

The ascension of executives' tenure, corporate risk-taking and corporate performance: evidence from Malaysia

The ascension
of executives'
tenure

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Abstract

Purpose – This study aims to investigate the implication of top executives' number of years of experience (tenure) on corporate risk-taking behaviour and corporate performance in Malaysian corporations.

Design/methodology/approach – To test the hypothesis efficiently, the authors have extracted the data from Bloomberg for 788 listed companies of the Malaysian Stock Exchange. The methodology entails ordinary least squares regressions, quantile regression and dynamic system generalized method of moments model.

Findings – First, the authors show that executive management tenure has a significant negative relationship with corporate risk-taking. It means that the long-tenured executives tend to undertake less risky strategies and decisions. Second, this study reveals that the longer executive management tenure has a positive relationship with corporate performance. Third, the moderating effect of corporate risk-taking with executive tenure (Tenure dummy*Risk) has a negative relationship with the corporate performance by 1%.

Practical implications – It implies that the appointment of experienced executive management contributes towards corporate performance directly. However, experienced management trends take less risk, which eventually results in mitigating the corporate performance. On that basis, the findings are significant in highlighting the usefulness of executive leadership term and offers insights to academics, practitioners and policymakers.

Originality/value – This paper is novel since it is unique in evaluating the executive tenure and the preferences to handle risk strategies and how that impact the firm performance.

Keywords Executive tenure, Corporate risk-taking, Corporate performance, Moderating effect

Paper type Research paper

Introduction

Executive tenure has gained considerable attention both in Malaysia and abroad (Buchwald and Hottenrott, 2019). To what extent might a firm's corporate performance and risk-taking be attributed to executive tenure? Interestingly, the length of the tenure varies significantly from firm to firm, and there can be many factors impacting the term of executives in Malaysia. On the one hand, some governance experts and market participants express concerns about long-tenured executives. They contend that boards with many long-serving executives are



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embedded and indifferent to shareholder concerns (Pozen and Hamacher, 2015). Further, extended board service can create a culture of excessive obsequiousness to management. On the other hand, inexperienced directors may also be ineffective in their role. A short-tenured executive may face less significant governance problems than a long-tenured board. Still, it may have a less complete understanding of the firm's business and history, which may diminish the effectiveness of its monitoring of corporate performance and risk-taking (Pozen and Hamacher, 2015). Thus, the optimal tenure for directors remains a disconcerted issue amongst practitioners to gauge the firm's corporate performance and risk-taking.

In contrast, Wu *et al.* (2005) suggest that CEOs tend to learn rapidly during their early tenure seasons and are willing to take risks. Practically, as their tenure progresses, they advocate new initiatives and expand their knowledge and skill selections, thus improving corporate performance. Miller (1992) and Levinthal and March (1993) document that CEOs short-sightedly commit to obsolete paradigms in their later periods, become risk-averse and tend to be less adaptable to the external environment, thus impacting the corporate performance. Further, studies by Luo and Chung (2013) opine that in the Harvard Business Review, long tenure is generally characterized by diminishing returns.

Apparently, despite its applied importance, the theoretical literature on executives' effectiveness provides little insight into how the tenure of executives affects the top management corporate performance and risk-taking appetite. Chhaochharia and Grinstein (2007) and Yermack (1996) opine that the focus has been primarily on compositional differences across executives. Consistent with Hambrick and Fukutomi's (1991) paradigm of CEO tenure seasons, the temporal characteristics associated with CEO tenure can affect corporate performance. Predominantly, the paradigm is based on the proposition that there are discernible phases, or seasons, within an executive's tenure in a position. Those seasons give rise to distinct patterns of executive attention, behaviour and, ultimately, organizational performance. Depending on the CEO's tenure, it can positively and negatively affect corporate performance (Miller and Shamsie, 2001).

In this study, we examine how board tenure reflects the upper echelons theory, demonstrating that executives and high-level management demographic characteristics, such as age, experience, gender and tenure, significantly affect the firm's operation style, strategies and corporate performance (Hambrick and Mason, 1984). More explicitly, we examine the relationship between executive's tenure and corporate performance and how risk-taking moderates it in the Malaysian context. CEO tenure, unlike some public sector executive jobs, does not have a predefined age of retirement. A CEO gets appointed and reappointed by the board based on his merits, which is why there are examples of CEO tenures ranging from a few months to close to 50 years (Tiwari and Ahamed, 2018). There is no denying that other factors, such as the condition of the economy in general and political stability locally, have an impact. The corporate performance may also drive the reappointment of an existing CEO or new appointment (Tiwari and Ahamed, 2018). Further, the added amount of time does allow a CEO to get used to the company dynamics and act accordingly, but it might also accompany contentment to achieve newer targets.

The governance and management literature abounds with CEO characteristics, including leadership, background and style, but there is a tangible void in the information stream of CEO tenure and related areas. The absence of literature coupled with the fact that interesting variations in the tenure are available for the CEOs, ranging from a couple of days to almost 50 years (Ryan and Haslam, 2007), warrants a renewed perspective on this relatively little-explored area. We acknowledge that such a study has not been conducted in the Malaysian context. An unusual result would not be surprising as executives are generally not wholly unfamiliar to the Malaysian company where they are employed.

Overall, the critical contribution of this research implies that although the hiring and appointment of experienced executive management contributes towards the corporate performance, experienced management tends to take less risks, which mitigates corporate performance. Nevertheless, previous literature outcomes were inconsistent and contradictory,

as discussed in the literature review and hypotheses development section. Hence, in this study, we find that executive management tenure has a significant negative relationship with corporate risk-taking and therefore indicating that the longer the tenure, the more likely the tendency to undertake less risky strategies and decisions. Further, in contrast to this, our study reveals that the longer executive management tenure has a positive relationship with corporate performance and that the moderating effect of corporate risk-taking with executive tenure has a negative relationship with the corporate performance at a significant level of 1%.

The rest of the paper is organized as follows: The following section presents a review of relevant literature and hypotheses, followed by methods, findings, discussion and conclusion, respectively.

Theoretical background and hypotheses

The significant role of executives is discussed in prior literature, including [Hambrick and Mason \(1984\)](#) introducing the upper echelons theory, demonstrating that executives and high-level management demographic characteristics, such as age, experience, gender and tenure, significantly affected the firm's operation style, strategies and financial performance. Various studies have consistently identified that human capital characteristics, including education, experience, age and skills, have an influence on a firms' strategies and performance ([Chowdhury and Fink, 2017](#); [McKnight et al., 2000](#)). As an organisations' leadership becomes more aware that human resource characteristics critically influence the ability to achieve the desired objectives efficiently and that the shaping and execution of a firms' plans rely on the characteristics of its executives as they are essential for firms to survive and gain sustained competitive advantage ([Milana and Maldaon, 2015](#); [Pizzi et al., 2020](#)). Considering that the degree of corporate disclosure and transparency also influences a firm's performance and risk, [Sharif and Lai \(2015\)](#) tested the impact of effects of corporate disclosure practices on firm performance, risk and dividend policy, and outcomes revealed that corporate disclosure practices positively affect firm performance and negatively influence firm leverage. However, the degree of disclosure has several determinants, which includes executive characteristics ([Feng et al., 2017](#)).

