

The impact of CEO power on financial flexibility: the moderating effect of corporate governance

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1.Introduction

Financial flexibility is considered a primary determinant of firms' financing policy (Lambrinoudakis et. al.,2019) because firms need access to cash to seize investment opportunities, financing, and operating cash flow requirements (Hsu et. al. ,2017). Financial flexibility has been identified a less-covered area in capital structure research (Ampofo & Barkhi, 2023). Prior research provides mixed results on the relationship between CEO power and the extent of financial flexibility in capital structure of firms. For example, Berger et. al. (1997) concluded that managers have less tendency to borrow using long-term debt, Ji et. al. (2020) found that managers of diversified firms borrow more than managers of other firms. In addition to that, prior research argues that managers in poorly governed firms keep less cash (Dittmar and Mahrt-Smith 2007).

powerful CEOs could be encouraged to undertake investments in projects that best serve their own interests rather than the firm's best interests especially in the absence of effective monitoring and controlling mechanisms. Prior studies argued that firm performance is a function of board of directors' characteristics (Hambrick & Mason,1984) because of their influence on socio-cognitive capabilities and information processing in uncertain business environment (Hitt & Tyler,1991). These cognitive structures are based on managers' career experiences (Hambrick & Mason, 1984). Much of prior literature highlighted the debate about the impact of top management on strategic choices and performance of firms (e.g., Hambrick, 2007; Hambrick et al., 2015). Effective governance mechanisms were found to be positively associated with investment efficiency and improved firms' performance (Rajkovic,2020) and the presence of independent director is negatively associated with overinvestment or underinvestment for firms with large cash balance, lower leverage, and high cash flow volatility.

Accordingly, the major objective of this study is to examine the impact of CEO power on financial flexibility, and the moderating role of corporate governance on the nexus between CEO power and financial flexibility. This topic is considered important to be investigated especially in an emerging economy such as Egypt which have gone through a considerable amount of

of economic, structural, and legal reforms targeting to encourage the private sector and to make it a more attractive destination for foreign investment by improving the business environment by protecting the interests of shareholders, especially minority and foreign shareholders.

The rest of this study has been organized as follows: section 2 explains the concepts of CEO power and financial flexibility and the nexus between them, then discusses the concept and measures of corporate governance leading to the development of the two study hypotheses. Section 3 defines the study sample and explains how study variables were measured. Section 4 presents the findings of the study by testing the study hypotheses. And section 5 includes a summary, critique of the findings, and a discussion of the implications of the findings for future research.

2. Conceptual framework and hypotheses development

2.1 CEO power and financial flexibility

It is established that the CEO's background and characteristics have a significant effect on the decisions he/she makes which in turn, affects the performance of the company, this theory was firstly introduced by Hambrick and Mason (1984), and was subsequently proved by other studies (for example, De Hoogh et. al.,2005; Patzelt,2010; Kaplan et. al.,2012). However, the degree to which the same characteristic of a CEO affects the outcomes of the company may differ with the level of power he/she possess; the more powerful a CEO, the stronger the link between his/her characteristics and a company's outcomes (Zavertiaeva & Ershova, 2022). As was found by earlier researchers, CEO power is crucial to understand how strategic decisions are taken and executed, that is why it became important to identify the different sources of power that are possessed by a CEO. As Finkelstein (1992) demonstrated, power of management can be divided into four main groups: structural, ownership, expert, and prestige power.

The first source of CEO power, which is structural power, is related to his/her formal position in the company. The standard measure of structural power is the duality i.e., when the CEO is the chairman of the board of

directors (Krause et al., 2014). However, duality has been abandoned in some countries, which made researchers employ new measures of structural power. Informal duality was suggested but it still hard to be observed and requires further research. (Judge et al., 2003). The second source of CEO power, which is ownership power, is mainly associated with the percentage of company shares that a CEO possesses. Ownership encourages the CEO to make decisions with the intent of maximizing shareholders' wealth (Pathan, 2009), but it may cause entrenchment of management and make minority shareholders lose their decision-making power (Onali et al., 2016). The third source of CEO power, which is expert power, reflects the experience, skills, and social ties with other top managers and experts that the CEO possesses. The most used measure of expert power is CEO tenure. A long tenure in the company enables the CEO to create solid social connections with the board which can lead to more effective communication which can, in turn, improve corporate governance (Ryan and Wiggins, 2004). On the other hand, a strong tie between the CEO and the board may make the CEO become more involved in taking the board's decisions in favor of his/her own interests (Shivdasani and Yermack, 1999). The last source of CEO power is prestige that can be defined as social status and reputation and can be measured by social connections with other top managers and other elites. Prior studies showed that prestige is associated with the board of directors' confidence in the CEO's decisions (Filbien and Chikh, 2011). It was suggested that CEO prestige power has a positive impact on the performance of the company (Ting et al., 2017). However, high levels of confidence lead to weaker monitoring of CEO governance which may lead to riskier decisions that can negatively affect the firm's outcomes (Fan et al., 2007; Hengartner, 2007)

The four components of CEO power act as different motives that lead his/her behavior. According to the agency theory, the CEO acts toward the corporate decision, but his/her personal interest may interfere with the objectives of the company. CEOs may make decisions for their self-interest instead of considering firm performance (Kolev, 2016). Given this assumed behavior, the agency theory suggests that strategic choice by CEO will harm firm performance especially with the existence of powerful CEO (Ung et al., 2018). This self-interest is expected to be strengthened for those CEOs with

higher power (Li, 2016). CEOs will abuse their authority at the cost of shareholders by implementing their strategic decisions even though they are harmful to the performance of the firm (Ung et al., 2018). The agency theory also suggests that a CEO will be interested to improve the performance of the firm when he/she has ownership power i.e., when he/she is a shareholder (Jensen and Meckling, 2019), on the other hand, structural, expert, or prestige power can cause agency conflict and aggravate CEO entrenchment (Ryan and Wiggins, 2004), causing poor company performance. Prior studies did not reach a consensus on how the different types of CEO power affect the performance of the company.

Financial flexibility is defined as the ability of a firm to modify the timing and amounts of cash flows to meet unexpected opportunities or needs (Ampofo & Barkhi,2023).it can be considered an intangible asset which provides firms with strength to face any unexpected events and contributes to the maximization of the firm's value by helping firms to reserve sufficient funds to cope with possible financial difficulties and investment opportunities. (Ferrando et al.,2017; Cherkasova & Kuzmin,2018). Financial flexibility is argued to have numerous benefits for companies, e.g., it enables firms to maintain enough spare borrowing capacity, mitigate the negative impact of liquidity shocks on investment, prevent financial distress, and stabilize their operations (Ferrando et al.,2017).

