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THE EFFECT OF CEO REPUTATION ON COMPANY FINANCIAL DISTRESS: EVIDENCE FROM PAKISTAN

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ABSTRACT

The purpose of this study is to explore the influence of CEO Reputation on the Company Financial Distress. The population of the study is all non-financial companies that are listed on the Pakistan stock exchange (PSX). In this research, the final sample size is 285 companies that cover the period of the study from 2006 to 2017. CEO reputation plays important role in predicting financial distress. Based on the upper echelon theory, CEOs can influence in a company decisions making, value creation and financial reporting decisions based on their specific skills, reputation and personal characteristics. Previous studies in the context of Pakistan are lacking to check the association between CEO reputation and company financial distress. This study contributes to the literature and fills this gap. This study also suggest that to explore the link between CEO reputation and financial distress in the emerging market.

Keywords: CEO Reputation, Financial Distress, Logistics regression analysis, CEO Award, CEO Tenure, Pakistan

INTRODUCTION

Financial distress occurs when a company fails to meet its operating and financial obligations on time, or when the company is facing liquidity and other short-term demands (Altman, 1984; Goergen, Limbach, & Scholz, 2015; Gordon, 1971). In past studies, financial distress was referred to as a companies insolvency or, in the event of a default, as a company restructuring (Andrade & Kaplan, 1997; Waqas & Md-Rus, 2018b; Wruck, 1990). Purnanandam has noted that financial distress is one of the primary causes of a company's insolvency (Purnajaya & Merkusiwati, 2014). Financial distress, according to the majority of the researchers, has an inverse influence on a company's worth (Pindado, Rodrigues, & de la Torre, 2008). Because financial distress has such a large impact on a company's performance, value, and financial distress, many companies today are incurring significant costs as a result of financial distress.

Financial distress is a very important and significant research topic for managers, business practitioners and academia. Many studies have been led by researchers in different economies to describe the variables and financial distress to develop prediction models have been established therein. The previous researcher extended the efforts by developing different models, methods or techniques to be used to evaluate the prediction of the financial condition of the companies in different economies. Moreover, financial distress consequences are harmful to the companies. Numerous companies are required to wind up their operations and actions, this situation is worst and terrible in the emerging markets. The markets of the Asian countries are more vulnerable and more susceptible to financial obstacles. For example, a recent report by the Pakistan Stock Exchange (PSX) (Waqas & Md-Rus, 2018b) show that 59 listed companies are being liquidated and declared financially distressed between the period of 2012 and 2017. Similarly, 18% of 507 companies listed between 2012 and 2016 were being delisted due to default (Waqas & Md-Rus, 2018a). The corporate default high rate, country cumulative non-performing loans reached in 2017 of 9.04 billion dollars (State Bank of Pakistan, 2017), that presented a worst and terrible condition of the Pakistani financial market. In such a situation, financial institutions and banks are more affected by the financial reliability of the borrowers. Therefore, the need to measure the borrower financial condition to quantify the level of default threat in a loan call for employing prediction models of the default.

The default models are named as the financial distress models or bankruptcy models in the previous literature and are used alternatively (Dichev, 1998). Literature shows that Various models were developed, including the univariate analysis by (Beaver, 1966), the multiple discriminated analysis by (Altman, 1968) MDA model, the logit model by (Ohlson, 1980), the Probit model by (Zmijewski, 1984), the hazard model by (Shumway, 2001), and the neural network model by (Charitou, Neophytou, & Charalambous, 2004), etc. Notwithstanding, there are exist, various models that are developed in the previous literature up till now, Z-score model and O-score model are extensively applied models in the literature of financial (Aziz & Dar, 2006). Moreover, Agarwal and Taffler (2008), Altman (1968), Beaver (1966), Dichev (1998), Ohlson (1980), and Shumway (2001) establish the model by employing the data from developed countries such as Australia, UK and US.

