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THE INFLUENCE OF CEO POWER, CAPITAL STRUCTURE, AND FINANCIAL DISTRESS ON FIRM REPUTATION: THE MODERATING EFFECT OF POLITICAL CONNECTIONS

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ABSTRACT

This study contributes to finance and corporate governance literature by providing empirical insights into how political connections shape the relationship between CEO power, financial decisions, financial distress, and firm reputation in an emerging market context. The sample was drawn from non-financial firms, listed on the Pakistan Stock Exchange (PSX), according to their market capitalization for the period 2015-2023. The study also examined the moderating effect of political connections on the associations between CEO power and firm reputation, between capital structure and firm reputation, and between financial distress and firm reputation. The Hausman test was used to analyse the model specification for the panel data. Subsequently, the fixed effect model was chosen for the statistical analysis. The robustness of the results was further verified using the bootstrapped quantile regression method. The study suggests that the CEO power has a negligible effect on firm reputation, whereas capital structure and financial distress have a negative impact on firm reputation. Furthermore, the study also reveals that political connections positively moderate the association between CEO power and firm reputation, between the capital structure and firm reputation, and between the financial distress and firm reputation. The study has several unique findings and adds value to the existing literature on corporate finance and corporate governance.

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INTRODUCTION

Ensuring a good corporate reputation is a crucial part of the job of the top management team. A good reputation helps firms in raising the needed funds for growth and sustainable performance, which are essential for gaining the attention and engagement of various stakeholders for financial decisions, valuation, and corporate governance requirements (Abdullah et al., 2025). As the business environment is changing continuously, knowing the factors that influence the firm's reputation has become a priority. This awareness is vital for corporate managers in almost every industry because customers' demands and choices vary continuously, forcing firms to revisit their financial planning more often (Ali et al., 2024). A firm's reputation could be defined as the assessment of a firm's attributes by its benefactors (Love et al., 2017). Past studies have shown that firms with good reputations could earn superior returns (Lee and Roh, 2012). Accordingly, the firm's reputation has become an important indicator affecting the decision-making process. Despite the perceptive association between financial performance and firm reputation, previous studies have shown inconclusive results. According to Sheikh (2018), the increased power of a CEO may misalign the interests of shareholders and managers. The CEO, being the main architect of the firm's policies, values creation heavily, which depends upon the top management team (Williams et al., 2022). As a result, developing an understanding of various parameters affecting the firm's reputation would be valuable.

The valuation and profitability of firms depend upon their capital structure, i.e., financing mix, and the choices among different sources of capital. It would be thought-provoking to note how a firm's reputation gets affected by its capital structure. An optimal capital structure is required to maximize returns and enhance the firm's ability to meet the requirements of the competitive environment (Javaid et al., 2023). Another critical component of financial risk management is the possibility of situations surfacing in which the firm may face financial distress, resulting in its inability to meet its commitments, thereby affecting its reputation (Kalash, 2023). The degree to which companies can overcome their financial distress has long been a subject of empirical research (Baumohl et al., 2020).

A firm is considered politically connected if any of its owners or board members is or has been an official in the government, military, or Member of Parliament. For such a firm, the literature suggests several ways in which the interests of other shareholders could be compromised (Abdullah et al., 2022). Firms with political connections have a positive influence on a firm's financial distress (Nugrahanti et al., 2020).

Problem Statement

CEOs and the top management team are under severe pressure for superior results. Outstanding and ambitious managers constantly endeavor to attain sustainable economic performance (Liu et al., 2023). It is believed that a firm reputation helps in achieving it. It is therefore essential to understand how a firm's reputation is influenced by factors like the CEO power, the firm's choice of capital structure, and financial distress. Further, how these will be moderated in the presence of political connections.

The data for this paper has been extracted manually from the annual financial statements of the listed non-financial firms for the period from 2015 to 2023. Pakistan, being a developing country with unpredictable economic conditions, has a dire need for studies on factors contributing to firm reputation. This study fills the gaps by identifying factors impacting the firm's reputation, especially in emerging economies like Pakistan. First, it ascertains the effect of CEO power on a firm's reputation. Second, it studies the influence of capital structure on a firm's reputation. Third, it uncovers the impact of financial distress on a firm's reputation. Fourth, the study explores the moderating effect of political connections on the association between CEO power and a firm's reputation. Fifth, it examines the moderating effect of political connections on the relationship between capital structure and a firm's reputation. Sixth, it explores the effect of political connections on the association between financial distress and a firm's reputation.