Appropriate financial flexibility can be attained through financing, leverage and cash holding decisions by improving the equity financing ability, borrowing ability and cash holding of firms (Zeng & Wei,2013). Prior literature demonstrates that the level of financial flexibility in terms of cash position is based on the trading-offs between the costs and benefits associated with keeping of higher liquidity (Shin et al., 2018). In general, financing costs include low returns on cash holdings (Bigelli & Sánchez-vidal, 2012). On the other hand, the benefits are the savings on raising funds by issuing new stock or disposal of assets which reduces the possibility of corporate failure, giving up costly financing, and non-availability of alternative funding (Da Cruz et al., 2019). Because of information asymmetry that exists between investors and firms, external financing may become more expensive which leads to underinvestment or asset

replacement (Myers and Majluf, 1984). In addition, managers may maintain more cash in the balance sheet to keep optimal debt, risk, and dividends desired by the stockholders (Easterbrook, 1984).

As agency theory suggests, managers are self-interested and risk-adverse individuals that are expected to invest excess amounts of cash in projects whose success is related to them (Jensen & Meckling, 2019). Accordingly, managers who have the power to get away with decisions which are not optimal for their companies, may have less consideration to minimize the opportunity cost of holding excess cash as they prefer financial flexibility (Ampofo& Barkhi, 2023). More powerful CEOs prefer to sustain a higher degree of financial flexibility even if it may be costly for their companies because of missed investment opportunities. This suggests a positive relationship between powerful CEOs and financial flexibility. On the other hand, keeping excess cash has a higher opportunity cost for both CEOs and shareholders because of forgone expected returns from missed investment opportunities. Referring to the agency theory which imposes restrictions on managers to be guided in their decisions by the best interest of principals (Bosse & Phillips,2016) and the resource-based theory which suggests that managers use resources for the interest of the principals rather than their own interest (Dutta & Beamish,2013), both CEOs and shareholders benefit from profitable investment opportunities rather than holding cash and accordingly, discussion leads to the development of the first hypothesis:

H1: Powerful CEOs have an impact on the degree of financial flexibility of their companies.

And for the purposes of verifying the robustness of the results, the study will conduct a more analytical test using two individual components of financial flexibility, which are debt flexibility and cash flexibility and accordingly propose the following two sub hypotheses:

H1a: Powerful CEOs have an impact on the degree of debt flexibility of their companies.

H1b: Powerful CEOs have an impact on the degree of cash flexibility of their companies.

2.2 Corporate governance and financial flexibility

Without effective monitoring and controlling mechanisms, powerful CEOs could be encouraged to undertake investments in projects that best serve their own interests rather than the firm's best interests which may have a negative effect on the performance of the firm. (Hambrick & Mason,1984) argued that firm performance is a function of board of directors' characteristics which are adopted to predict firm performance because of their influence on socio-cognitive capabilities and information processing in uncertain business environment (Hitt & Tyler,1991). Cognitive structures of managers are based on their career experiences and their familiarity with industry (Hambrick & Mason, 1984). Much of prior literature brought to light the debate about the impact of top management on strategic choices and performance of firms (e.g., Hambrick & Mason, 1984; Hambrick, 2007; Hambrick et al., 2015).

Organizational strategic direction was argued to be affected by the homogeneity, diversity, tenure, and education of boards because they increase information processing capabilities and enhance the cognitive base that support rational and creative solutions (Wu et.al.,2023). Findings of numerous previous studies emphasize that not only CEO attributes but also board of directors' compositions affect organizational outcomes as they influence dynamics, initiatives, and innovation (e.g., Boone et al., 2018; Firoozi & Keddie,2022). Board of directors was found to be affected by good corporate governance mechanisms which reduces information asymmetry. In firms with effective governance mechanisms, the presence of lead independent directors is positively associated with investment efficiency and improved firms' performance (Rajkovic,2020). In addition, this study reported that independent director's presence is negatively associated with overinvestment or underinvestment for firms with large cash balance, lower leverage, and high cash flow volatility. Thus, effective corporate governance is expected to be associated with more efficient investment policies. This discussion leads to the development of the second hypothesis:

H2: Corporate governance mechanisms have moderating impact on the nexus between CEO power and financial flexibility.

And for the purposes of verifying the robustness of the results, the study will conduct a more analytical test using two individual indicators of financial flexibility, which are cash flexibility and debt flexibility and accordingly propose the following two sub hypotheses:

H2a: Corporate governance mechanisms have moderating impact on the nexus between CEO power and cash flexibility.

H2b: Corporate governance mechanisms have moderating impact on the nexus between CEO power and debt flexibility.

3. Research methodology

3.1 Sample selection

The study population consists of companies listed and traded in the Egyptian Stock Exchange EGX during the period 2018-2021. Certain criteria were applied for selecting the study sample, inclusion criteria are:

- 1- Banks and insurance companies are excluded from the sample due to the special nature of their activities and because they are subject to the supervision and control of the Central Bank.
- 2- The companies included in the sample must be registered and traded in the Egyptian stock market during the whole period of the study 2018- 2021.
- 3- Availability of financial reports for companies included during the period 2018-2021.
- 4- Companies included must be on a calendar-year basis, their financial reports must be prepared on December 31st.
- 5- Financial reports of companies included must be prepared using Egyptian pounds.

After applying the previous conditions, the number of companies in the sample reached 61 companies, with a total number of observations of 244 distributed over 7 sectors. The number of sample companies within each sector and the percentage of their contribution to the sample is presented in the following table:

Table 1
Sample distribution by sector

Sector	Number of listed companies	Number of excluded companies	Number of included companies	Percentage to total companies in the sample
Basic Resources	16	6	10	16.4%
Health Care & Pharmaceuticals	17	12	5	8.2%
Industrial Goods, Services & Automobiles	7	3	4	6.5%
Real Estate	35	13	22	36.1%
Travel & Leisure	8	3	5	8.2%
Food, Beverages, & Tobacco	24	11	13	21.3%
Contracting and Construction	9	7	2	3.3%
Engineering	9	7	2	3.3%
Total	116	55	61	100%

3.2 Measurement of variables

3.2.1 Financial flexibility

It is established that companies can achieve financial flexibility by holding excess cash, adopting a conservative leverage policy, or adjusting cash and leverage levels simultaneously. Accordingly, financially flexible companies are those with low financial leverage and/or high cash compared to industry averages, the current study relied on the method used in previous studies (Yi, 2020; Ampofo& Barkhi, 2023; Hegde et. al.,2023) to measure financial flexibility. Accordingly, financial flexibility is measured by:

3.2.1.1 Debt flexibility D_FLEX , which is measured by the decrease in the company's financial leverage in year (t) from the average financial leverage for the industry during the study period, that is, it is equal to the average financial leverage for the industry minus the company's financial leverage. Therefore, the higher this value, the greater the debt flexibility that the company has or its ability to borrow.