The developed countries have an extensive history of the equity market, with established financial policies and accounting standards. While emerging markets encounter the absence of systematic policies and standardized accounting practices that might be the reason for the bankruptcy high rate. Similarly, according to Bloomberg, PSX is recognized as an emerging market (Kim & Mangi, 2016). Companies that are listed at PSX encounter bankruptcy high rates, due to the absence of a standardized model of bankruptcy that developed by applying the data of companies that are listed at PSX. While very rare studies in Pakistan are performed to predict company financial distress. Some of these studies in Pakistan are restricted to the small sampling size, some specific sector or other, for example, Ijaz et al., (2013) considered sugar sector only, sugar and cement sectors taken by (Malik, 2013), while the main contributing sector of textile and others are ignored.

The directors' purpose is to maximise profits in the short term, whereas the shareholders' goal is to maximise wealth over time. Because many businesses in Pakistan are family-owned or part of a close family group, they choose directors who can operate the companie their way. Many directors have the potential to abuse their authority, powers and decisions makings that are not in the best interests of the company's shareholders, but rather in their own.

Moreover, business and academic authors have argued that the Chief Executive Officer (CEO) is a key liable in company management and financial distress (Gaines-Ross, 2008; Kitchen & Laurence, 2003). The CEO became the “face and voice of the company” in company culture, showing as the human force backside the company's outcomes and actions (Love, Lim, & Bednar, 2017).

According to previous research, a positive CEO reputation can improve the company’s assessments between stakeholders and shareholders (Weng & Chen, 2017). In this light, the CEO personal background and experience have an impact on the company's reputation and financial difficulty (Balmer, 2001). In many Western cultures, the CEO of a company tends to become a celebrity, defining the company's value and performance (Malmendier & Tate, 2005). Research by Fortune and Financial Times, most reputable companies have renowned CEOs like Bill Gates, Jack Welch, Richard Branson and Steve Jobs.

However, the effect of the CEO's position on a company outcomes is a well-known concept in the literature (Weng & Chen, 2017). There have been few studies on the association between CEO personal reputation and financial distress. Furthermore, the majority of study on the impact of a CEO's reputation has been conducted in the context of international (van der Jagt, 2005). In Pakistan, on the other hand, this research scenario is still lacking. Finally, some researchers have suggested examining the influence of some CEO reputation proxies (Song, 2006). The impact of a CEO's reputation on a company's financial distress has received little attention in the literature. As a result, the study's primary goal is to determine which proxies of CEO reputation have the greatest impact on a company's financial distress.

Moreover, despite the empirical importance of CEO reputation, as per our limited knowledge, limited studies have employed CEO reputation in predicting the company financial distress. Hence, the objective of this research is also to cover this literature gap by using the CEO reputation especially, in the context of Pakistan by using the larger size of the sample of 285 companies that are listed on the Pakistan stock exchange for the period of 2006 to 2017. Larger sample size is employed for the results analysed; a larger sample size covers the data of the Pakistan stock exchange from all sectors.

The following is a breakdown of the paper's further explanation. The theoretical background presents the review of the literature on the role of the CEOs in the company and CEOs reputation, which explains the research questions that are analysed through secondary data of CEOs of listed non-financial companies of Pakistan stock exchange. Moreover, research methodology was also discussed and results and discussion of the study as well. At the end of the study, describe the main research findings and discusses the implication of the result.

THEORETICAL BACKGROUND

Upper Echelon Theory

The theory of the upper echelons has received a lot of attention. The key concept of this theory is that the company is a reflection of its chief executive officer principal (Hambrick & Mason, 1984). The theory admits that the characteristics of the CEO's influences their strategic decisions. In reality, the theory of Upper Echelon assumes that CEOs can impact a company's value creation, strategic decisions, and financial reporting decisions based on their specific skills and personal characteristics (Hambrick & Mason, 1984). According to the concept, a CEO's personality, experience, and values impact their strategic decisions based on how they interpret the situation or events they face (Hambrick, 2007).