After the introduction, the remainder of the paper is as follows. Section 2 deals with the literature review and development of hypotheses. Sections 3 and 4 deal with methodology and discussion on results, respectively. Section 5 deals with further analysis, and lastly, Section 6 concludes the study, mentioning the limitations and recommendations for further research.

Literature Review and Hypothesis Development

Upper echelon theory

According to the upper echelon theory (UET), personal characteristics of the CEO and top management team, such as cognitive base and values, play a crucial role in predicting and/ or explaining the decisions taken and the possible outcome of those decisions (Dhir et al., 2023). Organizational performance is dependent upon decision-making by top management (Chuang et al., 2009). The cognitive base and values of CEOs influence how they evaluate strategic situations that will affect the firm's reputation. The UET addresses the theoretical gap present and suggests that strategic situations are highly complex and ambiguous in nature. Therefore, rational decision-making is not feasible for the top-level managers (Cyert and March, 2015; Pongelli et al., 2023). Researchers have used UET to study different aspects of a firm's performance and how characteristics of the top management team impact the outcome. Guided by UET, it has been found that CEO's overconfidence does affect the entrepreneurial orientation of the firm (Engelen et al., 2015). Among the various factors of UET in general, the influence of CEO characteristics in particular has also been researched (Ali et al., 2022). CEO power and its repercussions have long been a popular topic for scientific research (Daily and Johnson, 1997). The vulnerability of CEOs can be gauged by the removal of Twitter CEO (Parag Agrawal) by Elon Musk (Clayton and Hoskins, 2022)

Firms strive to be rational by making their choices after thoroughly analyzing the internal factors, for example, resources and capabilities, as well as external factors such as opportunities and market trends (Jansen et al., 2023). Decision-makers have inherent cognitive limitations, e.g., limited knowledge or computational capacity that restrict their ability to achieve technical rationality in their decisions (Simon, 1990). It is therefore essential to comprehend how a firm's reputation would be affected by a multitude of factors, such as CEO power, capital structure, and financial distress, especially when firms have political connections.

The UET provides the most appropriate theoretical foundation to study how CEO power, capital structure, financial distress, and political connections will influence a firm's reputation.

CEO Power and the firm's reputation

A firm's reputation is considered the most valuable resource for sustainable competitive advantage (Madhani, 2010). The assessment of a firm's attributes by its patrons is termed the firm's reputation (Love et al., 2017). To evaluate a firm's reputation, compare the firm's behavior vis-à-vis the behaviors of other firms (Deephouse et al., 2016). There are several aspects of the firm's reputation as revealed by past research. First, being known in the marketplace. Second, being known for something good. Third, generalized favor by the market (Lange et al., 2011).

Studies have also indicated that firms with good reputations could earn superior returns (Lee & Roh, 2012). Firm's reputation, therefore, is an important indicator that impacts the decision-making process of the evaluators. Armed with better employees and lower costs, firms can take more risks to exploit the opportunities. Despite the discerning association between financial performance and firm reputation, previous studies have shown inconclusive results.

According to Sheikh (2018), an increase in the CEO power might result in misalignment of the interests of shareholders and managers. The CEO power has several dimensions, for instance, due to structure, ownership, or professional strength that could be the source of power for him (Saidu, 2019). Among these, structural power is the most representative as it depends upon the distribution of power among senior-level managerial positions (Williams et al., 2022). Since the CEO is the main architect of the firm's policies, the position is considered a source for the creation of the firm's value for the shareholders (Williams et al., 2022). It is therefore important to develop an appreciation of the link between CEO power and a firm's reputation.

A new CEO, when appointed, lacks the track record of performance, and thus market participants are indecisive about his competencies (Gibbons and Murphy, 1992). Managers sometimes engage in opportunistic behaviour owing to intense competitive pressure exerted by the capital market (Shleifer, 2004). Able managers, on the other hand, utilize the firm's resources efficiently and produce positive firm-level results (Biswas et al., 2023). The market keenly observes their performance and evaluates them on several financial and nonfinancial performance criteria.

We therefore hypothesize as follows:

H1: The CEO power significantly affects the firm's reputation.

