

# **CEO POWER AND CORPORATE CASH HOLDINGS: A THREE-WAY INTERACTION OF BOARD SIZE AND INDEPENDENCE**

**BY**

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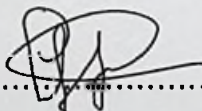
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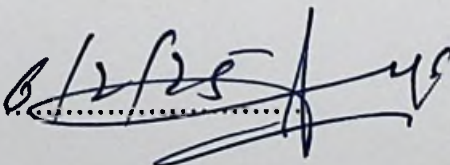
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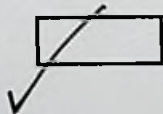
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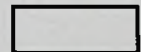
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No.	Date	Place of Meeting	Topic Discussed	Signature of Student
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2	20/9/24	Supervisor's office	Introduction of the report discussed	Maryam
3	15/10/24	Supervisor's office	Literature review discussion	Shukha
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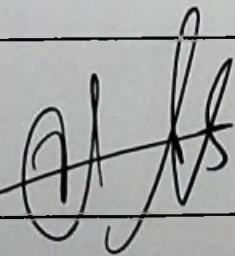
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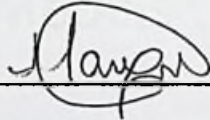


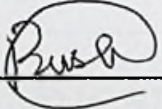
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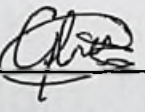
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### Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this project has been submitted in support of any application of another degrees or qualification of this university or any other institution of learning.

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## **ABSTRACT**

This research seeks to establish the influence of CEO power on CH and explores the moderating roles of board size and board independence in this CH relationship. Through annual report data of the 100 largest listed manufacturing firms of Pakistan from 2014 to 2023, the study examines these dynamics. Studying the influence of CEOs, it is identified that power leads to reduced cash holding indicating that extremely powerful CEOs may be more self-interested than ideal for organizations. On the other hand, board size positively moderates this relation and could improve the governance system and diminish the influence of the power of CEOs.

The paper examines the cutting roles of board size and board independence in the CEO power-cash holding relationship using a three-way interaction, which has not been done before in the context of Pakistan. A three-way interaction occurs when the effect of one variable on the relationship between two other variables is further influenced by a third variable. In this context, board size moderates the relationship between CEO power and cash holdings, exerting a positive influence that enhances the connection. However, when board independence is introduced as a second moderating variable, it alters the dynamics, potentially creating conflicts of interest that disrupt or weaken the relationship. This three-way interaction underscores the complexity of governance structures, illustrating how the interplay between board size and board independence can significantly affect the association between CEO power and cash management practices. These findings propose that with board size being larger it allows more diverse skills and more talent to conduct the AGM and take corporate decisions. However, the research also suggest that this combined moderating effect of Board size and Board independence is negative because inter-organizational conflict about multiple monitoring agencies detracts from attention to the CEO, providing opportunities for misuse of CEO power, affecting the cash flows. This research

proposes a multidimensional index of CEO power to fill the methodological and theoretical gaps of prior works. the findings of this study suggests that larger board size provide significant benefits such as improved cash management and innovative techniques for strategic plannings. However, the study also implies that with the larger board sizes conflict of interest may arise and to reduce or mitigate the conflict of interest the policy should be revised and reduce the board member to create harmony between the board members. The study incorporates how, less examined moderating factors such as board size and independence deal with cash holding in the manufacturing sector of Pakistan and the challenges it faces.

**Keywords: CEO power, cash holding, board size, board independence, Pakistan.**

## **Chapter 1: INTRODUCTION:**

### **Introduction**

Cash holding is self-explanatory. It means holding cash or hoarding cash. It is elucidated by the amount or level of cash or cash assets the firm is holding that have high liquidity traits that allow a company to easily and immediately turn into cash quickly. Cash is an essential item for a firm to run its operational, financing, and investing activities. It can also be said that cash is the blood of a firm which cannot be overlooked (Ferreira & Vilela, 2004). To have a certain level of cash in the firm is important as it provides the opportunity for the firm to use it during crises and urgent situations. It is like an emergency fund that firms or corporations can use to pay off their liabilities during difficult times. According to the existing studies of Bates, Kahle & Stulz (2009), cash is described as short-term marketable securities and cash equivalents. cash holding is such a crucial matter for firms because it provides the firm liquidity. Cash assets have a quality of converting into cash instantly.

The level at which cash holding is kept has various advantages and disadvantages. As per Chen & Chuang (2009), and Bates et.al (2009), companies are inclined towards holding more cash because it prevents them from agency costs and losing any investment which can happen as a result of funds shortage as well as firms need cash to run their day-to-day operations that is