Executives' characteristic impact extends to affecting the degree of firm transparency and disclosure; [Rahman et al. \(2021\)](#) investigated the corporate governance disclosure within the Bangladesh banking sector, and the results show the level of independent directors positively correlated with the governance disclosure, and more insider ownership lowers corporate governance efficiency. [Kinatader et al. \(2021\)](#) found that boardroom gender diversity affects bank-specific credit risks ([Hsu and Chen, 2015](#)); specifically, it has been noted that three or more women on the board reduce the bank-specific credit risks ([Zaman et al., 2020](#)).

Moreover, the executive tenure, which is identified as the number of service years of an executive ([Simsek, 2007](#)), represents the time cycle required to understand the firms' internal and external environment and accumulate knowledge and skills relevant to the nature of business and market mechanism ([Milana and Maldaon, 2015](#)). However, as is now widely perceived, the association between executive tenure and firm performance and risk-taking is much more complicated than originally thought ([Hambrick and Fukutomi, 1991](#)).

The longer executive tenure, as discussed earlier, leverages an executives' ability to understand the business environment, which enhances the executives' capabilities to assess and measure systematic risks adequately ([Najaf et al., 2021a, b](#)), and develops a mechanism to mitigate those risks. However, several studies investigated the executives' characteristics and the risk preference, for instance, executive age ([Ding et al., 2015](#); [Serfling, 2014](#); [Sitkin and Pablo, 1992](#)), executive compensation and lifestyle ([Gray and Cannella, 1997](#); [Laufs et al., 2016](#)), executive gender ([Dah et al., 2020](#); [Faccio et al., 2016](#)) and executive team diversity ([Fernández-Temprano and Tejerina-Gaite, 2020](#); [Knight et al., 1999](#)). However, previous literature outcomes are inconsistent and revealed contradictory conclusions. Specifically, the outcomes are divided into two main strands; first, the long tenure negatively influences risk-

taking behaviour, and second, it has a positive impact on risk-taking behaviour (Aravind Babu and Rentala, 2018). In addition, other studies went further and investigated the impact of company transparency on firm risk, which was moderated by the executives' characteristics; Sharif and Lai (2015) found that the a firms' disclosure practices do not influence the bankruptcy risk and dividend payouts. Considering how corporate governance also impacts executive performance, Core *et al.* (1999) documented that an executive earns more compensation in a low-efficient firms' governance practices. However, the degree of relationship between executive characteristics and firm performance is moderated by a firm's governance practices (Lattemann, 2014). Yermack (1996) found that a small board of directors and less executive numbers leverages a firm's financial ratios and enhances executive performance. Adversely, Jackling and Johl (2009) found the larger the number of executives and board members, the better the opportunities for exposure to external environment and the ability to access various resources, both of which result in enhancing firm performance.

There have been relatively few studies providing empirical evidence about the relationship between executive tenure and risk-taking preferences (Hsu *et al.*, 2020). Several studies revealed that a more extended executive tenure is negatively associated with risk preference (Mohapatra, 2016). Executives with long tenure found to have less preference to risk management when developing a firm's strategic and investment decisions (Miller and Shamsie, 2001; Suttipun, 2018). The justification behind this behaviour, identified by Hambrick and Fukutomi (1991), stated that tenured executives become more committed to careful management and decision-making models, and avoid actions, decisions and using information that disagrees with this gained model. In addition, tenured executives interest in their careers decreases over time, when many are looking for a quiet, safe work environment and disregard calls for strategic transformation. This justification is also supported by the behavioural theory introduced by Cyert and March (1963), where it is expected that long-tenured executives are committed to their current situation when it is aligned with low adaptive capacity to the external environment, and they have inferior aspirations. Other perspectives introduced by the prospect theory indicate that executives build their human capital and accumulate relevant skills and knowledge during their service life. That position puts them in a more conservative mindset, and they become risk-averse, with their preference being not making any risky decisions that could potentially lead to depreciating their reputation both inside and outside a firm (Suttipun, 2018). Thus, executive hard-gained capital drives fewer risk strategies and management styles that will help them to avoid losing the realized gains (Kahnema and Tversk, 1979). To sum up, long-tenured executives become more restricted by their paradigm and prior gains, leading to less risky strategies and decisions (Simsek, 2007).

In contrast, other studies have identified that those with a long executive tenure can more effectively deal with complicated situations and are able to administrate and manage risk strategies efficiently. A deeper understanding of internal and external environments enables executives to have a higher probability of success in uncertain situations (Sitkin and Pablo, 1992). Tenure accumulates an adequate knowledge base to manage possible actions in particular situations, which could be adapted in similar future circumstances. Thus, they can have the highest likelihoods of success in high-risk decisions (Belenzon *et al.*, 2019). Oplatka (2004) stated that long-tenured executives have a better chance of building more integrated networks and relationships with stakeholders and that, by establishing solid coalitions, they might enhance their ability to adapt to risky initiatives supported by stakeholders. They have a higher aptitude in providing justifications and rationalizing high-risk initiatives and are more efficient in satisfying and convincing stakeholders with risky decisions.

Executive(s) with extended tenure will have a positive impact on performance

In the same vein, a long tenure has a positive impact on firm performance. Milana and Maldaon (2015) documented that the extended tenure leverages executives' capability to

collect relevant and reliable information, adequately interpret new information, generate more accurate solutions and develop appropriate firm strategies which positively contributes to advance firm performance. Additionally, several studies have found that long tenure contributes to advancing executive skills, for instance, enhanced managerial longevity and superior performance (Huh *et al.*, 2011), investing in thoughtful and efficient innovation and development (Serfling, 2014), demonstrating higher ability to close competitor acquisition (Yim, 2013) and contributing to the gradual and stable increase of a firms' market value (Boeker, 1997). In comparison, the short-tenured executive is untested and lacks legitimacy, limiting their efficiency and leading to lower firm performance. In contrast, extended tenured CEOs attain broader competencies and a more comprehensive understanding of a firms' environment (Umukoro, 2009). Thus, longer tenure improves executives' skills, contributing towards more efficient performance, leading to the ability to close the gap in adding value to efficiently achieve firm objectives.

Hypothesis development

Overall, several studies documented in their findings that less risky behaviour has negative consequences on firm performance; Miller (1992) and Levinthal and March (1993) reported that the commitment of long-tenured executives to their own paradigms leads to risk-averse behaviour, causing negative implications for the corporation performance from many perspectives, including less ability to efficiently adapt to the external environment (Khan *et al.*, 2021), less preference to innovation (Hsu *et al.*, 2020; Mousa and Chowdhury, 2014) and paying less attention to research and development investment (Chen, 2013), all of which yield a negative impact on the firms' performance and lead to losing potential opportunities in the market. These results have been documented by empirically analysing 8,000 firm-year observations (Tiwari and Ahamed, 2018).

Our hypothesis is thus constructed on the premise that the extended tenure executives are risk-averse, which negatively influences firm performance:

- H1.* Ceteris paribus, the longer executive leadership tenure firms have less corporate risk and market performance than their counterparts.

Method, sample and data

We empirically test our hypothesis on the impact of executive management tenure on financial performance with a moderating corporate risk-taking effect. As per our knowledge, there is no study available that analyses the empirical relationship between executive management terms and performance while moderating the effect of risk-taking. Thus, in line with our central hypothesis, the main aim of this study is to test the term length of executive leadership effect on corporate performance. First, we will check the underpinning relationship between the executive management tenure and corporate risk-taking and see how a longer executive leadership term can (or not) influence corporate risk-taking. Second, we endeavour the moderating effect of risk-taking with the executive management term on corporate performance. In Appendix, we have summarized the test variables and discussed their relevance in this section. The empirical models are presented in the respective tables.