Capital structure and the firm's reputation

Capital structure refers to the mix of different sources of funds utilized to finance a firm's assets and operations (Missaoui and Brahmi, 2025). As the firm's valuation and profitability depend upon its capital structure, it is necessary to understand the dynamic nature of the financing mix and the choice of capital structure (Javaid et al., 2023). According to Gitman (2015), capital structure decision affects business risk and thus affect the firm's investments and valuation. An optimal capital structure is required to maximize returns and enhance the firm's ability to meet the requirements in a competitive environment (Javaid et al., 2023).

Karadeniz et al. (2009) have identified several factors that could impact the firm's capital structure decisions. Issues such as tangibility of assets, return on assets, and effective tax rate are negatively associated with the debt ratio. Cautious managers prefer a lower debt-to-equity ratio to minimize the risks. Managers' actions play an important role in maintaining a particular capital structure to restrict monitoring by creditors (Brailsford et al., 2002). Equity positions held by the managers

and external block holders have a positive influence on capital structure, indicating a non-linear influence of managerial ownership on capital structure decisions (Tayachi et al. 2023).
Consequently, it is hypothesized that:
H2: Capital structure significantly affects the firm's reputation.

Financial distress and the firm's reputation

Financial distress is a crucial component of corporate finance and risk management, dealing with situations faced by a firm with significant financial difficulties that hamper its capacity to fulfil its commitments, thus affecting its reputation (Kalash, 2023). The degree to which companies facing financial hardship can overcome their perilous circumstances or fall victim to business failure has long been a subject of interest in academic and practical writings (Baumohl et al., 2020).
In literature, there are four generic terms, viz., failure, insolvency, bankruptcy, and default, to describe corporate financial distress. Failure occurs when the risk-adjusted return on investments is drastically lower than the returns generated by comparable investments, or when costs are much higher than the revenues earned. Firms become insolvent if they are unable to settle their current obligations, mainly due to a liquidity crunch. Bankruptcy signifies financial distress that requires a legal declaration through the courts. At the same time, a default could be legal or technical. If a certain covenant in terms of a loan is violated, it is referred to as a technical default. On the other hand, if the firm is unable to make periodic payments, it is likely to lead to legal default. Both types of defaults signal poor financial performance and financial distress (Habib et al., 2020). A firm's reputation gets affected if it finds itself in any of these circumstances.
Based on the foregoing discussions, the following hypothesis has been postulated:
H3: Financial distress significantly affects the firm's reputation.

The moderating effect of political connections

It is generally believed that politicians often lack the necessary management skills, know-how, and expertise. Instead of focusing on the firm's performance, they mainly focus on political agendas to advance their concerns (EL Ammari, 2023). A firm is considered politically connected if any of its owners or board members is or has been an official in the government, military, or member of parliament. If a firm has political connections, the literature suggests several ways in which such firms could compromise the interests of other shareholders (Abdullah et al., 2022). Prior research indicates that firms with political connections have a positive influence on a firm's financial distress (Nugrahanti et al., 2020).
Impact of different types of political connections, viz., government-linked investment, politically connected board members, families of government leaders, and cronyism on financial distress for Malaysian firms has been studied by Nguyen et al. (2023). Their findings indicate a strong heterogeneous association between political connections and firm distress risk. Under this situation, other board members are more inclined to develop their linkages with these politicians to extract private benefits instead of focusing on the effective utilization of firm resources (EL Ammari, 2023).
Financial distress is a vital topic of corporate finance and risk management that deals with situations faced by firms with significant difficulties in managing their finances and hampering their capacity to fulfil their commitments (Kalash, 2023). Issues related to payment discipline and its consequences, including lowered competitiveness and/ or insolvency, are important for predicting financial distress (Dobrovic et al., 2018). Researchers have used BAM's mixed logic to study how business risk-return differs in the context of distressed (the worst) and non-distressed (the best) enterprises (Gómez-Mejia et al. 2023).
Consequently, we hypothesized as follows:
H4: Political connections significantly moderate the association between CEO power and the firm's reputation.
H5: Political connections significantly moderate the association between capital structure and a firm's reputation.
H6: Political connections significantly moderate the association between financial distress and a firm's reputation.