3.2.1.2 Cash flexibility C_FLEX , which is measured by the company's cash surplus in year (t) compared to the average cash surplus for the industry during the study period, that is, it is equal to the company's cash retention level minus the industry's average cash retention level. The higher this value, the greater the cash flexibility.

3.2.1.3 A composite indicator represented by the total financial flexibility F_FLEX , which is the company's possession of a cash surplus and a borrowing surplus (conservative leverage) at the same time, that is, it is equal to the sum of cash flexibility and debt flexibility.

3.2.2 CEO power

CEO power is measured according to its four dimensions, namely, structural, ownership, expert, and prestige power. A summary index of CEO power is constructed based on those four CEO characteristics, CEO structural power stems from the formal positions within his/her firm, CEO ownership power affects his/her control on the firm, CEO experience enables him/her to control the decisions of the firm because of his/her greater knowledge about the firm and its environment, CEO prestige power was proven to have an impact on the performance of the company. All variables are defined as follows:

3.2.2.1 Structural power

CEO's duality is usually used to measure structural power. However, according to corporate governance mechanisms, a CEO should not be a board chairman in the same company. So, another indicator is used for duality, which is equal to one if the CEO is a member of the board of directors of the same company. This indicator considers the ability of a CEO to overcome the resistance of directors because of his/her participation in board meetings and ability to influence decisions (Shiah-Hou, 2021; Zavertiaeva & Ershova, 2022).

3.2.2.2 Ownership power

CEO's equity ownership is usually used to measure the CEO's percentage ownership, it is calculated as total shares owned by the CEO divided by total shares outstanding. A mean-adjusted variable is applied to facilitate the construction of interaction variables, ownership power is equal to one if the CEO's stock ownership is above the industry median (He et. al., 2015; Shiah-Hou, 2021)

3.2.2.3 Expert power

CEO's tenure reflects expert power because long-tenured CEOs possess more knowledge about their companies and the surrounding environment, so they are more entrenched and experience less board monitoring which increases their influence over the board and therefore increases their power (Cook & Burrell, 2013; Shiah-Hou, 2021). CEO tenure is equal to one if CEO tenure is above the industry median.

3.2.2.4 Prestige power

Prestige power reflects the social status and reputation of the CEO. Political connections of the CEO have been used as a metric of prestige. A CEO with a political background is usually regarded as an important and valuable source of information, in addition to his ability to mediate between the company and the government (Ting et al., 2017). CEO prestige power is equal to one if the CEO has working experience in a governmental body.

CEO Power *CEO_PW* Index is the sum of each of the above indicator variables and thus ranges from 0 to 4.

3.2.3 Corporate governance

Corporate governance relies on both internal and external mechanisms which are expected to mitigate conflicts caused by separation between ownership and control (Shleifer & Vishny, 1997). For a corporate governance structure to be effective, it must include both internal and external mechanisms, internal mechanisms are those internal controls that monitor the organizations activities from within the organization and have the authority to take corrective actions when the business goes off track. On the other hand, external mechanisms encompass monitoring and control by those outside the organization (Tawfik et al., 2022). Several proxies for corporate governance were employed in testing the study hypotheses, namely:

3.2.3.1 Board size

The size of the board has been found to have a material impact on the quality of corporate governance. previous studies have proved that board

size could affect the performance of firms because of the board's ability to mitigate agency costs and solve the problem of communication and coordination (Al Farooque et. al.,2020). *BO_SZ* is equal to the total number of members in the board of directors.

3.2.3.2 Gender diversity

Diversity was proven to affect a firm's long-term and short-term financial value in several ways. This is because diversity promotes a better understanding of the marketplace, increases creativity and innovation, produces more effective problem-solving, and enhances the effectiveness of corporate leadership (Carter et. al.,2003). *G_DIV* is equal to the percentage of female directors in the board.

3.2.3.3 Board Independence

It has long been argued in the finance literature that boards with most independent directors are more effective in monitoring management (Bhagat & Bolton,2008). More independent boards are also more likely to impose corrective actions when company performance deteriorates significantly, and to hire a CEO with required competencies. *BO_IND* is measured by the percentage of independent directors to the total size of the board.

3.2.3.4 Big 4

In emerging markets like the Egyptian market, the agency conflict between controlling owners and the minority shareholders is hard to mitigate through conventional corporate governance mechanisms such as boards of directors. Accordingly, it has been argued that external independent auditors should be employed as monitors to protect minority shareholders and to mitigate management's opportunistic behavior (Fan & Wong,2005; Jabbar,2022). *BIG4* is a dummy variable that is equal to 1 if the company is being audited by a big4 firm and 0 otherwise.

3.2.3.5 Foreign Ownership

Numerous studies have indicated that foreign investors can act as a control mechanism over the performance of the board of directors and have the potential to affect the firm's performance (Leuz, 2010). This is because foreign ownership has many advantages such as knowledge, finance, technology, and stronger brand recognition (Choi et. al.,2013). *FOR_OWN*

is measured by the percentage of shares held by foreign investors to the total number of shares.

3.2.3.6 Family Ownership

Family ownership refers to firms with substantial common stock held by family members or with founding family members actively involved in the management or the board of directors (Wang,2006). It is argued that family ownership acts as a control mechanism and may impose certain pressures on the board of directors which may affect the performance of the firm (Chen & Hsu, 2009). *FAM_OWN* is measured by the percentage of shares held by family members to the total number of shares.

3.2.4 Control variables

Control variables include firm characteristics that may have an effect on financial flexibility of firms, they include firm size *F_SZ* measured by the logarithm of total assets and Firm age *F_AG* calculated by subtracting the firm's founding year from the current year ,these two variables have become commonly used as control variables in empirical corporate finance and were proven to impact a great deal of managerial decisions (Kurshev & Strebulaev, 2015;He et. al.,2015). Other control variables were intended to capture firm performance, they include sales growth *S_GR* measured by the annual change percentage of sales revenues, market to book ratio *M:B* which is the ratio between market and book value of equity and return on assets *ROA* which is the ratio between net income and total assets. These variables are used to capture business conditions that may lead to different managerial decisions, as profitable firms have higher exposure to the public and enjoy more flexible financing alternatives.