Dependent variables

First, we measure corporate risk-taking by using income uncertainty. Following the literature (Boubakri *et al.*, 2012, 2013; Faccio *et al.*, 2011; Najaf and Najaf, 2021), we use prior literature proxies to test the relationships between corporate risk-taking and management tenure. These measures are calculated based on the variation in the return on equity (ROE). $ROE_{i,t}$ is

winsorized at 0.5% on both sides of the sample distribution to account for data entry omissions.

The risk factor is as follows:

In *Risk*, we check the spread of volatility.

$$Risk = \sqrt{\frac{1}{T-1} \sum_{t=1}^T \left(ROE_{i,t} - \frac{1}{T} \sum_{t=1}^T ROE_{i,t} \right)^2} \quad T = 4 \quad (1)$$

where $ROE_{i,t} = \frac{Net \ profit_{i,t}}{Total \ equity_{i,t}}$

For each year, the difference between a firm's *ROE* and the average *ROE* of four years of the same firm is computed to obtain adjusted overlapping-period volatility. The essential study criteria are a minimum of four observations of corporate risk from a firm, as was [John et al.'s \(2008\)](#). The overlapping-period standard deviations of a firm track the changes in the *ROE* standard deviations over the years. This is used in the panel regressions. $ROE_{i,t}$ is unadjusted *ROE* volatility of firm *i* over “four-year overlapping-period” starting from 2007. For example, the first period is from 2007 to 2010, while the second period is from 2008 to 2011 and so on until 2019.

Nevertheless, we use Tobin's *q* ratio as a proxy for the market performance measurements as Tobin's *q* represents the market valuation measures ([Najaf et al., 2021d](#)), which embodies the corporate performance better than any other market performance proxies. The source and detail of dependent variables are available in [Appendix](#).

Independent variable

We are looking for the underlying nexus between corporate performance and executive management tenure with the moderating effect of corporate risk-taking. To determine the relationship, we gather the data of executive leadership tenure of each Malaysian listed firm as of 31 December 2019 from the Bloomberg database. For this study, we define “management tenure” as the average accumulating term of an executive leadership member. It means that we insert a value of one for each accumulating year of service of an executive. In addition, we consider the month effect while calculating the executive management tenure, such as if an executive member leaves in June 2019, then it is recorded as an additional of 0.5 years to the prior service period. We construct cross sections at the firm level rather than the executive individual level as it is a firm-specific panel data set. In this way, we assign tenure values for each serving executive on a firm-year basis. In the end, we calculate the average of all assigned executives' tenure while adding all the management's tenure for a firm (*i*) in the year (*t*) and divided it by the respective total executives. We yield a single average tenure value for executives for each company in our study sample with this process.

In addition, we take an interaction variable between corporate risk-taking and the management tenure (*Risk*Tenure dummy*). The *Tenure dummy* will depict the marginal effect of the longer executive tenure with a moderating relationship of risk on the firm's market performance. Following the premises of already-assigned executive management average tenure, we flag *Tenure dummy* = 1, if the average management tenure of a firm (*i*) in a year (*t*) is more than the median of average management tenure of all the sample firms and 0 otherwise.

Control variables

Firm-level control

Following the earlier studies and theory, we specify other variables in our regression analyses that control the effect of the observable firm-specific characteristics. We winsorize

the firm-level variables at a 1% level in each tail of our sample distribution. We control for the *firm age*, *firm growth*, *leverage*, *capital ratio*, *big 4*, *BICS segment* and *firm size* due to their significant relationship with our focussed dependent variable (firm performance and corporate risk-taking). Naturally, as companies grow and develop, they generally become larger and always become older. Thus, the corporate performance changes with the *firm age* and *firm growth* (Dickinson, 2011; Tran and Le, 2020; Kolsi and Attayah, 2018a, b). The *leverage* is measured as total firm debt to the ratio of the total assets (*leverage*). We control for the *leverage*, as it contributes towards the enhancement of the corporate risk as well as corporate performance (Ali *et al.*, 2020). Seemingly, *capital expenditure* has a direct relationship between investment propensity and higher earnings volatility (Hassan and Giouvriss, 2019). The shareholder's show considers a sign of good governance if the firm is audited by the top-ranked audit firms (Hassan *et al.*, 2020; Kolsi and Attayah, 2018a, b). Following the premises, we control for the *big 4* audit firms as the shareholder's perception of good governance will lead to better performance and corporate risk-taking.

Nevertheless, we control for the business segments of a business group. The literature shows that market diversification causes agency problems and enhances the information asymmetry. Thus, the conglomerate firms have weak governance leading to poor performance (Tosun, 2020). Last, we control for the firm size because it has an inverse relationship with financial performance which means that the corporate risk would be higher when the firm is smaller in size (Najaf *et al.*, 2021d). The detail and definition of each variable and reference are provided in Appendix.

Fixed effect control

We use a sample that comprises Malaysian listed firms from 2010 until 2019 from 10 different industries, which requires controlling for any unobserved time-variant and industry effect by introducing dummies. In addition, we control industry membership. Many factors potentially correlated with firm performance or corporate risk-taking due to cluster by industry. These factors include product market concentration (Ali *et al.*, 2014) and degree of regulation (Najaf *et al.*, 2021c). Industry membership is proxied by a series of dummies, corresponding to classifications by Bloomberg. The industry sectors are named accordingly to the Global Industry Classification Standard (GICS). We collected data for both GICS main and sub-sectors and include a total of nine dummies of 10 industries for seven years of data (Shin *et al.*, 2018). In addition, we control for the yearly dummies; the financial performance may vary temporally following changes in macroeconomic conditions (Dickinson, 2011). For example, companies may experience abnormal loss during recessionary periods, irrespective of more corporate risk-taking.

Sample and data

We identify samples by reviewing the company executive management tenure information available on the Bloomberg database. We face challenges during the sample selection as there are various definitions for management tenure and different agencies identify tenure quality distinctly. Bloomberg database flags the management tenure as the difference between the joining announcement date of an executive and their subsequent departure, regardless of their job title. However, Bloomberg does not consider an executive departed when they hold an office until the annual general meeting and are re-elected for the same position for the subsequent term.

In Malaysian settings, the board structure is a combination of the executive and non-executive (independent) members. From annual reports, we have observed that the executive board only comprises of a chief executive officer (CEO). Although most Anglo-American studies suggest that executive board tenure is the key determinant for corporate performance

(Allgood and Farrell, 2000; Dikolli *et al.*, 2014; Henderson *et al.*, 2006; Simsek, 2007), and the executive board involves CEO and the rest of executive members, the same approach is not applicable to the Malaysian settings, as the Malaysian board only has one person (CEO) as its executive board member. Obviously, a firm cannot generate profit based on a single individual's decisions, and a CEO needs the support of other executive leadership. Therefore, we argue that in Malaysian settings, the prominent corporate performance is subject to the mutual efforts by all executive board members as well as executive leadership. Therefore, this study considered the participating role of all elite class management in corporate performance. It is worth noting that the category of executives involves 24 different designations [1] of executive leadership.

We gathered the data for 788 Malaysian firms listed as of 2019. Our data collection period spans from 2010 until 2019. We do not consider the pre-financial crisis (2008–2009) information as it might create a bias in the market performance. We exclude all the firms with non-availability of data by Bloomberg or annual reports (see Table 1).