METHODOLOGY

Data and Sample Selection

To confirm the above hypotheses, we have collected data from the top 50 firms based on their market capitalization listed on the Pakistan Stock Exchange (PSX). The time period covered is from 2019 to 2023. Consistent with past studies, the data from active, non-financial firms were extracted manually. Financial companies were not considered as their applicable laws and rules are different (Abdullah et al., 2025). Also referring to past practices, we have winsorized the independent variables to deal with outliers (Abdullah et al., 2025; Hassan et al., 2023).

Measurement of Variables

Table 1 presents the list of key variables and their proxies used in this empirical study. The dependent variable for the research is the firm's reputation (FR). In the literature, several different proxies have been used to measure a firm's reputation, for example, market capitalization, P/E ratio, and the firm's age. In this research, price-earnings (P/E ratio) is used as a proxy for a firm's reputation, which is defined as the ratio of closing share price to earnings per share (Kaur and Singh, 2018; Subhani et al., 2022). A dummy variable is used to measure political connections for the study. If any of the owners, board members, or board of commissioners is or was an official in government, military, or a member of parliament, then it takes a value equal to 1; otherwise, it is taken as 0 (Kalbuana et al., 2022).
In the literature, there are several proxies used for CEO power, for example, CEO pay gap (CPG), CEO tenure, and CEO being the founder (Harper and Sun, 2019). We have used the CEO pay gap (CPG) to measure the CEO power. CPG is the difference between the salaries of the CEO and the average salaries of top officials (Sheikh, 2018).
The firm's capital structure is mostly measured using the debt-to-total assets ratio as the proxy in the literature. Usually, the target debt level is determined by a trade-off between the costs and benefits of debt financing. The ratio is calculated either using market values or book values of the assets (Sheikh and Wang, 2012). For this work, the book value estimates have been used. Further, the literature advocates the use of long-term debt; the present work is based on the total debt-to-assets ratio as a proxy for capital structure. Because in Pakistan, there is a tendency among firms to use short-term sources of finance even for long-term capital projects (Hasan and Butt, 2009).
The Altman (1968) Z-score has been used as a proxy for financial distress (FD). Several past studies have used it as a proxy for financial distress (Guizani and Abdalkrim, 2023; Younas et al., 2021). The Z-score is computed as follows:

$$Z\text{-score} = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6\,X_4 + 1.0\,X_5$$

Where,

X_1 = Net working capital / total assets
X_2 = Retained earnings / total assets

X_3 = EBIT / total assets
X_4 = Market value of equity / Book value of total debts
X_5 = Sales / total assets

The lower the Z score higher the probability of financial distress. Based on their Z-score, companies are classified as healthy or distressed. For healthy companies, the Z-score is greater than 1.81 (Younas et al., 2021).

Table 1. Variable name, symbols, category, and description.

Variable name	Symbol	Category	Description
Firm reputation	FR	Dependent variable	P/E ratio = closing share price / EPS
CEO power	CPG	Independent variable	The CEO's salary minus the average salary of key executives
Capital structure	CS	Independent variable	Total debt / total assets
Financial distress	FD	Independent variable	Altman Z-score
Political connections	POLC	Moderating variable	Dummy variable, politically connected firms take a value of 1, else 0.
Firm age	LNAGE	Control variable	Natural log of the total number of years since the date of incorporation.
Firm listing age	LNListAge	Control variable	Natural log of the total number of years since the firm has been listed on the stock exchange.
Firm size	SIZE	Control variable	Natural log of total assets
Sales growth	Sgrowth	Control variable	Ratio of current year's sales to last year's sales minus 1
Profitability	PROF	Control variable	Net profit / total sales
Return on assets	ROA	Control variable	Net profit / total assets

Statistical Analysis and Model Specification

Baseline model

The following Baseline model has been used to test the hypotheses 1 to 3 (H1 to H3).

$$FR = \beta_0 + \beta_1 CPG + \beta_2 CS + \beta_3 FD + \beta_4 POLC + \beta_5 \Sigma Controls + u \quad (1)$$

If the coefficients of the independent variables in the model are statistically significant, then it will support the hypothesis. The sign of the coefficients will indicate whether the influence is positive or negative. The control variables of the study are: Firm Age (LNAGE), Firm listing age (LNListAge), Firm size (SIZE), Sales growth (Sgrowth), Profitability (PROF), and return on assets (ROA). These control variables have been used previously in the literature (Abdullah et al., 2025). Industry and year dummies have also been included as per previous research studies (Abdullah et al., 2022).