As a result, we can presume that senior managers' characteristics have a significant impact on the design of management and system of control (Hiebl, 2014). According to Hambrick and Mason (1984), the CEO's demographic characteristics, which determine their bases and cognitive values, have a significant impact on strategic decisions. Hambrick and Mason (1984) went on to say that the personal characteristics of the CEO's can be employed to forecast their behaviour and involvement in the company performance. Similarly, Francis, Huang, Rajgopal, and Zang (2008) state that the characteristics of the CEO are important since they influence the company's accounting results.

Corporate governance

Because of its multifaceted nature, the literature contains a variety of definitions reflecting various perspectives on corporate governance. Corporate governance is defined by Cadbury (1992) as the processes that are utilised to protect the interests of various stakeholders. Despite the fact that studies have sought to create corporate governance indices that combine a variety of mechanisms to explore how corporate governance affects performance, the literature indicates that there is no one, corporate governance index standards considered as “one size fits all” (Rygh, 2016). Different perspectives on corporate governance are influenced by intellectual backgrounds and cultural environments (Idam, 2015).

CEO Role in the Company

In the company elite, CEO of the companies are usually the most influential and powerful members for their genuine ranked status and dedication to the company (Bates, 2011; Jensen & Zajac, 2004). CEOs have a strong desire to maintain the status quo to ensure that the existing strategy is correct and that specified leadership activities are carried out consistently. In the business world, a CEO's commitment to the company can be viewed as an honest imperative that demonstrates the depth of his or her connection and involvement in the company (Yucel, McMillan, & Richard, 2014). The CEO is ultimately responsible for determining and sustaining a company’s strategic direction as well as attaining company performance.

According to several studies and literature reviews in the business sector, the CEO is the primary responsible for company reputation (Gaines-Ross, 2008; Murray & White, 2005; van der Jagt, 2005). The CEO is responsible for coordinating multiple company tasks, developing a reputational risk plan, managing reputation and anticipating external threats in crises (Ross & Lofthouse, 2005). The Chief Reputation Officer is the CEO who has the most responsibility for managing a company's reputation (Prado & Trad, 2012).

According to several studies, when companies take a more advanced reputation, the CEO takes on more responsibility for reputation. Subsequently, CEOs are increasingly analysing and measuring company reputation across all stakeholders, incorporating reputational factors into the company vision, and forming a company department/board dedicated to reputation (Prado & Trad, 2012).
Despite the rising attention to CEOs' critical role in several aspects of company reputation (Alsop, 2004; Chang, Dasgupta, & Hilary, 2010; Hambrick, Geletkanycz, & Fredrickson, 1993; Love et al., 2017), few studies specifically analyse CEO commitment to reputation and provide a clear understanding of the main reputation activities undertaken by CEOs.

CEO Reputation

A CEO is dubbed a celebrity, according to Hayward, Rindova, and Pollock (2004), "when journalists broadcast the attribution that a companies positive performance has been caused by its CEO's actions." Firms with well-known CEOs can provide positive results, such as high-quality financial reports and positive investor reactions to their strategy and investment decisions (Jian & Lee, 2011). Moreover, CEOs with a reputation also benefit from more financial and economic incentives, such as higher stock-based compensation (Milbourn, 2003).

Several methods for determining a CEO's reputation have been documented in the literature. For example, Milbourn (2003) uses four proxies to assess CEO reputation. The first proxy is the number of years a CEO has worked for a company (CEO tenure), claiming that a CEO develops a high reputation if he or she stays in a company for a longer period of time due to high competence and ability. Second, if the CEO is an insider or an outsider, with the latter, outsider being considered more reputable. Third, a CEO's industry-adjusted performance (ROA) during the previous three years. A CEO with a high ROA has a high reputation. The fourth proxy is the market-based proxy, which is the total number of press stories that mention the CEO's name.

According to a survey done by the American Institute of Certified Public Accountants in 1994, investors and stakeholders place high importance on the CEO's reputation when evaluating financial reporting quality. The CEO is generally responsible for deciding on a company's financial reporting options (Kaplan, Samuels, & Cohen, 2015). Furthermore, CEOs establish their reputation over time by offering investors, analysts, the press, regulators, and economic stakeholders precise disclosure information and high-quality financial statements.