Panel A depicts the number of firms reporting an executive's tenure. Surprisingly, a total of 10 Malaysian sectors document executive tenure and, amongst these sectors, industrials has the highest and utilities the lowest. Panel B demonstrated the age of the executives year-wise and sector-wise. During our study period, the average executive tenure increased from 6.09 years to 8.13 years, which means that, over time, firms preferred to hire or retain more experienced executive staff. The energy sector's executive management has the most highly experience executive with an average tenure of 8.28 years. In contrast, the utility sector tends to hire less experienced executive management. This information is significant from the investor's perspective, as they are prone to invest in the more experienced executive management rather than in millennials.

The descriptive statistics in Table 2 show that the dependent variable *Risk* varies from 0 to 52.88 with an average of 6.72 and a standard deviation of 8.90. The variable *Risk* is based on the volatility of ROE with four years lagged value. The distributions of *Risk* and *Tenure* are skewed towards the right and are leptokurtic, which indicates outliers. Moreover, a firm-level control variable's distribution is slightly skewed positive from the symmetrical position with mostly platykurtic peaks. As a whole, the descriptive statistics show significant variation in the data observations with skewed distributions. Kurtosis is a statistical measure that defines how heavily the tails of a distribution differ from the tails of a normal distribution. In other words, kurtosis identifies whether the tails of a given distribution contain extreme values. Table 2 reveals that *the leverage*, *Big4* and *BICS segments* variables are platykurtic, whereas remaining variables are leptokurtic meaning that the values of those variables are wider or flatter shape with fatter tails resulting in a greater chance of extreme positive or negative events. These observations are typical of a real-life situation. Therefore, we winsorize the data observations at the 1% level on both sides of the distributions and rely on the robust *t*-values to test the statistical significance of the model coefficients' estimates.

Table 3 provides co-relations statistics (two-tailed test), including both Pearson and Spearman-rank correlations for the studied variables. Both Pearson and Spearman-rank correlation show significant association between two independent testing variables (*Tenure* and *Risk*) and *Performance* variable. Hence, the correlation between *Tenure* and *Risk* is -0.005 (Pearson correlation) and -0.0372 (Spearman-rank) with a 95% confidence interval, respectively, delivering the rudimentary support for the negative prevalence nexus between *Tenure* and *Risk*. The correlation test for *Tenure* and *Performance* is 0.008 (Pearson) and 0.0042 (Spearman-rank) at the 0.05 level of significance, implying the positive relationship between *Tenure* and *Performance*. Similarly, we find a positive association between *Risk* and *Performance*, which motivates us to explore this exciting relationship further. No multicollinearity issues are apparent in Table 3.

Panel A: Sector-wise distribution			Panel B: Sector- and year-wise distribution of executive tenure											
Firms reporting the executives' tenure			Total observations	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg.
Sectors														
Consumer discretionary	31		271	6.87	6.71	7.11	7.63	8.05	8.44	8.91	9.62	9.18	9.09	8.16
Consumer staples	135		1,115	5.78	6.09	6.64	7.11	7.68	7.59	7.72	7.70	7.78	8.25	7.23
Energy	16		138	6.93	7.26	7.81	7.72	8.03	8.74	8.68	9.25	9.13	9.27	8.28
Financials	89		783	6.62	7.21	7.45	8.00	7.63	7.43	7.47	7.29	7.97	8.58	7.57
Health care	153		1,386	5.79	5.70	6.14	6.50	6.84	7.17	7.31	7.37	7.56	7.77	6.82
Industrials	225		1,975	6.70	6.90	7.54	7.80	8.00	7.80	7.93	8.26	8.09	8.26	7.73
Information technology	18		165	7.02	8.00	7.90	7.92	8.50	8.59	8.27	8.22	8.20	8.77	8.14
Materials	54		481	5.62	5.70	6.37	6.82	7.02	6.87	6.82	6.65	6.44	6.61	6.49
Real estate	57		472	5.81	5.82	6.16	6.60	7.11	6.92	7.09	7.74	7.77	7.80	6.88
Utilities	10		89	3.76	4.21	4.89	4.75	4.32	4.58	5.24	5.88	6.63	6.89	5.12
<i>Total</i>	788		6,875	6.09	6.36	6.80	7.09	7.32	7.41	7.55	7.80	7.88	8.13	7.24

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Table 1.
Sample distribution

Table 2.
Variable descriptive
statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.
<i>Risk</i>	6,178	6.72	8.90	0	52.88	0	52.88	2.82	12.44
<i>Tenure</i>	6,875	7.28	5.82	0	27.5	0	27.5	1.13	4.13
<i>Firm age</i>	6,875	18.70	14.28	1	88	0	88	2.07	8.67
<i>Firm growth</i>	6,547	1.14	6.57	−1	54.6	−1	54.6	6.97	53.65
<i>Leverage</i>	6,837	17.1	16.02	0	66.05	0	66.05	0.837	3.016
<i>Capital ratio</i>	6,861	−24.76	86.01	−642.09	0	−642.09	0	−5.63	36.87
<i>Big 4</i>	6,875	0.414	0.49	0	1	0	1	0.35	1.12
<i>BICS segment</i>	6,857	2.87	1.62	0	7	0	7	0.492	2.55
<i>Firm size</i>	6,875	2.11	0.762	0.562	4.52	0.562	4.52	0.702	3.64

Note(s): Where $Risk_{i,t}$ is a continuous variables proxied by the standard deviation of the ROE of a firm (i) of four years, and tenure is an average number of an accumulated serving years by an executive member at firm (i) in year (t)

Findings and discussions

Relationship between executive tenure and corporate risk-taking

Table 4 reports the coefficients of the impact of executive management tenure on corporate risk-taking. Control for other things being equal, the tenure of executives has a significant negative impact on corporate risk-taking by −0.75% (Model 1). We obtain similar conclusions with the alternative econometric models, such as we do not control for time and industry fixed effect (Model 2) and exclude the control and fixed effects from Model 3.

Further, more specifically, our study supports the theoretical aspects of Hambrick and Mason (1984) who introduced the upper echelons theory, demonstrating that executives and high-level management demographic characteristics, such as tenure, significantly affect firm operation style, strategies and financial performance. There are also several studies that have consistently identified the human capital characteristics, including education, experience, age and skills, to have a shadow on the firms’ strategies and performance (Chowdhury and Fink, 2017; McKnight *et al.*, 2000). Hence, our theoretical contribution here implies that the experience of executive management is risk-averse relative to the less experienced executive management, which supports our first hypothesis. Further, our findings corroborate with the prior literature, which suggests that experienced executives undertake less risky decisions with the highest likelihoods of success (Belenzon *et al.*, 2019).

Sub-sample analysis

Table 5 represents the results of sub-sample analysis. To offer further support to our first hypothesis, we split the sample into 10 different industrial sectors and test the impact of executive tenure on the firm’s financial risk. Control for other things being equal, we find that 6 of the 10 sectors’ executive tenure is negatively related to corporate risk-taking. These findings corroborate with our main results and indicate that experienced executive management prefers to take less risk.

