



AIC 2018: EMERGING ISSUES IN ECONOMICS AND FINANCE

“The Impact of an Innovative CEO on the Financial
Performance of an Organization”

Sanam Aziz

Faculty of Business Administration and Social Sciences, Mohammad Ali Jinnah University,
Pakistan

Kashif Arif

Faculty of Business and Accountancy, University of Malaya,
Malaysia

*Corresponding author's Email: kashifspectrum@gmail.com

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lat 306 Savoy Residencia, Block 3 F11/1, 44000 Islamabad. Pakistan,
info@readersinsight.net*

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Research Highlights

The evident volatile position of Pakistan Stock Exchange shows need for reforms in order to depict better performance in future. However, the external factors are not always sufficient for a better change, the internal performance of organization is also crucially important. This study aims at studying the internal performance of top management i.e., a CEO in an organization by introducing the factor of innovation with the proxy of patent applications. Considering the panel data, the sample consists of companies of varied sectors listed in Pakistan Stock Exchange for three years (2015-2017) time period. The structuring of models and framework for the study is done on the basis of literature available. The data for the study being quantitative in nature is collected from financial statements and different websites. Furthermore, the data is analyzed using multiple statistical tools such as correlation and regression. The limited availability and accessibility to data in Pakistan showed insignificant results nevertheless there is a large scope for future research in this topic.

KEY RESULTS: The study proposed three hypothesis. The first hypothesis shows the effect of CEO Expert Power on innovation. The second model defines the relationship of ROA with the CEO expert power. The third model shows the effect of ROE on CEO Expert Power. However, the results were not significant.

Research Objectives

In today's era, development is very important for the prosperity of a country. Moreover, The internal performance of any firm is mainly the responsibility of a CEO, if he is authorized with such power. This study aims to find out how a CEO through his expertise can create a distinctive aspect in financial performance of an organization, by introducing the factor of innovation (Qiao & Fung, 2016). The availability of literature reflects that the research on this particular topic is done at international level mostly in the developed countries. This creates a gap that motivates a researcher to find out the effect of innovation on developing countries. The study attempts to analyze the effect of innovation on national level i.e., Pakistan. To the best knowledge of author, no such research has been conducted in Pakistan in the past years.

This study aims to find the relationship between CEO and financial performance of a company in relation to innovation of the selected companies.





To examine the relationship of CEO expert power with innovation.

To study the relationship of CEO Expert power with financial performance of a company.

Methodology

The study deduces the effect of CEO Expert Power on financial performance of KSE-100 listed companies, based on three models showing the effect of variables mentioned earlier. The research study is of quantitative nature as it is only dependent on secondary data. Based on a positivist approach, this study is deductive and descriptive in nature. The yearly based data is collected from (1) the annual financial statements; (2) other websites such as ksestock.com, sbp.org.pk. The two dependent variables include financial performance calculated through ROA and ROE (Brown & Caylor, 2006; Kostopoulos, Papalexandris, Papachroni, & Loannou, 2011; Aggarwal, 2013; Muhammad, Rehman, & Waqas, 2016) and innovation; patents, (Faberberg, 2010; Qiao & Fung, 2016) calculated from the data available on website of Intellectual Property Organization (IPO) Pakistan. The independent variable of CEO Expert Power is determined as tenure of CEO in a company. The control variables include firm size, age of the firm and leverage. The Panel Data is analyzed by statistical tools of multiple regression and correlation also including the assumptions of Ordinary Least Square (OLS) method. The data is cross-sectional for the time period of three years (2015-2017) based on convenience sampling technique. The targeted sample includes 65 companies from 8 sectors based on the availability of data.

Results

The first model measures the effect of CEO Expert power and other control variables on the innovation. It collectively showed a significant effect. The results showed weak correlation among the variables and non significant probability. The linear regression also showed insignificant results. The Prob (F-statistic) showed significant effect of independent variables on the dependent variable. The second model showed the effect of CEO expert power, firmage, firm size, and leverage on ROA. The model showed weak and negative correlation. The probability measure showed non significant results. The control variables, however, showed significant results for the dependent variable of ROA. The significant value of F-





statistic showed that the combine effect of independent variables is significant on the dependent variable. The third model showed the effect of CEO Expert Power and other control variables on ROE. The variable ROE showed a positive but weak correlation with tenure, firmage, and firmsize. Whereas, ROE showed a negative and weak correlation with leverage. The significant value of F-statistic showed that the combine effect of independent variables was significant on the dependent variable. Resultantly, the above mentioned three models showed no multicollinearity and autocorrelation. The homoscedastic residuals for all three models showed that the null hypothesis cannot be rejected.

Findings

Innovative activities are firm specific (Aftab, 2017) so patents may be relevant for few sectors while irrelevant for others. The study did not show the significant results which may be due to limited availability of data. The significant result of such study was witnessed in developed countries like China (Qiao & Fung, 2016). Conclusively, Pakistan is still behind other countries when it comes to innovation. The filing of patent applications was more witnessed in private sector organizations as compared to the organizations listed in Pakistan Stock Exchange. One of the major drawbacks in calculating patents is that not every innovations appears in form of patents. Thus, patenting only gives a partial view of what one wishes to measure (Faberberg, 2010).

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