According to Jian and Lee (2011), one of the most important elements in the reliability and accuracy of the information offered by companies is the CEO's reputation. A study by Jian and Lee (2011) investigates whether investors' reactions to the decisions of the capital investment are statistically different for companies with reputed CEOs. They used 486 companies’ capital investment decisions made by US companies from 1988 to 2007 as part of their experiment. Their findings reveal a positive stock price reaction to capital announcements made by CEOs with a higher repute. Their findings also imply that companies with recognised CEOs had higher operating success after investment announcements.

Managers have an edge over shareholders in terms of the expected outcome of potential investment possibilities, which is another evidence to support the reputed CEOs (Hirshleifer & Thakor, 1992). This allows managers to choose investments with short-term profitability in order to improve their personal reputation and career (Hirshleifer, Low, & Teoh, 2012; Hirshleifer & Thakor, 1992). Moreover, managers may make investment decisions that reduce shareholder wealth but enhance the reputation and incentives of managers in the short term (Hirshleifer & Thakor, 1992). Managers like to perform earnings management to deliver smoot earnings to prevent losing their market reputation (Graham, Harvey, & Rajgopal, 2005). Not only that, but owing to a conflict of interest, CEOs might use their influence to pursue personal goals by managing profits expectations (Mande & Son, 2012).

CEOs develop a personal reputation over time, which may be defined as the sum of persistent pictures formed by stakeholders based on the CEO's perceived performance, trustworthiness, charisma, values and integrity (Love et al., 2017). The review of literature identifies two perspectives on CEO reputation: ability viewpoint and symbolic image perspective (Lee, 2006). Moreover, Baik, Farber, and Lee (2011) stress the CEO's talents and competences in attaining the company's goals. The symbolic image perspective relates to the media's ability to create celebrity CEOs (Hayward et al., 2004) and influence stakeholders' opinions of CEO quality (Love et al., 2017).

Obtaining empirical proxies for CEO reputation is a difficult task, especially because this construct is truly multidimensional, incorporating personal characteristics that are difficult to quantify. Various studies have attempted to define such proxies, which include the following:

CEO award: award winners become CEO superstars and highly regarded in the business community (Graffin, Wade, Porac, & McNamee, 2008; Shi, Zhang, & Hoskisson, 2017).

Media exposure: higher press coverage indicates that CEO is a successful leader perceived by the media (Hayward & Hambrick, 1997; Park & Berger, 2004).

CEO tenure refers to how long CEOs stay in their current job (in years); long-tenured CEOs are expected to stay for at least six years (Bernstein, Buse, & Bilimoria, 2016; Song, 2006).

Outsider or Insider: the appointment of the CEOs from outsiders are more likely to establish new business practises and strategies (Parrino, 1997; Zhang & Rajagopalan, 2010).

CEO age: it is a proxy for the market's uncertainty about the CEO's credibility (Serfling, 2014; Yim, 2013).

CEO tenure is one of the most important proxies of CEO reputation since it influences how CEOs manage the company's strategy. Several studies (Huang, 2013; Wulf, Stubner, Miksche, & Roleder, 2010) have investigated at the relationship between tenure of the CEO and company's performance, finding that long-tenured CEOs are more likely to accomplish certain positive significant outcomes. In fact, the longer tenured CEOs has been more probable he or she has been successful (Cannella, Hambrick, Finkelstein, & Cannella, 2009). Other studies have looked into the relationship between CEO tenure and entrepreneurial risk-taking behaviour, finding that this CEO characteristic has a significant impact (Boling, Pieper, & Covin, 2016).

METHODOLOGY OF THE RESEARCH

The data were manually collected from annual reports provided by the State Bank of Pakistan (SBP) and the Securities Exchange Commission of Pakistan (SECP) to estimate the CEO Reputation. The SECP governs and oversees the governance and financial matters of Pakistan's publicly listed companies. For the 285 non-financial companies in the study, the sample period runs from 2006 to 2017. Companies with data for less than ten years were omitted from the current analysis. If a company's "book value of equity has negative for three years in a row", it is called distressed.