Relationship between executives’ tenure and market performance

Table 6 depicts the regression results for executive age and corporate performance. Control for other things being equal, we find that the executive management tenure and corporate risk-taking are related to corporate performance (Models 1–3). However, the firms with experienced executive management with an interaction of corporate risk-taking are significantly negative to the corporate performance, by 1.0% (Model 1–3), which supports our main hypothesis. We can derive a couple of findings from Table 6. First, experienced

Variables	Code	1	2	3	4	5	6	7	8	9	10
<i>Tenure</i>	1										
<i>Risk</i>	2	-0.005*	-0.0372*	0.0042*	-0.015	-0.0131	-0.0124	0.0691*	-0.0361*	-0.0055	-0.0587*
<i>Performance</i>	3	0.008*	0.119*	0.0907*	0.0635*	-0.1088*	0.0394*	0.1461*	-0.1137*	-0.0630*	-0.1534*
<i>Firm age</i>	4	-0.021	-0.042*	-0.048*	-0.0035	0.0586*	-0.0167	-0.2215*	0.1014*	-0.1212*	0.0880*
<i>Firm growth</i>	5	-0.01	0.033*	0.035*		-0.0284	-0.0179	-0.0822	0.0278	0.0137	0.1554*
<i>Leverage</i>	6	-0.025*	0.082*	-0.063*	0.01		0.1211*	-0.0814	0.0301	0.0017	0.0424
<i>Capital ratio</i>	7	0.076*	0.060*	-0.089*	-0.018	0.070	-0.147	-0.2455*	0.0391	0.0951	0.2667
<i>Big 4</i>	8	-0.047*	-0.108*	0.065*	0.026	-0.084	0.047	-0.194	-0.3362*	-0.1347	-0.7204
<i>BICS segment</i>	9	-0.015	-0.072*	-0.170*	0.051	0.050	0.075	-0.147	0.045*	0.0270	0.4135
<i>Firm size</i>	10	-0.091*	-0.186*	-0.004	0.132	0.056	0.250*	-0.528*	0.420	0.312*	0.250
Note(s): * Shows significance at the 0.05 level											

Table 3.
Correlation coefficients
(Pearson and
Spearman-rank
(italicized) correlations
are presented)

Variables	Risk		
	Base model Model 1	Without fixed control Model 2	Without firm and fixed control Model 3
<i>Tenure</i>	−0.075*** [−4.340]	−0.040** [−2.277]	−0.035** [−1.994]
<i>Firm age</i>	−0.019*** [−2.822]	0.002 [0.233]	—
<i>Firm growth</i>	0.031 [1.424]	0.049** [2.488]	—
<i>Leverage</i>	0.078*** [8.326]	0.072*** [7.496]	—
<i>Capital ratio</i>	−0.004*** [−3.921]	−0.004*** [−4.143]	—
<i>Big 4</i>	0.105 [0.444]	−0.611*** [−2.581]	—
<i>BICS segment</i>	−0.093 [−1.430]	−0.116* [−1.765]	—
<i>Firm size</i>	−2.840*** [−13.219]	−2.493*** [−11.825]	—
Constant	13.872*** [27.235]	11.379*** [24.122]	6.981*** [38.119]
SE cluster	Firm	Firm	Firm
Time and industry Fixed effect	Yes	No	No
Observations	5,782	5,782	5,782
R^2	12.40%	5.46%	3.51%
Note(s): $Risk_{it} = \alpha + \beta_i Tenure_{it} + \sum_{i=1}^{n=7} Controls_{it} + \delta 1 Year_t + \delta 2 Industry_i + \varepsilon_{it}$. Where $Risk_{i,t}$ is a continuous variables proxied by the standard deviation of the ROE of a firm (i) of four years, and tenure is an average number of a serving years by an executive at firm (i) in year (t). The $Controls_{it}$ is a set of control variables (<i>firm age</i> , <i>firm growth</i> , <i>leverage</i> , <i>capital ratio</i> , <i>big 4</i> , <i>BICS segments</i> and <i>firm size</i>). In addition, we take into account for unknown industry and year bias with <i>industry</i> and <i>year</i> fixed effect. The definitions and data sources for the variables are outlined in Appendix . The full sample includes 788 firms from year 2010 until 2019. We allow for clustering of robust t -stats adjustment for heteroscedasticity. The variance inflation factors (VIF) are well below the tolerance level, which indicates no sign of multicollinearity and the superscript asterisks ***, ** and * denote statistical significance at the 1%, 5% and 10% levels, respectively			

Table 4.
Regression analysis of
executive tenure and
corporate risk-taking

executive management directly participates in the corporate performance. Second, the segment of experienced management who tend to take less risk negatively influences the corporate performance. This implies that experienced executive management prefers to employ lower risk-taking strategies in the business operations, which enables them to mitigate corporate performance. These findings corroborate with the study of [Eisenhardt and Martin \(2000\)](#), which demonstrate that the excess experience of the CEO leads to a reduction of corporate performance.

Sub-sample analysis

[Table 7](#) depicts the results of sub-sample analysis to support our main hypothesis. We split the sample into 10 different industrial sectors and test the impact of executive *tenure***Risk* (interaction variable) on the firm’s performance. Control for other things being equal, we find that 8 of the 10 sectors’ executive tenure are negatively related to corporate performance. These findings corroborate with our main results and indicate that extended tenure executive management can mitigate the financial performance with risk-taking policies.

Control for endogeneity – generalized method of moments model (system GMM)

We test the dynamic system GMM models by adding the lag dependent variable to the model, which potentially corrects endogeneity issues and also provides more consistent estimates of the parameters. The results are reported in [Table 8](#) (Models 1 and 2), which are consistent with the baseline estimations. Moreover, the diagnostic tests show the absence of

Variables	Model 1 Consumer discretionary	Model 2 Consumer staples	Model 3 Energy	Model 4 Financials	Model 5 Health care	Risk	Model 6 Industries	Model 7 IT	Model 8 Materials	Model 9 Real estate	Model 10 Utilities
<i>Tenure</i>	-0.274 [-1.43]	-0.076 [-1.1]	-0.121 [-2.57]***	-0.107 [-1.22]	-0.088 [-1.11]	-0.077 [-3.23]***	-0.072 [-2.28]**	0.116 [1.55]	0.115 [1.08]	0.073 [0.33]	0.522 [1.52]
Firm age	-0.107 [-1.22]	-0.017 [-0.84]	-0.035 [-0.3]	0.009 [0.12]	-0.072 [-2.28]**	-0.014 [-0.71]	-0.072 [-2.28]**	-0.004 [-0.06]	-0.041 [-1.75]	0.053 [1.33]	-0.191 [-1.2]
Firm growth	-0.244 [-2.10]**	0.037 [0.76]	1.584 [2.63]**	0.043 [0.93]	0.071 [1.52]	-0.007 [-0.26]	0.071 [1.52]	-0.078 [-2.76]**	2.306 [1.43]**	0.050 [0.76]	-0.009 [-0.11]
Leverage	0.291 [4.43]***	0.037 [1.59]	-0.117 [-0.74]	0.012 [0.55]	0.079 [2.39]**	0.097 [3.16]**	0.079 [2.39]**	-0.001 [-0.02]	0.034 [0.75]	0.141 [1.39]	-0.013 [-0.15]
Capital ratio	-0.009 [-1.22]	-0.001 [-0.2]	-0.033 [-1.21]	-0.001 [-0.54]	-0.015 [-1.77]*	-0.001 [-0.41]	-0.015 [-1.77]*	-0.002 [-0.29]	-0.006 [-0.96]	-0.016 [-1.42]	0.009 [0.98]
Big 4	4.098 [2.23]	-0.820 [-1.08]	-5.525 [-1.51]	0.018 [0.02]	0.894 [0.96]	-0.085 [-0.12]	0.894 [0.96]	-1.052 [-0.75]	0.340 [0.32]	1.009 [0.5]	-0.487 [-0.13]
BICS	-0.201 [-0.43]	-0.117 [-0.42]	2.019 [1.15]	0.041 [0.15]	0.111 [0.4]	-0.348 [-1.37]	0.111 [0.4]	-0.306 [-0.6]	-0.370 [-1.1]	0.214 [0.33]	-1.083 [-0.8]
segment											
Firm size	-7.086 [-4.16]***	-2.429 [-2.67]**	-1.956 [-0.73]	-2.626 [-2.90]**	-2.878 [-4.31]***	-2.352 [-4.15]**	-2.878 [-4.31]***	-3.461 [-2.32]**	-1.729 [-1.41]**	-5.837 [-2.17]**	7.730 [1.7]**
Constant	21.041 [5.50]***	12.873 [4.74]***	10.172 [2.21]*	12.532 [6.38]***	14.375 [7.09]***	13.434 [9.58]***	14.375 [7.09]***	14.455 [3.63]**	10.580 [3.04]	15.659 [3.49]**	-6.685 [-0.94]**
SE cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	199	902	103	707	1,255	1,712	1,255	154	362	398	70
R^2	39.52%	120.3%	27.68%	14.08%	13.10%	13.84%	13.10%	34.59%	14.49%	13.69%	35.49%