4. Empirical Results

4.1 Descriptive statistics

A preliminary analysis of data was conducted, and the results obtained are presented in Table 2. The table shows the means, maximum values, minimum values, and standard deviation of the study's 244 observations.

Table 2
 Descriptive Statistics for the study variables

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>D_FLEX</i>	244	-.001	.301	-2.715	.572
<i>C_FLEX</i>	244	0	.126	-.183	.939
<i>F_FLEX</i>	244	-.001	.348	-2.796	1.259
<i>CEO_PW</i>	244	1.357	.93	0	3
<i>BO_SZ</i>	244	8.049	2.535	3	15
<i>G_DIV</i>	244	.092	.107	0	.5
<i>BO_IND</i>	244	.208	.183	0	1
<i>FOR_OWN</i>	244	.181	.232	0	.855
<i>FAM_OWN</i>	244	.068	.156	0	.81
<i>F_SZ</i>	244	20.988	2.095	17.227	26.199
<i>F_AG</i>	244	3.419	.489	2.079	4.736
<i>S_GR</i>	244	.122	.619	-.915	8.948
<i>M:B</i>	244	1.14	2.744	-27.359	10.829
<i>ROA</i>	244	.028	.118	-1.316	.253

Table 2 presents the descriptive statistics for 244 firm-year observations during the study period (2018 to 2021). *D_FLEX* is debt flexibility, *C_FLEX* is cash flexibility, and *F_FLEX* is financial flexibility. *CEO_PW* is the CEO power, *BO_SZ* is the board size, *G_DIV* is the gender diversity, *BO_IND* is the board independence, *FOR_OWN* is the foreign ownership, *FAM_OWN* is the family ownership, *F_SZ* is the firm size, *F_AG* is the firm age, *S_GR* is the sales growth, *M:B* is the market to book value of equity, and *ROA* is the return on assets.

The table shows that the average debt flexibility *D_FLEX* which is measured by the difference between the average financial leverage of the industry and the financial leverage of the company is (-0.001) with a range between (-2.715) and (0.572) and a standard deviation (0.301). This indicates an increase in the level of financial leverage in these companies and a decrease in their ability to borrow as well to finance their investments, especially in times of economic crises, in addition to the high cost of capital due to interest expenses, which negatively affects their investment efficiency. The table also shows that the value of cash flexibility *C_FLEX* is low for the companies included in the study sample, which is measured by the cash surplus compared to the average cash surplus for the industry during the study period, as the average cash flexibility reached (0) with a range between (-0.183) and (0.939) and a standard deviation (0.126). This low level of cash retention in these companies compared to the average cash

retention for the industry indicates that these companies have very low cash reserves, which makes them rely on external financing sources (debt) for investment purposes, as they face difficulty in relying on internal financing sources to support financing their current and future expansion of business, which affects their ability to grow.

As for the total financial flexibility F_FLEX which indicates that the company has a cash surplus and a borrowing surplus (conservative leverage) at the same time, it has an average of (-0.001) with a range between (-2.796) and (1.259) and a standard deviation of (0.348). This means that there are financing restrictions among these companies in a way that hinders their investment ability and increases the possibility of their exposure to financial risks. There is also a large degree of inconsistency between these companies with regard to financial flexibility as their lower and upper values show. The CEO power ranges from 0 to 3 with an average of (1.357), this indicates the CEOs of companies in the study sample do not possess much power which stems from the four above-mentioned sources.

Turning to the corporate governance variables, board size has an average of (2.535) which is considered low according to the common practices, gender diversity has an average of (.092) which indicates a low percentage of women representation in the boards of the companies included in the sample. Board independence has an average of (.208) indicating that board members of the companies included in the sample do not achieve satisfactory levels of independence. foreign ownership with an average of (.181) indicates a low level of monitoring imposed by foreign owners, and family ownership with an average of (.068) also indicates a low level of family members monitoring over the board. Taken together, corporate governance mechanisms do not show best practices in the Egyptian companies included in the sample.

As for the control variables, the average F_SZ is (20.988) which goes in vain with most of the previous studies, the average F_AG is (3.419) which is also consistent with previous work, S_GR indicates that some of the companies in the study sample suffers from retraction as this variable which range between (-0.915) and (8.948), a surprisingly high degree of variation

in *M:B* is found as this variable ranges from (-27.359) and (10.829). *ROA* ranges from (-1.316) and (0.253) with a mean value of (0.028), the negative value of *ROA* indicates a quite poor financial performance in some of the Egyptian companies included in the study sample.

Table 3
Frequency distribution for variable *AU_QU*

<i>AU_QU</i>	Freq.	Percent	Cum.
0	159	65.16	65.16
1	85	34.84	100.00
Total	244	100.00	

The results in table 3 show that 85 of the companies in the study sample are audited by big4 audit firms in the study period with a percentage of 34.84% of the total sample. This result shows that audit quality can not be considered high for the companies in the study sample.

For the purposes of testing the validity of the data for statistical analysis, the study examined the extent to which the study variables are normally distributed by employing the Shapiro-Wilk *W* test. According to which, the variables follow a normal distribution if the test significance value (Sig.) is greater than 0.05. The following table shows the results of testing the extent to which the variables follow a normal distribution:

Table 4
Shapiro-Wilk *W* test for normal data

Variable	Obs	Z	Prob>z
<i>D_FLEX</i>	244	7.994	0.000
<i>C_FLEX</i>	244	9.712	0.000
<i>F_FLEX</i>	244	7.225	0.000
<i>CEO_PW</i>	244	-1.793	0.964
<i>BO_SZ</i>	244	2.866	0.002
<i>G_DIV</i>	244	5.292	0.000
<i>BO_IND</i>	244	4.605	0.000
<i>FOR_OWN</i>	244	6.987	0.000
<i>FAM_OWN</i>	244	9.158	0.000
<i>F_SZ</i>	244	4.483	0.000
<i>F_AG</i>	244	1.843	0.000
<i>S_GR</i>	244	11.274	0.000
<i>M:B</i>	244	10.055	0.000
<i>ROA</i>	244	9.916	0.000

By examining the results in table 4 it can be noted that the significance values are less than (0.05), which indicates that the study variables are not normally distributed, except for CEO power, where the test significance value is (0.964). However, the size of the sample is larger than 30 items and the number of observations reached 244 and therefore there is no negative impact on the accuracy of the study models because the study variables do not follow the normal distribution.