Variable's Measurements

Dependent Variable

Financial distress is our dependent variable employed in this paper. The dependent variable is a dichotomous or dummy variable, the value 1 is denoted as if the company is in financial distress, otherwise 0. Financial distress is measured as defined by the state bank of Pakistan as "a company considered distress if the company having in negative equity of the consultive three years". Previous studies employed this definition in his research (Mateos-Ronco & Mas, 2011) and (Waqas & Md-Rus, 2018b).

Independent Variable

In this paper, we employed CEO reputation as our independent variable. CEO reputation is measured with the CEO outsider appointment, CEO award and CEO tenure. CEO outsider appointment is measured with the CEO appoint from the outside of the company, CEO award is measured with the CEO received the award of the year and tenure of the CEO is measured as total years that spend in a company.

Control Variable

This research follows several other prior research to control a CEO characteristic effect by using some control variables. variables are employed in this research to control for the CEO characteristics effect on the result of regression. The variables are most frequently used in company performance relationships. The study uses the CEO age that is measured with the age of the CEO, CEO duality is measured with the CEO and the chairman of the board of directors are the same person, CEO gender is measured with the dummy variable, the value 1 is denoted if the CEO is male and for female 0. Moreover, CEO education is measured with the CEO having a degree of MBA, MSc, professional certificate and foreign education. Finally, CEO nationality measured with the CEO having foreign nationality.

Model specification

The analysis of the study to estimate the logit model for the listed companies of Pakistan by using the CEO Reputation.

$FD = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \ldots\ldots\ldots + \beta nXn$

$FD = \beta o + \beta 1CEOAPTOUT + \beta 2CEOAWARD + \beta 3CEOTENURE + \beta CEOAGE + \beta CEOGENDER + \beta CEODUALITY + \beta CEOMSC + \beta CEOMBA + \beta CEOPROCERT + \beta CEOEDUFO + \beta CEONAT + \varepsilon$

Where

FD	=	Financial distress
CEOAPTOUT	=	CEO appointment outsider
CEOAWARD	=	CEO award of the year
CEOTENURE	=	Number of years of the CEO in a company
CEOAGE	=	Age of the CEO
CEOGENDER	=	Gender of the CEO Male or Female
CEODUALITY	=	CEO and chair-person at the same time
CEOMSC	=	CEO is a MSc degree holder
CEOMBA	=	CEO is an MBA degree holder
CEOPROCERT	=	CEO is a professional certificate holder
CEOEDUFO	=	CEO is a foreign degree holder
CEONAT	=	CEO nationality

RESULTS AND DISCUSSION

Descriptive Statistics

The summary statistics of this paper has described the mean, standard deviation, minimum and the maximum value of the data in Table 1. The value of the mean of financial distress is 0.161 which denotes the mean value is not closer to the value 1. This way indicates that companies aren't announced bankruptcy of financial distress problems. Thus, it means the greater the mean value of financial distress is signalling that companies might be having financial distress (Ramadhan & Marindah, 2021). The value of the mean of CEOAPTOUT is 0.269 which indicates that very few companies of Pakistan that are listed on the Pakistan stock exchange hire CEO from the outside because of their reputation. Conversely, Parrino (1997) and Jiang, Huang, and Kim (2013) reported that appointments of the CEOs are created from the outside 15% and 41.4% respectively. The mean value of the CEO award is only 1%, which is quietly low. Moreover, the average tenure of the CEO is 16 to 17 years. The average age of the CEO is 54 to 55.