Interaction model

To establish the validity of the moderating effect of political connections on the associations between the dependent variable (firm reputation) and independent variables (CEO power, capital structure, and financial distress in hypotheses 4 to 6, the following interaction model has been proposed. The model checks whether or not the political connections (POLC) moderate the relationship between CEO power (CPG) and firm reputation (FR); capital structure (CS) and firm reputation (FR); and financial distress (FD) and firm reputation.

$$FR = \beta_0 + \beta_1 CPG + \beta_2 CS + \beta_3 FD + \beta_4 POLC + \beta_5 CPG*POLC + \beta_6 CS*POLC + \beta_7 FD*POLC + \beta_8 \Sigma Controls + u \quad (2)$$

If the coefficients of interaction terms *CPG*POLC*, *CS*POLC*, *and FD*POLC* are statistically significant, then it will confirm the hypotheses. The sign of the coefficients will determine the nature of positive or negative moderation.

RESULTS AND DISCUSSION

Descriptive statistics

The descriptive statistics are reported in Table 2. The mean value of PE_Ratio is 102.355 (standard deviation 1814.205), indicating that on average, investors are willing to pay PKR102.3 for an EPS of PKR 1. A large range of PE_Ratio (Maximum: 38474.9, Minimum: -490.8) indicates a wide variety of earnings and EPS disparity among the top firms. CPG (CEO pay gap) has a mean value of 35,265 (standard deviation 30,120), indicating large variations in CEO compensation, some having a gap of 105,288 as compared with their colleagues. The mean for CS is 0.537 (standard deviation 0.211) with values ranging from a high of 0.967 to a low of 0.195. This indicates that firms in the sample have approximately a 53.7% debt-to-asset ratio. While some firms have debt to total asset ratio as high as 96.7%, and others have as low as 19.5%. The mean score for financial distress (FD) is 4.371 (standard deviation 3.344), with a maximum of 14.484 and a minimum of 0.530. These numbers suggest that few companies in the sample have a serious possibility of developing financial distress/ bankruptcy. Firms in the sample have a mean of 0.331 (standard deviation 0.471) for POLC, indicating that, on average, 33.1% of the firms are politically connected.

Large variations in descriptive statistics for variables are mainly because firms are of different sizes and belong to different industries. To test the normality of variables Shapiro-Wilk test was also performed, and the results have been appended in Table 2. All variables except POLC are statistically significant at 1%, so we deduce that the sample data is non-normal.

Pearson Correlations

The correlation matrix is presented below in Table 3. The correlation between CPG and CS (r = 0.101) is positive and statistically significant at 5%, meaning that there is a weak association between CEP power and capital structure. On the other hand, the correlation between CPG and FD (r = -0.084) is negative and statistically significant at 10%, implying a weak negative correlation between CEO power and financial distress. The correlation between CPG and POLC (r= 0.198) is positive and statistically significant at 1%, indicating a moderate correlation between CEO power and political connections. The results also indicate a negative correlation (r= -0.135) between financial distress (FD) and political connections (POLC) that is statistically significant at 1%. Since all the coefficients of correlation are below 0.8, there is no issue of multicollinearity among the variables.

Table 2. Descriptive statistics.

Variables	N	Mean	SD	Max	Min	Swilk test
PE_RATIO	450	102.355	1814.205	38474.916	-490.791	13.619***
CPG	450	35265.478	30119.991	105288.67	-1382.667	7.390***
CS	450	.537	0.211	.967	.195	3.993***
FD	450	4.371	3.344	14.484	.53	9.535***
POLC	450	.331	0.471	1	0	0.513
LNAGE	450	3.665	0.546	4.7	1.792	6.752***
LNListAge	450	3.287	0.677	4.304	0	7.223***
SIZE	450	17.655	1.442	21.245	13.385	4.021***
Sgrowth	450	.17	0.387	3.405	-.997	10.035***
PROF	450	-3.943	72.039	167.391	-1403.41	13.588***
ROA	450	.092	0.136	1.626	-.466	10.811***