4.2 Testing the first study hypothesis.

The first study hypothesis states that powerful CEOs have an impact on the degree of financial flexibility of their companies. The following table shows the results of linear regression for the financial flexibility, the CEO power, and the control variables.

Table 5
Results of linear regression for the first model

<i>F_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
<i>CEO_PW</i>	.06	.016	3.71	0	.028	.092	***
<i>F_SZ</i>	-.087	.007	-11.92	0	-.101	-.072	***
<i>F_AG</i>	.004	.031	0.12	.901	-.056	.064	
<i>S_GR</i>	-.01	.024	-0.42	.672	-.057	.037	
<i>M:B</i>	-.002	.005	-0.31	.754	-.013	.009	
<i>ROA</i>	1.759	.128	13.75	0	1.507	2.011	***
Constant	1.677	.208	8.08	0	1.268	2.086	***
Mean dependent var		-0.001	SD dependent var			0.348	
R-squared		0.590	Number of obs			244	
F-test		56.821	Prob > F			0.000	
Akaike crit. (AIC)		-26.991	Bayesian crit. (BIC)			-2.510	

*** $p < .01$, ** $p < .05$, * $p < .1$

To employ linear regression, the presence of certain statistical assumptions is essential. It is important to test these assumptions before modeling the data using linear regression. For this reason, the assumptions underlying linear regression are tested before interpreting the above results. The Variance Inflation Factor (VIF) test was conducted to make sure that the independent variables of the study do not suffer from the problem of multicollinearity as it may cause failure to attain statistical significance, imprecise regression coefficients, change in the estimated signs of coefficients, or considerable changes in the estimated coefficients when

adding or deleting some observations (Asteriou & Hall ,2015).The results in table 6 shows that VIF values for all study variables are less than 10 which proves that there is no multicollinearity problem, and that the study model is going to be able to explain the effect of CEO power on financial flexibility.

Table 6
Results of variance inflation factor VIF test

	VIF	1/VIF
<i>CEO_PW</i>	1.079	.926
<i>F_SZ</i>	1.106	.904
<i>F_AG</i>	1.067	.938
<i>S_GR</i>	1.017	.983
<i>M:B</i>	1.078	.927
<i>ROA</i>	1.091	.918
Mean VIF	1.073	.

To test the assumptions underlying the above linear regression model, the model errors were tested for heteroskedasticity by the Breusch-Pagan test, heteroskedasticity does not cause inconsistency in the linear regression results, but the standard errors and the test statistics may be no longer valid (Wooldridge,2015). Table 7 shows that the P-value of the Breusch-Pagan test is more than 0.05 which indicates the nonexistence of heteroskedasticity problem. The following step was to apply Wooldridge test for autocorrelation, this test is carried on to ensure that the residuals are not serially correlated as this may result in estimated variances of the regression coefficients to be biased or inconsistent which makes the hypotheses testing invalid, and R^2 to be overestimated (Asteriou & Hall ,2015). Table 7 shows that the P-value of the Wooldridge test is below 0.05 indicating the existence of autocorrelation problem which make the results of the linear regression model to be invalid. The last step was conducting the Shapiro-Wilk W test for testing the normality of residuals. This test examines whether data have skewness and kurtosis that follow normal distribution. Because the absence of this assumption affects the results of the linear regression model and make them unacceptable. As table 7 shows, the P-value of Shapiro-Wilk W test is less than 0.05 indicating that the errors are not normally distributed, and that the linear regression model is invalid.

Table 7

Results of Breusch-Pagan, Wooldridge, and Shapiro-Wilk W tests for the first model

	Breusch-Pagan	Wooldridge	Shapiro-Wilk W
H0	Constant variance	no first-order autocorrelation	Normality of residuals
Test statistic	Chi ² tabulated F tabulated	0.83	7.486
P-value	0.3632	35.019	0.000

Because of the presence of the above problems, linear regression model can not be considered the best linear unbiased estimator, and a feasible generalized least squares FGLS model becomes a more suitable alternative (Wooldridge,2015). FGLS is a method to estimate the parameters in a linear regression model in the case of heteroskedasticity, in the case of correlation between the residuals in the regression model and when the residuals of the model are not normally distributed. In these cases, ordinary least squares and weighted least squares can cause misleading inferences. Table 8 shows the results of the feasible generalized least squares FGLS for testing the first hypothesis.

Table 8

Results of FGLS regression for the first model

<i>F_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
<i>CEO_PW</i>	.048	.006	7.443	0	.036	.061 ***
<i>F_SZ</i>	-.095	.004	-24.262	0	-.103	-.087 ***
<i>F_AG</i>	-.008	.009	-.952	.341	-.026	.009
<i>S_GR</i>	-.018	.007	-2.749	.006	-.031	-.005 ***
<i>M:B</i>	-.001	.001	-.518	.605	-.002	.001
<i>ROA</i>	1.7	.073	23.238	0	1.557	1.844 ***
Constant	1.92	.098	19.654	0	1.729	2.112 ***
Mean dependent var		-0.001	SD dependent var			0.348
Number of obs		244	Chi-square			1368.964

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 8 shows that CEO power has a positive significant impact on financial flexibility, this result can be interpreted in the light of the agency theory and the free cash flow theory, managers who possess enough power to get away with decisions that are not in the best benefit for their companies, may not consider to minimize the opportunity cost of holding excess cash because

they prefer financial flexibility (Ampofo& Barkhi, 2023), this explains why more powerful CEOs prefer to sustain a higher degree of financial flexibility even if it may be costly for their companies because of missed investment opportunities. Moreover, powerful CEOs are less likely to sacrifice their power to other parties such as banks or other financial institutions or even to stockholders which may act as a control and monitoring power over their decisions, accordingly, they prefer to keep reserve cash even at the cost of their companies (Holm et. al.,2020). As for the control variables, firm size is found to have a significant negative impact on financial flexibility, this results goes in line with (Byoun, 2007) which argued that large firms have more leverage because they tend to be more transparent, have lower degree of asset volatility, are more diversified, have less fixed costs of public borrowing as they sell enough large debt issues, have lower financial distress costs and lower probability of default. Return on assets was found to have a significant positive impact on financial flexibility which can be explained as companies with higher levels of financial performance tend to enjoy a higher level of ability to modify the timing and amounts of cash flows to meet unexpected opportunities or needs. Surprisingly, sales growth was found to have a significant negative impact on financial flexibility. Looking at the aggregate FGLS model for this hypothesis, it has a high fit because the overall significance has a p-value of.000, and the calculated Chi-square is higher than the tabulated value of Chi-square.