Note(s): $Risk_{it} = \alpha + \beta_1 Tenure_{it} + \sum_{j=2}^7 Controls_{it} + \delta 1Year_{it} + \delta 2Industry_{it} + \varepsilon_{it}$. We split the sample into industrial sectors to test the relationship of the higher tenure firms' risk with the corporate risk-taking. Our data have 10 industrial sectors. The explanatory variables are the same as those in the earlier tables. The definitions and data sources for the variables are outlined in [Appendix](#). The full sample includes 788 firms from year 2010 until 2019. We allow for clustering of error terms at firm level which facilitates to identify the heteroscedasticity issue. The variance inflation factors (VIP) are well below the tolerance level, which reveals no sign of multicollinearity and the superscript asterisks ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively

Table 5.
Sub-sample analysis

Variables	Performance		
	Base model Model 1	Without fixed effect Model 2	Without control and fixed effect Model 3
<i>Tenure dummy</i>	0.082*** [2.845]	0.086*** [3.008]	0.069** [2.387]
<i>Risk</i>	0.018*** [9.778]	0.018*** [10.208]	0.016*** [9.347]
<i>Tenure dummy</i> * <i>Risk</i>	−0.010*** [−3.855]	−0.010*** [−3.787]	−0.009*** [−3.546]
<i>Firm age</i>	−0.002*** [−2.853]	−0.002** [−2.362]	—
<i>Firm growth</i>	0.003* [1.839]	0.004** [2.187]	—
<i>Leverage</i>	−0.005*** [−6.708]	−0.005*** [−6.744]	—
<i>Capital ratio</i>	−0.001*** [−7.623]	−0.001*** [−7.569]	—
<i>Big 4</i>	0.141*** [5.400]	0.129*** [5.028]	—
<i>BICS segment</i>	−0.102*** [−13.842]	−0.103*** [−13.887]	—
<i>Firm size</i>	0.026 [1.239]	0.032 [1.499]	—
<i>Constant</i>	1.362*** [26.923]	1.313*** [28.279]	1.066*** [52.90]
<i>SE cluster</i>	Firm	Firm	Firm
<i>Time and industry</i>	Yes	No	No
<i>Fixed effect</i>			
<i>Observations</i>	5,726	5,804	6,115
<i>R</i> ²	24.71 %	10.59 %	21.39 %

Note(s): $Performance_{it} = \alpha + \beta_1 Tenuredummy_{it} + \beta_2 Risk_{it} + Tenuredummy_{it} * \beta_3 Risk_{it} + \sum_{i=1}^{n=7} Controls_{it} + \delta_1 Year_i + \delta_2 Industry_i + \varepsilon_{it}$. Where $Performance_{it}$ is proxied as Tobin's q . The $Tenure dummy * risk$ is an interaction variable between $Tenure dummy_{it}$ and $Risk_{it}$, where $Tenure dummy$ is flagged a value of 1 when executive tenure of a firm (i) exceeds the medium tenure value of the sample and 0 otherwise, and $Risk_{i,t}$ is a continuous variables proxied by the standard deviation of the ROE of a firm (i) of four years. The $Controls_{it}$ is a set of control variables (*firm age*, *firm growth*, *leverage*, *capital ratio*, *big 4*, *BICS segments* and *firm size*). Also, we take into account for unknown industry and year bias with *industry* and *year* fixed effect. The definitions and data sources for the variables are outlined in [Appendix](#). The full sample includes 788 firms from year 2010 until 2019. We allow for clustering of robust t -statistic at firm level which would address the issue of heteroscedasticity. The variance inflation factors (VIF) are well below the tolerance level, which shows no sign of multicollinearity and the superscript asterisks ***, ** and * denote statistical significance at the 1%, 5% and 10% levels, respectively

Table 6.
Regression analysis of
executive tenure and
market performance

autocorrelation as well as the justification of the instrumental variables. Overall, the study concludes that the executives with tenure directors mitigate the corporate risk, which ultimately results in reduction of market performance.

Robustness tests

We change the econometric method from pool ordinary least squares regression to quantile regression to further support both hypotheses. We use the quantile regression model at the various cut-off points to address the heteroscedasticity issue ([Petersen, 2009](#)). For example, it would facilitate us to find the 25th quantile corporate risk-taking of a particular probability. For testing purposes, we set 25%, 50%, 75% and 99% probability to determine the quantile relationships for both hypotheses. Control for other things being equal, we find that experienced executive management tends to take less risk (Models 1–4), and experienced executive management achieves lower performance because of their submissive risk-taking compared to their counterparts (Models 5–8) (see [Table 9](#)).

Conclusion

This study examines the relationship between tenure and corporate performance and how corporate risk-taking moderates their relationship in the Malaysian context. Using a sample of 788 companies listed on the Malaysian Stock Exchange for the period 2010 to 2019, we find that the management executives with a longer tenure positively impact corporate