Table 1

Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
FD	3420	0.161	0.368	0	1
CEOAPTOUT	3420	0.269	0.444	0	1
CEOAWARD	3420	0.006	0.076	0	1
CEOTENURE	3420	16.701	9.205	1	56
CEOAGE	3420	54.685	8.027	28	82
CEOGENDER	3420	0.016	0.126	0	1
CEODUALITY	3420	0.112	0.313	0	1
CEOMSC	3420	0.329	0.471	0	1
CEOMBA	3420	0.134	0.341	0	1
PROFCERT	3420	0.027	0.163	0	1
CEOEDUFO	3420	0.476	0.499	0	1
CEONAT	3420	0.027	0.162	0	1

Note: FD is financial distress, CEOAPTOUT is CEO appointment from outside, CEOAWARD is CEO having an award of the year, CEOTENURE is CEO tenure, CEOAGE is the age of the CEO, CEOGENDER is the CEO gender (male or female), CEODUALITY is CEO at the same time chairperson also, CEOMSC is CEO having MSc degree, CEOMBA is CEO having MBA degree, PROFCERT is CEO having a professional certificate, CEOEDUFO is CEO having a foreign education, CEONAT is CEO having dual nationality.

The average value of female CEO is 1.6% only. Furthermore, the average value of the CEO duality is 11% only. The results indicate that the education of the CEO, mostly CEOs in Pakistan taking MSc degree. The mean value of the CEOs MSc is 33%, Whereas the mean value of MBA is 13% and Professional certificate is 3%, these are lesser than MSc. It is notable, there is a greater variation among CEO education. The percentage of CEO with professional certifications is only 2%, while CEOs have foreign education 47%. Finally, the average value of the CEO nationality is 2.7% only.

Pearson's Correlation

The multicollinearity between the variables is investigated using correlation analysis. The estimation results will be influenced by two or more perfectly multicollinear variables in the regression. The variables are deemed highly correlated if their correlation coefficient values are near to 1 or -1. Table 2 shows that the variables did not have any issues with multicollinearity.

Variance Inflation Factor

This study uses the variance inflation factor (VIF) to check the issues in the data to see whether there is a threat of multicollinearity. Table 3 demonstrates that the values of all variables are lower than 10, indicating that there are no major issues of multicollinearity in the data (Gujarati & Porter, 2009).

Table 2

Correlation matrix of coefficients of logit model

Variables	ceoaptout	ceoaward	ceot	ceoage	ceog	ceod	ceomsc	ceomba	profcert	ceoedufo	ceonat	_cons
CEOAPTOUT	1.000											
CEOAWARD	-0.015	1.000										
CEOTENURE	0.082	-0.026	1.000									
CEOAGE	-0.089	0.006	-0.536	1.000								
CEOGENDER	0.014	0.004	0.057	0.008	1.000							
CEODUALITY	0.046	0.006	-0.155	0.035	-0.092	1.000						
CEOMSC	-0.067	0.004	0.144	-0.065	-0.035	-0.217	1.000					
CEOMBA	-0.074	-0.008	0.023	0.064	-0.042	-0.089	0.177	1.000				
PROFCERT	-0.029	0.009	0.100	-0.013	0.017	-0.028	0.125	0.054	1.000			
CEOEDUFO	-0.001	0.024	-0.079	0.123	-0.020	0.028	-0.043	-0.053	0.085	1.000		
CEONAT	-0.031	-0.022	0.067	-0.057	0.017	0.048	0.018	0.044	0.012	-0.233	1.000	
CONSTANT	0.006	-0.008	0.272	-0.938	-0.032	-0.035	-0.057	-0.111	-0.057	-0.201	0.039	1.000

Note: FD is financial distress, CEOAPTOUT is CEO appointment from outside, CEOAWARD is CEO having award of the year, CEOTENURE is CEO tenure, CEOAGE is the age of the CEO, CEOGENDER is the CEO gender (male or female), CEODUALITY is CEO at the same time chairperson also, CEOMSC is CEO having MSc degree, CEOMBA is CEO having MBA degree, PROFCERT is CEO having a professional certificate, CEOEDUFO is CEO having a foreign education, CEONAT is CEO having dual nationality.