Accordingly, the first hypothesis is accepted and the regression equation for estimating financial flexibility by CEO power and the control variables can be presented as follows:

$$F_FLEX=1.92 +.048(CEO_PW) -.095 (F_SZ) -.018(S_GR) +1.71(ROA)$$

To verify the robustness of these results, more analytical tests were conducted using two individual components of financial flexibility, which are debt flexibility and cash flexibility. The results of these robustness checks are presented in table 9 and table 10.

Table 9
Results of FGLS regression for debt flexibility for the first model

<i>D_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
<i>CEO_PW</i>	.041	.006	7.144	0	.03	.053	***
<i>F_SZ</i>	-.083	.004	-20.06	0	-.091	-.075	***
<i>F_AG</i>	-.046	.011	-4.134	0	-.068	-.024	***
<i>S_GR</i>	-.025	.008	-2.962	.003	-.041	-.008	***
<i>M:B</i>	0	.001	.362	.717	-.001	.002	
<i>ROA</i>	1.427	.061	23.479	0	1.307	1.546	***
Constant	1.814	.116	15.681	0	1.587	2.04	***
Mean dependent var		-0.001	SD dependent var			0.301	
Number of obs		244	Chi-square			1105.375	

*** $p < .01$, ** $p < .05$, * $p < .1$

The results in table 9 support the above results as CEO power was found to have a significant positive impact on debt flexibility, indicating that more powerful CEOs may intentionally increase leverage through substantial debt issuance responding to operating needs rather than making large equity payouts (Denis & McKeon, 2012). Besides, the significant impact of the control variables on debt flexibility further supports the results of the model predicting total financial flexibility. Table 10 also proves the existence of a significant positive impact of CEO power on cash flexibility, indicating that powerful CEOs trade-off between the costs and benefits associated with keeping of higher liquidity (Shin et al., 2018; Da Cruz et al., 2019). As external financing may become more expensive because of information asymmetry that exists between investors and firms, underinvestment or asset replacement may occur (Myers and Majluf, 1984). Also, the reason may be that managers maintain more cash in the balance sheet to keep optimal debt, risk, and dividends levels desired by the stockholders (Easterbrook, 1984). Moreover, the significant impact of the control variables on cash flexibility further supports the results of the model predicting total financial flexibility.

Table 10
 Results of FGLS regression for cash flexibility for the first model

<i>C_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
<i>CEO_PW</i>	.016	.003	6.127	0	.011 .021	***
<i>F_SZ</i>	-.006	.001	-4.771	0	-.009 -.004	***
<i>F_AG</i>	.019	.007	2.742	.006	.006 .033	***
<i>S_GR</i>	0	.002	.068	.946	-.003 .003	
<i>M:B</i>	0	.001	-.517	.605	-.002 .001	
<i>ROA</i>	.106	.021	4.939	0	.064 .147	***
Constant	.047	.041	1.139	.255	-.034 .127	
Mean dependent var	0.000		SD dependent var		0.126	
Number of obs	244		Chi-square		98.077	

*** $p < .01$, ** $p < .05$, * $p < .1$

4.3 Testing the second study hypothesis.

The second study hypothesis states corporate governance mechanisms have moderating impact on the nexus between CEO power and financial flexibility. To test the moderating role of corporate governance mechanisms on the nexus between CEO power and financial flexibility, corporate governance mechanisms (board size, board diversity, board independence, Big 4, foreign ownership, and family ownership) was multiplied by the CEO power score producing a new set of variables whose impact on financial flexibility was tested. The following table shows the results of linear regression for the financial flexibility, the CEO power, the corporate governance mechanisms, and the control variables.

Table 11
 Results of linear regression for the second model

<i>F_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
<i>CEO_PW</i>	.075	.044	1.71	.089	-.012 .162	*
<i>CEO_PW*B_SZ</i>	-.001	.004	-0.24	.812	-.009 .007	
<i>CEO_PW*G_DIV</i>	-.111	.092	-1.21	.227	-.291 .069	
<i>CEO_PW*IND</i>	.008	.057	0.14	.889	-.105 .12	
<i>CEO_PW*BIG4</i>	.041	.019	2.13	.034	.003 .08	**
<i>CEO_PW*FOR_OWN</i>	-.074	.055	-1.33	.184	-.182 .035	
<i>CEO_PW*FAM_OWN</i>	-.085	.049	-1.75	.081	-.182 .011	*
<i>F_SZ</i>	-.089	.008	-10.99	0	-.105 -.073	***
<i>F_AG</i>	.024	.033	0.72	.473	-.041 .089	
<i>S_GR</i>	-.012	.023	-0.52	.601	-.059 .034	
<i>M:B</i>	-.002	.006	-0.42	.676	-.013 .009	
<i>ROA</i>	1.828	.129	14.12	0	1.572 2.083	***
Constant	1.66	.229	7.25	0	1.209 2.111	***
Mean dependent var	-0.001		SD dependent var		0.348	
R-squared	0.607		Number of obs		244	
F-test	29.747		Prob > F		0.000	
Akaike crit. (AIC)	-25.447		Bayesian crit. (BIC)		20.016	

*** $p < .01$, ** $p < .05$, * $p < .1$

As was done with the first hypothesis, the statistical assumptions for employing linear regression were tested. The Variance Inflation Factor (VIF) test was conducted to make sure that the independent variables of the study do not suffer from the problem of multicollinearity as it may cause failure to attain statistical significance, imprecise regression coefficients, change in the estimated signs of coefficients, or considerable changes in the estimated coefficients when adding or deleting some observations. The results in table 12 show that VIF values for all variables are less than 10 which proves that there is no multicollinearity problem, and that the study model is going to be able to explain the moderating role of corporate governance mechanisms on the effect of CEO power on financial flexibility.