Table 3. Correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) PE_RATIO	1.000										
(2) CPG	-0.058	1.000									
(3) CS	-0.009	0.101**	1.000								
(4) FD	-0.009	-0.084*	-0.357***	1.000							
(5) POLC	-0.037	0.198***	0.047	-0.135***	1.000						
(6) LNAGE	0.046	0.042	-0.052	0.185***	-0.050	1.000					
(7) LNListAge	0.024	0.086*	-0.064	0.224***	-0.047	0.812***	1.000				
(8) SIZE	-0.066	0.444***	0.016	-0.354***	0.541***	0.059	0.018	1.000			
(9) Sgrowth	0.026	0.055	0.109**	0.006	-0.029	0.053	0.015	0.034	1.000		
(10) PROF	0.004	0.067	0.090*	0.080*	0.040	0.064	0.025	-0.017	0.164***	1.000	
(11) ROA	-0.032	0.099**	-0.114**	0.507***	0.079*	0.086*	0.097**	-0.092*	0.042	0.076	1.000

*** p<0.01, ** p<0.05, * p<0.1

Panel Regression Results

Baseline model

The regression result for the baseline model is presented in Table 4. The choice between the fixed effects model and the random effects model was made based on the outcome of the Hausman test. The test suggested using the fixed effects model for panel data regression. Based on the coefficients of the independent variables (CPG, CS, and FD), we form our opinion about the hypotheses 1 to 3.

The results indicate that CEO power (CPG) apparently does not affect the firm's reputation (FP) as the coefficient is very small (β= -0.003) with no statistical significance. The findings also reveal that CS (capital structure) has a negative and statistically significant coefficient (β= -3208.167, p< 0.01). This indicates that firms with higher levels of debt in their capital structure have a lower reputation. The variable FD (financial distress) has a coefficient (β= -181.183, p< 0.01) which is negative and statistically significant at 1%.

Table 4. Baseline model results (Panel data regression, fixed effect).

VARIABLES	Model 1
CPG	-0.003
	(0.006)
CS	-3208.167***
	(895.067)
FD	-181.183***
	(65.892)
POLC	-29.454
	(1235.623)
LNAGE	-850.303
	(3190.391)
LNListAge	432.125
	(1425.523)
SIZE	362.87
	(305.072)
Sgrowth	176.865
	(258.895)
PROF	1.358
	(1.367)
ROA	-614.877
	(900.888)
Year dummies	Included
Industry dummies	Included

Constant	-2242.177
	(10157.713)
R-squared - overall	0.088
F-statistic	2.035***
N	450

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Interaction model

Table 5 summarizes the moderating effect of political connections (POLC) on the associations between the firm's reputation (FR) and independent variables: CEO power (CPG), capital structure (CS), and financial distress (FD). The coefficient of the moderating term for CEO power in Model 2, CPG*POLC (β = 0.006), is statistically insignificant, indicating that there is no moderation by the political connections on the association between CEO power and the firm's reputation. Likewise, the coefficient of the interaction term CS*POLC (β = 5623.857, p< 0.01) is positive and statistically significant at 1%, indicating a positive moderating influence of political connections (POLC) on the association between capital structure (CS) and a firm's reputation. Further, the interaction term FD*POLC (β = 319.013, p<0.05) is positive and statistically significant at 5%, showing that the POLC positively moderates the relationship between financial distress and a firm's reputation.

Table 5. Interaction model results (Panel data regression, fixed effect).

VARIABLES	Model 2
CPG	-.004
	(.007)
CS	-4566.211***
	(1019.98)
FD	-222.734***
	(68.726)
POLC	-3711.473**
	(1701.982)
CPG*POLC	.006
	(.010)
CS*POLC	5623.857***
	(1930.337)
FD*POLC	319.013**
	(151.975)
LNAGE	-880.981
	(3179.188)
LNListAge	598.734
	(1417.058)
SIZE	487.201
	(307.134)
Sgrowth	132.573
	(257.469)
PROF	1.978
	(1.372)
ROA	-922.097
	(920.703)
Year dummies	Included
Industry dummies	Included
Constant	-4349.701
	(10108.535)
R-squared	0.110
F-statistic	2.240***
N	450

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Further Analysis

The robustness of the results was further assessed for the baseline and interaction models using the two-step fixed effect quantile regression method developed by Canay (2011). Table 6 presents the results for the baseline model. The coefficients estimated using the fixed effects model and bootstrapped quintile regression are numerically identical; however, their statistical significance is different due to the use of bootstrapped-based standard errors in the quantile framework that take care of heteroskedasticity and within-panel dependence.

