	1
CEO financial education	0.262	0.441	0.0000	1
CEO tenure	11.119	9.129	1	36
CEO share ownership	6.787	11.665	0.0000	51.80

Based on the secondary data collected, the minimum financial performance was -35.41, and the maximum was 42.31. The mean value was 3.35, and the standard deviation value was 7.047, which indicates there is a wide distribution of the data.

Next, the minimum founder CEO was 0.000, and the maximum was 1. The mean value was 0.190, and the standard deviation value was 0.394. The mean value of 0.190 shows that the proportion of the founder CEO is low.

Following that, the minimum CEO financial education was 0.000, and the maximum was 1. The mean value was 0.262, and the standard deviation value was 0.441. The mean value of 0.262 implies that the number of CEOs with financial education is moderate.

Then, based on the secondary data collected, the minimum CEO tenure was 1, and the maximum was 36. The mean value was 11.119, and the standard deviation value was 9.129. These results indicate that the CEO who has longer tenure is high.

Finally, the minimum CEO share ownership was 0.000, and the maximum was 51.80. The mean value was 6.787, and the standard deviation value was 11.665. The mean value of 6.787 implies that the level of share ownership is moderate.

4.3.3 The findings from linear correlation analysis

The table below determines the nature of the relationship between the independent variables: (CEO share ownership, CEO tenure, CEO financial education, founder CEO) and the dependent variable (ROA). The researcher notices from the previous table that there is a relationship between (CEO share ownership and CEO tenure) and ROA, but there is no relationship between the independent variables.

Table 4.5
Linear Correlation Matrix

Correlation Coefficient	ROA	CEO share ownership	CEO tenure	CEO financial education	Founder CEO
ROA	1.0000				
CEO share ownership	0.2411	1.0000			
CEO tenure	0.1560	0.1911	1.0000		

CEO financial education	-0.0797	-0.1281	-0.1329	1.0000	
Founder CEO	-0.0178	-0.128	0.1167	0.0039	1.0000

Table 4.5 summarises the results of the correlation coefficient of the variables of this study. As illustrated above, CEO ownership has a positive relationship with ROA ($r = .2411$, $p < 0.05$). Secondly, CEO tenure has a positive relationship with ROA ($r = .1560$, $p < 0.05$). CEO financial education has no correlation with return on assets ($r = 0.0797$, $p < 0.05$). Lastly, the founder CEO seems also to not correlate with return on assets ($r = 0.0178$, $p < 0.05$). Therefore, the above findings supported H1 and H2 and did not support H4 and H3.

Table (4.6) Results of Estimating the random effects Model

Variables	Regression coefficient	Std. Err.	Coefficient T	P-Value
Constant	2.832	1.099	2.575	0.012
Founder CEO	-2.699	1.683	-1.603	0.114
CEO financial education	-1.868	1.404	-1.330	0.185
CEO tenure	0.038	0.069	3.200	0.000
CEO share ownership	0.162	0.056	2.876	0.004
$R^2 = 0.0937$ F-stat.= 3.129 P-Value=0.017				

It is clear from the table (4.6) that the probabilistic value of (CEO tenure and CEO share ownership) is less than 0.05, indicating an impact on ROA. It is noted that some of the

coefficients of the independent variables were significant at the level of 5%, and the value of the coefficient of determination was 0.0937, which means that 9.37% of the changes that occur in ROA are due to independent variables (CEO tenure, CEO share ownership). The remaining percentage returns to variables not included in the model. The value of (F) indicates F-statistic. The value of 0.017 is significant and less than 5%, indicating the estimated model's quality.

4.6 Summary of the results and conclusion

According to the analysis above, CEO financial education and founder CEO have no statistically significant effect on ROA. Thus, the researcher rejects the hypothesis developed for these two variables, while CEO tenure and CEO ownership have a significant positive relationship with ROA.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

This concluding chapter provides a summary of the findings and concludes the research. This chapter contains four sections. The first section addresses the study's findings regarding its purpose, and the second section explores the necessary contributions to the body of knowledge. The third section discusses the study's limitations, followed by suggestions for future research.

5.2 Discussion

The study's first objective is to examine the impact of CEO share ownership on firm financial performance (ROA). The result shows that CEO share ownership was significantly related to firm financial performance (ROA). This view is consistent with studies that state CEO share ownership to a particular level, generally believed to improve financial performance (Siala, Adjaoud, & Mamoghli, 2009). Moreover, the results are consistent with agency theory, suggesting that CEO involvement can help reduce conflicts of interest between managers and owners or shareholders.