Variables	Performance									
	Model 1 Consumer discretionary	Model 2 Consumer staples	Model 3 Energy	Model 4 Financials	Model 5 Health care	Model 6 Industries	Model 7 IT	Model 8 Materials	Model 9 Real estate	Model 10 Utilities
<i>Tenure dummy</i>	-0.008 [-0.101]	0.234*** [3.121]	0.778** [2.291]	-0.195* [-1.883]	0.145** [2.199]	0.017 [0.315]	0.108 [0.730]	0.234*** [3.035]	-0.032 [-0.382]	0.241* [1.790]
<i>Risk</i>	0.004 [0.900]	0.032*** [5.754]	0.014 [1.235]	0.003 [0.438]	0.043*** [11.149]	0.049*** [2.651]	0.031** [2.269]	0.008 [0.377]	0.001 [0.167]	-0.002 [-0.276]
<i>Tenure dummy</i> * <i>Risk</i>	-0.006 [-0.986]	-0.027*** [-3.711]	-0.018 [-0.940]	0.011 [0.961]	-0.037*** [-6.278]	-0.003 [-0.679]	-0.024 [-1.314]	-0.002 [-0.256]	0.024*** [3.733]	-0.018 [-1.263]
<i>Firm age</i>	-0.006* [-1.719]	-0.001 [-0.496]	0.002 [0.096]	-0.008* [-1.707]	0.002 [1.041]	-0.004*** [-2.843]	-0.009* [-1.917]	-0.005*** [-2.651]	-0.007*** [-3.473]	-0.010* [-1.858]
<i>Firm growth</i>	-0.003 [-0.392]	0.010* [1.915]	-0.046 [-0.917]	-0.002 [-0.288]	0.004 [0.881]	0.002 [0.536]	0.015 [1.599]	0.126** [2.472]	0.003 [0.596]	0.002 [0.494]
<i>Leverage</i>	0.002 [1.068]	-0.002 [-1.183]	0.008 [0.596]	0.000 [0.060]	-0.008*** [-5.035]	-0.005*** [-3.451]	-0.000 [-0.123]	-0.010*** [-4.525]	-0.004 [-1.588]	0.006* [1.844]
<i>Capital ratio</i>	-0.001** [-2.447]	-0.002*** [-4.822]	0.001 [0.251]	-0.001** [-2.225]	-0.001 [-1.411]	-0.001*** [-3.883]	-0.004*** [-4.673]	-0.000 [-0.445]	-0.004*** [-4.922]	-0.001*** [-3.145]
<i>Big 4</i>	0.063 [0.937]	0.204*** [2.991]	-0.377 [-1.060]	-0.055 [-0.632]	0.377*** [6.257]	0.107** [2.187]	0.164 [1.235]	0.393*** [5.978]	-0.240*** [-2.955]	0.391*** [3.177]
<i>BIC5</i>	-0.065*** [-3.283]	-0.065*** [-4.518]	-0.348*** [-3.300]	-0.173*** [-6.463]	-0.129*** [-7.932]	-0.066*** [-6.713]	-0.105*** [-2.934]	-0.044*** [-2.310]	-0.057*** [-2.675]	0.080 [1.490]
<i>segment</i>										
<i>Firm size</i>	-0.042 [-0.582]	-0.099* [-1.730]	-0.380 [-1.316]	0.207*** [3.187]	0.106** [2.118]	-0.030 [-0.749]	0.219* [1.880]	0.054 [0.918]	-0.078 [-1.098]	-0.434*** [-4.811]
<i>Constant</i>	1.174*** [7.249]	1.400*** [10.040]	2.915*** [5.120]	1.476*** [8.335]	1.022*** [8.872]	1.395*** [16.950]	0.816*** [28.46]	1.063*** [7.073]	1.528*** [9.936]	1.469*** [6.350]
<i>SE cluster</i>	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm
<i>Fixed effect</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	194	892	102	695	1,240	1,703	154	358	396	68
<i>R squared</i>	13.97%	5.79%	27.45%	9.08%	10.98%	5.82%	31.12%	22.58%	17.86%	61.11%

Note(s): $Performance_{it} = \alpha + \beta_1 Tenuredummy_{it} + \beta_2 Risk_{it} + \sum_{j=2}^J Controls_{it} + \delta 1Year_{it} + \varepsilon_{it}$. We split the sample into industrial sectors to test the relationship of the higher tenure firms' risk with the performance. Our data have 10 industrial sectors. The explanatory variables are the same as those in the earlier tables. The definitions and data sources for the variables are outlined in [Appendix](#). The full sample includes 788 firms from year 2010 until 2019. We allow for clustering of error terms at firm level. The variance inflation factors (VIF) are well below the tolerance level, which indicates no sign of multicollinearity and the superscript asterisks ***, **, * and * denote statistical significance at the 1%, 5% and 10% levels, respectively

Table 7.
Sub-sample analysis

Variables	Risk Model 1	Performance Model 2
<i>l.Risk</i>	0.540*** [0.05]	—
<i>l.Performance</i>	—	0.624*** [0.15]
<i>Tenure</i>	−0.046*** [−0.02]***	—
<i>Tenure dummy</i>	—	−0.421 [0.39]
<i>Risk</i>	—	0.009 [0.02]
<i>Tenure dummy*Risk</i>	—	−0.013*** [−0.04]
<i>Firm age</i>	−0.019* [0.01]	−0.002 [0.00]
<i>Firm growth</i>	−0.019 [0.01]	0.001 [0.00]
<i>Leverage</i>	0.054 [0.04]	−0.009** [0.00]
<i>Capital ratio</i>	0.004* [0.00]	−0.000 [0.00]
<i>Big 4</i>	−0.278 [0.44]	−0.008 [0.05]
<i>BICS segment</i>	0.269 [1.03]	0.087 [0.10]
<i>Firm size</i>	0.056 [1.21]	−0.018 [0.14]
<i>Constant</i>	2.167 [3.16]	0.534* [0.29]
<i>Year and ind. effect</i>	Yes	Yes
Observations	5,088	5,004
Wald χ^2	75.65***	79.08***
No. of instruments	36	36
No. of groups	682	681
Arellano-Bond: AR(1) (<i>p</i> -val)	0.000	0.000
Arellano-Bond: AR(2) (<i>p</i> -val)	0.588	0.207
Sargan test (<i>p</i> -val)	0.008	0.056
Note(s): We estimate: $Risk_{it} = \alpha + \beta_1 Risk_{it-1} + \beta_i Tenure_{it} + \sum_{i=1}^7 Controls_{it} + \delta 1 Year_j + \delta 2 Industry_i + \varepsilon_{it}$ (Model 1), $Performance_{it} = \alpha + \beta_1 Performance_{it-1} + \beta_i Tenure\ dummy_{it} + Tenure\ dummy_{it} * Risk_{it} + \sum_{i=1}^7 Controls_{it} + \delta 1 Year_j + \delta 2 Industry_i + \varepsilon_{it}$ (Model 2). We include $Risk_{it-1}$ and $Performance_{it-1}$ as lag variables in the GMM model. The explanatory and control variables are the same as those in the earlier tables. The superscript asterisks ***, ** and * denote statistical significance at the 1%, 5% and 10% levels, respectively		

Table 8.
Control for
endogeneity
(system GMM)

performance; however, the interaction effect of corporate risk-taking has a significant adverse impact on corporate performance. Hence, the results denote that management executives with extensive experience in high-ranked leadership tend to undertake less corporate risk. As such, the results provide evidence that although the hiring and appointment of experienced executive management contribute much to the firm's corporate performance, management with extensive experience leans towards taking a lesser risk, mitigating corporate performance in the long run.

This study has several implications for firms, policymakers, academia and representatives from the corporate world. It also provides insights into firms that management executives' continuous development and goal-setting are important to ensure that even longer-tenured executives will always be motivated to strive for higher achievement and avoid becoming risk-averse over the years. The findings also imply that board monitoring over management continues to play a significant role in ensuring consistently outstanding corporate performance. The board should continue to set company strategic aims and review management performance. In addition, firms and policymakers can consider establishing a relevant and effective tenure to reach the perfect balance of executive management goals, which can be included as part of the corporate governance regulations. Currently, the maximum tenure for an independent director in the board is nine years (MCCG, 2021); however, there is no regulation for management executives. As of now, the

Table 9.