For CPG, the coefficient (β= -0.003, p <0.01) indicates a negative statistically significant impact of CEO power on the firm's reputation. It means powerful CEOs affect a firm's reputation negatively. For capital structure (CS), the bootstrapped quintile regression produced a coefficient (β= -3208.167, p <0.01) indicating a negative impact of higher debts on firm reputation. Similarly, the coefficient for financial distress (FD) is (β= -181.183, p <0.01), suggesting that firms facing financial distress will have a lowered firm reputation.

Table 6. Baseline model results – Two-step FE quantile regression.

VARIABLES	Model 1
CPG	-0.003***
	(0.000)
CS	-3208.167***
	(0.000)
FD	-181.183***
	(0.000)
POLC	-29.454***
	(0.000)
LNAGE	-850.303***
	(0.000)
LNListAge	432.125***
	(0.000)
SIZE	362.870***
	(0.000)
Sgrowth	176.865***
	(0.000)
PROF	1.358***
	(0.000)
ROA	-614.877
	(0.000)
Year dummies	included
Industry dummies	included
Constant	-2242.177***
	(0.000)
Pseudo R-squared	1.000
N	450

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 7 presents the results of bootstrapped regression analysis for the moderating effect of political connections, POLC. The results indicate that POLC has a very negligible positive moderating effect (β= 0.006, p <0.01) on the association between CEO power (CPG) and firm reputation (FR). The moderating effect of POLC is positive and significant (β= 5623.857, p <0.01) on the relationship between capital structure (CS) and firm reputation (FR). For financial distress (FD), the moderating effect of political connections, POLC, on the relationship between FD and FR is positive and significant (β= 319.013, p <0.01).

These results suggest that for firms with political connections, the CEO's power has very little influence on their reputation. However, political connections intensify the negative impact of higher capital structure (CS), leading to higher financial distress (FD) on a firm's reputation. These results validate the upper echelon theory (UET), which suggests that traits of the top management team shape the firm's future and its reputation. If the top management opts for higher levels of debt on its statement of financial position (balance sheet), leading to a higher value for

capital structure (CS), this could result in a higher possibility of financial distress and may result in reduced firm reputation

Table 7. Interaction model results – Two-step FE quantile regression.

VARIABLES	Model 2
CPG	-.004***
	(.007)
CS	-4566.211***
	(0.000)
FD	-222.734***
	(0.000)
POLC	-3711.473***
	(0.000)
CPG*POLC	.006***
	(0.000)
CS*POLC	5623.857***
	(0.000)
FD*POLC	319.013***
	(0.000)
LNAGE	-880.981***
	(0.000)
LNListAge	598.734***
	(0.000)
SIZE	487.201***
	(0.000)
Sgrowth	132.573***
	(0.000)
PROF	1.978***
	(0.000)
ROA	-922.097***
	(0.000)
Constant	-4349.701***
	(0.000)
Pseudo R-squared	1.000
N	450

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

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CONCLUSIONS AND RECOMMENDATIONS

The study examined the impact of CEO power, capital structure, and financial distress on a firm's reputation. Additionally, we also examined the moderating influence of political connections on the associations between the CEO power and the firm's reputation, between capital structure and the firm's reputation, and between financial distress and the firm's reputation. Our findings suggest that powerful CEOs do not add value to enhance a firm's reputation. The empirical findings also indicate that higher debts on the statement of financial position result in a higher value for capital structure, and financial distress reduces the firm's reputation. This further gets enhanced if the firm has political connections. There are several useful inferences for various stakeholders. Especially for investors, creditors, and government officials who might be interested in firms' overall performance and reputation. Government officials charged with devising a regulatory framework may consider an upper limit of debt on the statement of financial position (balance sheet) so that the firm's reputation and long-term survival are ensured. Investors might use this information to screen firms with good reputations and less chance of financial distress. This information will help them preserve and grow their wealth. Creditors could use this information to screen firms with a good reputation and less financial distress to make loans and advances.

Like any other empirical study, the present work also has some limitations. First, the dataset is based on firms listed on PSX. Second, market capitalization has been used to select the sample; wide-ranging variations in firms' operating and capital base are natural to occur. Third, the study period covered is from 2015 to 2023. Nevertheless, this work has the potential to pave the way for further studies in the domain of corporate finance and corporate governance.

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