Table 3

Variance inflation factor

Variables	VIF	1/VIF
CEOAPTOUT	1.052	.951
CEOAWARD	1.006	.994
CEOTENURE	1.457	.687
CEOAGE	1.375	.727
CEOGENDER	1.022	.978
CEODUALITY	1.057	.946
CEOMSC	1.175	.851
CEOMBA	1.161	.862
CEOEDUFO	1.095	.913
PROFCERT	1.065	.939
CEONAT	1.053	.949
MEAN VIF	1.138	.

Note: FD is financial distress, CEOAPTOUT is CEO appointment from outside, CEOAWARD is CEO having award of the year, CEOTENURE is CEO tenure, CEOAGE is the age of the CEO, CEOGENDER is the CEO gender (male or female), CEODUALITY is CEO at the same time chairperson also, CEOMSC is CEO having MSc degree, CEOMBA is CEO having MBA degree, PROFCERT is CEO having a professional certificate, CEOEDUFO is CEO having a foreign education, CEONAT is CEO having dual nationality.

Pearson's goodness of fit test

Logistic model for Financial Distress, goodness-of-fit test, logistic regression analysis is used due to our dependent variable being categorical. The result presented the R square for the regression model is 0.06 which means that independent variables are described as 6% of the prediction of dependent variables. Additionally, the Pearson's goodness of fit test indicates that the model is a good fit to the data with the value of significance being higher than 0.05 ($p = 0.3007$). The model overall Classification of accuracy rate is 83.86%.

CONCLUSION AND DISCUSSION

The purpose of this study is to see the link between CEO reputation and company financial distress. The existing study used data from 285 companies as a sample size, which were collected from the Pakistan stock exchange's listed non-financial companies. The study spanned twelve years, from 2006 to 2017. Despite the fact that several researchers from various countries have predicted financial distress, there is a lack of study that focuses on the CEO's reputation in relation to the company's financial distress.

This study contributed to the literature in many ways. The impact of CEO reputation on company financial distress, this research limited to used in the context of Pakistan. Previous studies on Paksitan used ownership structure (Udin, Khan, & Javid, 2017), board structure (Ud-Din, Khan, Javeed, & Pham, 2020) and family ownership (Ullah, Khan, Hussain, Alam, & Haroon, 2021). As a result, previous studies shows that the lack of that relationship, therefore, this study fills this gap through explore the influence of CEO reputation on company financial distress.

The goodness of fit test of the Pearson's is higher than the significant value 0.05 ($p = 0.3007$), which represents the model fit. The overall accuracy rate of the model is 83.86%, while the previous researcher who employed the company's data from Pakistani such as Rashid and Abbas (2011) identify 76.9% is smaller than the existing study accuracy rate of 83.86% and Ijaz, Hunjra, Hameed, and Maqbool (2013) identify 95% is higher than the existing research.

Limitation of the study

The study's limitation, first the existing study employed the sample period of 2006 to 2017. Second, only CEO reputation is used as an independent variable, further study can be employed more variables related to the CEO characteristics as an independent variable. Third, this study limit to the non-financial companies only, further studies can includes financial companies to strength the results. Fourth, this research focus on the Pakistani listed companies only, so further studies can includes others countries as well. Fifth, this study limited to the CEO reputation only, further characteristics of the cororate governance also can used (e.g., ownership structure, board characteristics, firm characteristics etc.)

Future recommendation

This research aims to contribute significantly to the understanding the impact of CEO reputation on company financial distress of the Pakistani listed non-financial companies. However, this study concentrated on the CEO reputation and CEO characteristics. Future research should aim to broaden the scope of the study to include other factors that have yet to be investigated, in order to determine their impact on corporate governance. The focus of this research is on listed companies in the non-financial sector; future research could focus on corporate governance in the financial sector as well as companies of significant size that are not listed on the Exchange, as they make up a large proportion of companies in pakistan with diverse shareholders' interests. In addition, CEO reputation and CEO characteristics in underdeveloped countries should be studied in future research. Future research can also investigate the link between CEO reputation and financial, economic, environmental and social performance. for better results further studies can be used macroeconomic variables like exchange rate, political stability, corporate governance financial ratios variables for the prediction of the risk of financial distress.

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