Table 12
Results of variance inflation factor VIF test

	VIF	1/VIF
<i>CEO_PW</i>	8.144	.123
<i>CEO_PW*B_SZ</i>	6.470	.155
<i>CEO_PW*G_DIV</i>	1.511	.662
<i>CEO_PW*IND</i>	1.888	.530
<i>CEO-PW*BIG4</i>	1.626	.615
<i>CEO_PW*FOR_OWN</i>	1.640	.610
<i>CEO_PW*FAM_OWN</i>	1.323	.756
<i>F_SZ</i>	1.391	.719
<i>F_AG</i>	1.270	.787
<i>S_GR</i>	1.022	.978
<i>M:B</i>	1.125	.889
<i>ROA</i>	1.135	.881
Mean VIF	1.073	.

As was done in the first model, the assumptions underlying the linear regression model were tested, the model errors were tested for heteroskedasticity by the Breusch-Pagan test. Table 13 shows that the P-value of the Breusch-Pagan test is more than 0.05 which indicates the nonexistence of heteroskedasticity problem. The following step was to apply Wooldridge test for autocorrelation. Table 13 shows that the P-value of the Wooldridge test is below 0.05 indicating the existence of autocorrelation problem which make the results of the linear regression model to be invalid. The last step was conducting the Shapiro-Wilk W test for testing the normality of residuals. As table 13 shows, the P-value of Shapiro-Wilk W test is less than 0.05 indicating that the errors are not normally distributed, and that the linear regression model is invalid.

Table 13
Results of Breusch-Pagan, Wooldridge, and Shapiro-Wilk W tests for the second model

H0	Test statistic	Breusch-Pagan	Wooldridge	Shapiro-Wilk W
		Constant variance	no first-order autocorrelation	Normality of residuals
	Chi ² tabulated	0.76		7.592
	F tabulated		29.255	
	P-value	0.3829	0.000	0.000

Because of the presence of the above problems, linear regression model cannot be considered the best linear unbiased estimator, and a feasible generalized least squares FGLS model becomes a more suitable alternative (Wooldridge,2015). Table 14 shows the results of the feasible generalized least squares FGLS for testing the second hypothesis.

Table 14
Results of FGLS regression for the second model

<i>F_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
<i>CEO_PW</i>	.041	.019	2.184	.029	.004	.077	**
<i>CEO_PW*B_SZ</i>	0	.002	.044	.965	-.003	.003	
<i>CEO_PW*G_DIV</i>	-.079	.04	-1.97	.049	-.159	0	**
<i>CEO_PW*IND</i>	.021	.019	1.102	.27	-.016	.059	
<i>CEO_PW*BIG4</i>	.035	.007	5.105	0	.022	.049	***
<i>CEO_PW*FOR_OWN</i>	-.015	.021	-.721	.471	-.056	.026	
<i>CEO_PW*FAM_OW</i>	-.052	.036	-1.418	.156	-.123	.02	
<i>N</i>							
<i>F_SZ</i>	-.098	.005	-20.853	0	-.107	-.089	***
<i>F_AG</i>	-.019	.016	-1.156	.248	-.051	.013	
<i>S_GR</i>	-.017	.007	-2.365	.018	-.031	-.003	**
<i>M:B</i>	.001	.002	.37	.712	-.002	.004	
<i>ROA</i>	1.692	.081	20.831	0	1.533	1.852	***
Constant	2.005	.126	15.923	0	1.758	2.251	***
Mean dependent var	-0.001		SD dependent var		0.348		
Number of obs	244		Chi-square		1733.392		

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 14 shows that there is a significant positive impact of CEO power on financial flexibility which goes in line with the results of the first model, this result indicates that corporate governance mechanisms do not have a moderating effect on the nexus between CEO power and financial

flexibility. Looking at the individual mechanisms of corporate governance, gender diversity has a significant negative impact on the nexus between CEO power and financial flexibility, a result that goes in the same vein with several previous studies which proved that women representation in the board of directors mitigates the management opportunistic behavior, increases the quality of board decisions, and enhances firm performance as they act as control and monitoring power (e.g. Burgess & Tharenou, 2002 ; Rose, 2007; Willows & van der Linde, 2016). Surprisingly, Big 4 was found to have a significant positive impact on the nexus between CEO power and financial flexibility, this result indicates that big 4 audit firms in Egypt do not play their expected monitoring role over management because of lack or failure in the necessary laws and legislation. In addition to that, strong economic bonding of auditors with their clients, lower investor protection in Egypt, poor enforcement mechanisms and dominance of firms lead auditors to behave opportunistically which undermines their independence and objectivity (Abid et. al., 2018). Although insignificant, both foreign and family ownership have negative impact on the nexus between CEO power and financial flexibility, this is a logical result which supports the findings of several previous studies which considers foreign and family ownership to be a strong monitoring mechanism on management performance that leads board of directors members to take decisions in the best interests of the company and its owners (e.g. Yoshikawa & Rasheed, 2010; An, 2015). Looking at the aggregate FGLS model for this hypothesis, it has a high fit because the overall significance has a p-value of .000, and the calculated Chi-square is higher than the tabulated value of Chi-square. The impact of the control variables agrees with the first model as firm size, sales growth, and return on assets have significant impact on financial flexibility.

Accordingly, the second hypothesis is accepted and the regression equation for estimating the moderating role of corporate governance mechanisms on the nexus between financial flexibility by CEO power and the control variables can be presented as follows:

$$F_FLEX = 2.005 + .041(CEO_PW) - .079(CEO_PW * G_DIV) + .035(CEO_PW * BIG4) - .098(F_SZ) - .017(S_GR) + 1.692(ROA)$$

To verify the robustness of these results, more analytical tests were conducted using two individual components of financial flexibility, which are debt flexibility and cash flexibility. The results of these robustness checks are presented in table 15 and table 16.

Table 15
 Results of FGLS regression for debt flexibility for the second model

<i>D_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
<i>CEO_PW</i>	.037	.014	2.577	.01	.009	.066	***
<i>CEO_PW*B_SZ</i>	.002	.002	1.39	.165	-.001	.006	
<i>CEO_PW*G_DIV</i>	-.037	.032	-1.165	.244	-.1	.025	
<i>CEO_PW*IND</i>	-.006	.016	-.357	.721	-.038	.026	
<i>CEO_PW*BIG4</i>	.04	.008	4.733	0	.023	.056	***
<i>CEO_PW*FOR_OWN</i>	-.08	.02	-4.011	0	-.12	-.041	***
<i>CEO_PW*FAM_OWN</i>	-.06	.024	-2.466	.014	-.108	-.012	**
<i>F_SZ</i>	-.084	.005	-16.44	0	-.094	-.074	***
<i>F_AG</i>	-.015	.012	-1.303	.192	-.038	.008	
<i>S_GR</i>	-.018	.007	-2.626	.009	-.032	-.005	***
<i>M:B</i>	0	.001	-.324	.746	-.003	.002	
<i>ROA</i>	1.398	.071	19.814	0	1.26	1.536	***
Constant	1.706	.126	13.507	0	1.459	1.954	***
Mean dependent var	-0.001		SD dependent var		0.301		
Number of obs	244		Chi-square		904.630		