Variables	Risk			Performance				99% 8
	25% 1	50% 2	75% 3	99% 4	25% 5	50% 6	75% 7	
<i>Tenure</i>	0.004 [0.688]	-0.010 [-0.952]	-0.058** [-2.147]	-0.448*** [-2.631]	-	-	-	-
<i>Tenure dummy</i>	-	-	-	-	0.024** [2.216]	-0.001 [-0.043]	0.047 [1.377]	-0.387 [-1.437]
<i>Risk</i>	-	-	-	-	0.006*** [8.886]	0.007*** [7.712]	0.025 [5.142]	0.025 [1.465]
<i>Tenure</i>	-	-	-	-	-0.002*** [-2.259]	0.000 [0.108]	-0.003 [-0.931]	-0.069*** [-2.829]
<i>dummy*Risk</i>								
<i>Firm age</i>	-0.004 [-1.520]	-0.001 [-0.287]	-0.012 [-1.059]	-0.080 [-1.125]	-0.000 [-1.483]	-0.001*** [-3.038]	-0.002** [-2.336]	-0.015* [-1.923]
<i>Firm growth</i>	0.004 [0.617]	0.005 [0.490]	0.032 [1.207]	0.211 [1.292]	-0.000 [-0.123]	-0.000 [-0.063]	0.006*** [2.941]	-0.003 [-0.177]
<i>Leverage</i>	0.008*** [3.352]	0.023*** [5.380]	0.065*** [6.178]	0.261*** [3.976]	0.001*** [3.446]	-0.001*** [-3.084]	-0.005*** [-5.061]	0.003 [0.437]
<i>Capital ratio</i>	-0.000 [-0.825]	-0.001 [-1.371]	-0.003 [-1.338]	-0.017 [-1.218]	-0.009*** [-8.645]	-0.001*** [-10.052]	-0.001*** [-8.123]	-0.005*** [-3.634]
<i>Big 4</i>	0.063 [0.758]	0.257* [1.767]	0.097 [0.266]	0.415 [0.182]	0.013 [1.300]	0.030** [2.328]	0.122*** [3.978]	1.075*** [4.419]
<i>BIGCS segment</i>	-0.011 [-0.475]	-0.039 [-0.942]	-0.074 [-0.717]	-0.173 [-0.267]	-0.013*** [-4.791]	-0.029*** [-7.785]	-0.074*** [-8.427]	-0.630*** [-9.087]
<i>Firm size</i>	-0.436*** [-6.455]	-1.101*** [-9.337]	-2.445*** [-8.304]	-11.010*** [-5.972]	0.067*** [8.437]	0.054*** [5.078]	0.000 [0.001]	-0.367* [-1.844]
<i>Constant</i>	3.435*** [21.638]	6.879*** [24.830]	14.213*** [20.542]	69.393*** [16.062]	0.528*** [26.867]	0.843*** [32.071]	1.409*** [32.572]	6.813*** [13.771]
<i>Observations</i>	5,862	5,862	5,862	5,862	5,804	5,804	5,804	5,804
<i>Pseudo R²</i>	10.40%	8.69%	9.08%	17.82	3.33%	3.01%	5.11%	24.82%

Note(s): $Q_i(Risk_i | Tenure_i) = \alpha(t) + \beta_1(t)Tenure_i + \beta_2(t)Controls_i + \delta 1(t)Year_i + \delta 2(t)Industry_i$; $Q_i(Performance_i | Tenure_i) = \alpha(t) + \beta_1(t)Tenure_i + \beta_2(t)Tenuredummy^*Risk_i + \beta_4(t)Controls_i + \delta 1(t)Year_i + \delta 2(t)Industry_i$; (2). We apply quantile regression for our both main econometric models. We apply quantile regression tests at the 25th, 50th, 75th and 99th percentiles of the dataset based on our focussed variables. The quantile regressions are non-parametric tests that do not rely on the data normality of data assumption. The explanatory variables are the same as those in the earlier tables. The superscript asterisks ***, **, * and * denote statistical significance at the 1%, 5% and 10% levels, respectively

appointment of corporate management “are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender” (MCCG, 2021, p. 32). These results can also provide insights into policymakers when supervising their own management team. The study also is interesting for academics as they could perform extensive research on the effectiveness of a yardstick or a benchmark for tenure. In addition, the study has implications for society that appropriate risk-taking could be vital in achieving higher performance in life.

The study has a few limitations. It primarily focusses on the executive management tenure of overall Malaysian listed firms, and therefore, there is an opportunity for future research to analyse the effect of executive management tenure based on ownership structure. For instance, the model can be set apart into government and non-government-linked companies, family and non-family businesses and institutional ownership. In addition, it is worth exploring whether poor performance leads to a CEOs' early dismissal or whether good performance increases a CEO's tenure. Further studies could also focus on various specific firm-level variables such as company size and group affiliation versus stand-alone firm that impact CEO tenure. Further, this study considers only listed non-financial firms and cannot extend it by including financial firms. Our study uses the data from the listed Malaysian firms; thus, our findings may not apply to other countries. Future studies may determine the link between the quality of corporate governance and financial difficulties of those firms with longer-tenure executives. Finally, future research may consider integrating corporate social reporting in their empirical models.

Note

1. President, Executive Director, Executive Chairman, Chief Executive Officer, Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Technology Officer, Executive Vice President, Executive Vice Chairman, Deputy Chairman, Vice President, Senior Vice President, Deputy CEO, Chief Information Officer, Finance Director, Interim President, Chief Administrative Officer, Chief Investment Officer, Interim CEO, Principal, Interim CFO, Interim COO and Vice-Chairman Supervisory Board.

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Further reading

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Dependent variables

Variable	Definition	Relevant studies/Source
<i>Risk</i>	$\sqrt{\frac{1}{T-1} \sum_{t=1}^T \left(ROE_{i,t} - \frac{1}{T} \sum_{t=1}^T ROE_{i,t} \right)^2}$	Najaf and Najaf (2021)
<i>Tobin's q</i>	= Market Firm's Value/Total Assets Replacement Value	Bloomberg

Focus independent variables

Variable	Definition	Relevant studies/ Source
<i>Tenure</i>	It is an average of the accumulating term of executive of a firm (<i>i</i>) in the year (<i>t</i>)	Our study
<i>Tenure dummy</i>	It is a dichotomous variable, which indicates the longer tenured executive's firm. Where Tenure dummy = 1, if the average executive leadership's tenure of a firm (<i>i</i>) in year (<i>t</i>) is more than the median of average executive's tenure of all the sample firms, and "0" otherwise	Our study

Firm-level control variables

Variable	Definition	Relevant studies/Source
<i>Firm age</i>	The difference between the date of incorporate and the study year (<i>t</i>)	Dickinson (2011)
<i>Firm growth</i>	Firms' sales growth using total sales denominated in US\$	Tran and Le (2020)
<i>Leverage</i>	Total Debt/Total Assets	Ali et al. (2020) , Faccio et al. (2011)
<i>Capital ratio</i>	The ratio of capital expenditure to total assets	Hassan and Giouvris (2019)
<i>Big 4</i>	It is a dummy variable, where it has value "1", when the audit firm is one of the top four audit firms in the world, and "0" otherwise	Hassan et al. (2020)
<i>BICS segment</i>	Number of market segments of a business	Tosun (2020)
<i>Firm size</i>	Numeric variable representing the size of the firm according to the logarithm of total assets	Najaf et al. (2020)

Fixed effect control variables

Variable	Definition	Relevant studies
<i>Year</i>	1 (0) for observations from year <i>t</i> and 0 for other observations	Dickinson (2011)
<i>Industry</i>	1 (0) if during year <i>t</i> , company <i>i</i> operating in industry <i>j</i> and 0 otherwise	Ali et al. (2020)