As a result, CEO involvement can serve as a mechanism to reduce agency problems between management and shareholders and guide managers' actions to enhance the firm's financial performance (Almudehki & Zeitun, 2012). Also, it should be

acknowledged that in prior studies, Kapopoulos and Lazaretou (2007) evident found that the increase in managerial and executive ownership will lead to higher performance because the loss in the shares of the firm will lead to a direct loss on the CEO shares. The higher the percentage of CEO ownership, the higher the loss will occur for him/her.

The study's second objective is to investigate the impact of CEO tenure on the financial performance (ROA) of Malaysian listed companies in the construction sector. This study found that the relationship between the independent variable (CEO tenure) and the dependent variable (firm's financial performance) is positive. This result is consistent with a wide range of research which has concluded that the longer a CEO has been in his job, the better the firm's financial success will be (Dikolli, Mayew, & Nanda, 2014). In addition, the finding has been consistent with resource dependence theory. Both assert that CEO tenure favours business performance because the CEO will develop more expertise and experience the longer he or she holds the role. As a result, a long-tenured CEO results in better overall business success, leading to a higher firm's financial performance (Wulf, Stubner, Miksche, & Roleder, 2010).

The third objective of the study is to examine the impact of CEO financial literacy on the financial performance (ROA) of Malaysian listed companies in the construction sector. The result shows that CEO financial education was insignificantly related to firm financial performance (ROA). This view is consistent with studies that states firms should look for CEOs which technical knowledge and more experience in the

construction sector and have a wide range of knowledge inside the sector, such as having a wide range of connections and suppliers related to the construction rather than looking for the education of the CEOs, which does not affect performance because of the nature of the academic learning, which does not add value to the students as much as working experiences and expertise do (Daellenbach, McCarthy, & Schoenecker, 1999). Hence, it should be acknowledged that prior studies also stated that a high degree of education is essential for enhancing the managers' status and helping them make optimal decisions.

CEOs with advanced degrees are more inclined to advocate for the company's internal controls. Also, a CEO's financial expertise and education are associated with a higher performance which means CEOs with business degrees from prestigious such as American universities outperform their counterparts by a considerable margin (Ali, Rehman, Suleman, & Ntim, 2022).

The final objective of the study is to examine the impact of CEO-founder on the financial performance (ROA) of Malaysian listed companies in the construction sector. The result shows that the founder CEO was insignificantly related to firm financial performance (ROA). This view is inconsistent with studies that state that Founder-CEOs can influence critical decisions, including financial, investment, and others. Founders may have more external shareholder-oriented incentives than professional managers because they have more extensive ownership interests and longer investment horizons. (Adams et al., 2009).

5.3 Implication of Study

This study's findings have several theoretical and practical ramifications. The results of this study provide evidence of the relationship between CEO characteristics and corporate financial performance at the theoretical level. The results of this study emphasise how crucial it is to consider every element that affects corporate governance. This study lends credence to the idea that no single theory can account for every facet of corporate governance. On a practical level, the findings of this study are a valuable contribution to regulators, businesses, and investors in Malaysia. This study provides strong evidence of the need to study CEO characteristics such as tenure and ownership to improve the process of selecting a CEO for companies in various sectors in Malaysia, especially in the construction sector.

5.4 Limitation of the study

This section provides the limitations of this study and evaluates how these limitations influence the results, and consequently, the conclusions are drawn. This study uses Malaysia as its scope. However, the results of this study may not be generalisable to other developing markets, such as Indonesia and Thailand, due to the difference in the capital market. In addition, this study only focuses on the construction sector, which may lead to inaccurate generalisation in case other sectors have been applied.

5.6 Recommendation for future research

Future research can investigate the exact relationship between CEO characteristics with firm financial performance in other countries. In addition, future researchers can extend the research or studies of CEO characteristics such as CEO gender, power, expertise, et cetera. In addition, the research could be extended to other sectors; therefore, applying the theoretical model to others may be a significant contribution.

5.7 Conclusion

This study analyses the relationship between (founder CEO, financial education, tenure, and ownership) and financial performance in listed companies within the construction sector in Malaysia. This study found that CEO tenure and ownership have a significant positive relationship with firm financial performance, which has been agreed with previous studies. Contrary to previous studies, it has been found that founder CEO financial education has no relationship with firm financial performance.

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