*** $p < .01$, ** $p < .05$, * $p < .1$

The results in table 15 support the results of the aggregate model as CEO power was found to have a significant positive impact on debt flexibility, giving the same indication that more powerful CEOs may intentionally increase leverage through substantial debt issuance responding to operating needs rather than making large equity payouts. The results also show that foreign ownership and family ownership moderate the nexus between CEO power and debt flexibility giving more evidence on their control and monitoring role, in addition to that their negative impact was found to be significant in this model. Moreover, the significant impact of the control variables on debt flexibility further supports the results of the model predicting total financial flexibility. Table 16 shows the existence of a significant positive impact of CEO power on cash flexibility, indicating that powerful CEOs trade-off between the costs and benefits associated with keeping of higher liquidity as external financing may become more expensive. Because of information asymmetry that exists between investors and firms, underinvestment or asset replacement may occur. This model does not show a significant impact of corporate governance mechanisms on

the nexus between CEO power and cash flexibility. On the other hand, it supports the significant impact of firm size and return on assets on cash flexibility.

Table 16
Results of FGLS regression for cash flexibility for the second model

<i>C_FLEX</i>	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
<i>CEO_PW</i>	.021	.009	2.227	.026	.002	.039	**
<i>CEO_PW*B_SZ</i>	-.001	.001	-.998	.318	-.002	.001	
<i>CEO_PW*G_DIV</i>	-.012	.019	-.623	.533	-.049	.025	
<i>CEO_PW*IND</i>	-.003	.012	-.251	.802	-.028	.021	
<i>CEO_PW*BIG4</i>	.003	.004	.748	.454	-.005	.011	
<i>CEO_PW*FOR_OWN</i>	.019	.011	1.641	.101	-.004	.041	
<i>CEO_PW*FAM_OWN</i>	-.026	.018	-1.477	.14	-.062	.009	
<i>F_SZ</i>	-.009	.002	-4.512	0	-.013	-.005	***
<i>F_AG</i>	.007	.011	.68	.497	-.014	.028	
<i>S_GR</i>	-.001	.002	-.613	.54	-.004	.002	
<i>M:B</i>	0	.001	.345	.73	-.001	.002	
<i>ROA</i>	.106	.026	4.101	0	.055	.156	***
Constant	.137	.068	1.999	.046	.003	.271	**
Mean dependent var	0.000		SD dependent var		0.126		
Number of obs	244		Chi-square		112.440		

*** $p < .01$, ** $p < .05$, * $p < .1$

Discussion and conclusions

The present study was designed to achieve two main objectives, to investigate the impact that CEO power has on financial flexibility both from debt and cash sources, and to examine the moderating role the corporate governance mechanisms play in the nexus between CEO power and financial flexibility. This was performed by testing two hypotheses, whether powerful CEOs have an impact on the degree of financial flexibility of their companies and whether corporate governance mechanisms have a moderating impact on the nexus between CEO power and financial flexibility.

The results of this study indicates that CEO power has a positive significant impact on financial flexibility which can be explained by the agency theory and the free cash flow theory as powerful CEOs who have enough power to get away with decisions that are in their best interest regardless of the

benefit for their companies, these powerful CEOs may not consider minimizing opportunity cost of holding excess cash because they prefer financial flexibility, this result supports that of (Ampofo& Barkhi, 2023) and explains why more powerful CEOs prefer to sustain a higher degree of financial flexibility even if it may be costly for their companies because of missed investment opportunities. Another explanation of this result is that powerful CEOs do not prefer to sacrifice their power to banks or to stockholders which may act as a control and monitoring mechanism over their decisions, accordingly, they prefer to keep reserve cash even at the cost of their companies, this result comes in line with the result of (Holm et. al.,2020). Performing the robustness checks revealed that CEO power has a positive significant impact on both debt flexibility and cash flexibility which supports the main result.

The second result of this study is that corporate governance mechanisms have a moderating effect on the nexus between CEO power and financial flexibility as only gender diversity has a significant negative impact on the nexus between CEO power and financial flexibility, a result that goes in the same vein with several previous studies (Burgess & Tharenou, 2002 ; Rose, 2007; Willows& van der Linde,2016) which proved that women representation in the board of directors mitigates the management opportunistic behavior, increases the quality of board decisions, and enhances firm performance as they act as control and monitoring power. Moreover, Big 4 was found to have a significant positive impact on the nexus between CEO power and financial flexibility which indicates that big 4 audit firms in Egypt do not play their expected monitoring role over management because of lack or failure in the necessary laws and legislation or because strong economic bonding of auditors with their clients, lower investor protection in Egypt, poor enforcement mechanisms and dominance of firms lead auditors to behave opportunistically which undermines their independence and objectivity (Abid et. al., 2018). Both foreign and family ownership have negative impact on the nexus between CEO power and financial flexibility, this result supports the findings of several previous studies (Yoshikawa & Rasheed, 2010; An, 2015) which considers foreign and family ownership to be a strong monitoring mechanism on management

performance that leads board of directors' members to take decisions in the best interests of the company and its owners.

Considering the above findings, the results of this study have considerable implications for multiple parties such as investors, analysts, auditors, and standards setters, powerful CEOs may have the ability and the motive to take decisions that are in their best interest regardless of the shareholders' interests which should be considered with a sufficient degree of caution by investors and analysts. Auditors should consider the accuracy and reliability of financial reports of companies with powerful CEOs, and standard setters should set enough standards and regulations to mitigate the opportunistic behavior of powerful CEOs.

The limitations of this paper provide opportunities for further research. The present study used a relatively small sample size due to the availability of data and the established criteria for choosing the study sample, Accordingly, using a larger sample size may make the findings of this study different. Employing different measures of CEO power, financial flexibility, or corporate governance also may lead to different results. Applying this study on banks and other financial institutions may lead to different results as they are governed by special liquidity requirements and regulations. Besides, conducting this study in countries other than Egypt may lead to different results because Egypt has a relatively weak corporate governance environment which gives managers various opportunities to take decisions in the best of their own interest regardless of the interest of the company or its owners.

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