Indonesian Journal of Law and Economics Review
Vol 19 No 4 (2024): November
DOI: https://doi.org/10.21070/ijler.v19i4.1274
Article type: (Finance Management)

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ISSN 2598 9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

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ISSN 2598 9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

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Article type: (Finance Management)

Leverage decisions and Financial Performance: Does the CFO Gender Metter?

Keputusan Leverage dan Kinerja Keuangan: Apakah Gender CFO Berpengaruh?

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Abstract

This study seeks to determine whether chief financial officer (CFO gender) have financial/ leverage decisions leading to influence the firms' financial performance (FFP). Therefore, this research aims to explain the leverage decisions mediate the association between the CFO gender and FFP. So, this research built three models: firstly, to test the relationship between the CFO gender and leverage decisions while, the second model the effect of leverage on FFP, and the third model tests the mediation impact of leverage on the association between CFO gender and FFP. These models are built based on the data collected from the listed Chinese firms for the period 2011-2019. In this study, STATA version 13.0 is adopted as the analysis technique which is cover following steps. Descriptive statistics, pairwise correlation test, multi-collinearity test and ordinary Least Squares test. The main finding of the study there is negative and insignificant relationship between CFO gender and FFP while, the leverage decisions mediate that association positively and significantly. The findings of this research add to the existing literature by employing data from China and representative the impact of CFO in decreasing the leverage and that decision influence the corporate performance.

Highlights:

1. Examine CFO gender's impact on leverage and financial performance.
2. Analyzed Chinese firms (2011-2019) using STATA; tested mediation models.
3. CFO gender indirectly affects performance; leverage mediates positively, significantly.

Keywords: Chief Financial officer, Leverage decisions, Firms Financial Performance

Published date: 2024-11-06 00:00:00

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Introduction

The theory of capital structure has been the subject of much research ever since [1] put out the idea that it has no bearing on the value of a corporation. Since a company's worth is based on its actual assets and not the securities it issues, this "irrelevance proposition" states that a division of cash flows into several streams cannot affect the overall value of a company's securities. However, [2] argue that managers' decision regarding operating activities impacts the firm's performance, and that this choice is in turn affected by the leverage decisions in the structure of company's capital. Numerous studies have attempted to explain the fiscal leverage and the performance of organizations relationship ever since [2] acknowledged the possibility of this influence.

However, prior research that aimed to resolve the leverage-performance conundrum has consistently reported inconsistent and sometimes contradictory results. O'Brien [3], and are among the researchers who have suggested that different methods might explain why previous studies have found contradictory results. The popular of earlier research is motivated solely taking place the immediate consequences of financial leverage on efficiency. Nevertheless, there needs to be more research on how financial leverage affects performance in relation to factors like CFO type and education level. This paper presents a study that attempts to address this difficulty.

In “psychology and finance”, a substantial body of work indicates that females, compared to males, exhibit distinct preferences and dispositions, demonstrating more risk aversion, reduced overconfidence, and heightened aversion to competition. These findings prompt an inquiry into whether gender disparities are evident at the uppermost levels of corporate hierarchy and, consequently, influence business outcomes and resource distribution. A comprehensive review of existing literature indicates that further conservative and less risky corporate strategies and consequences associated with female directors. These include a reduced tendency to involve in M&A [4, 5], diminished stock price crash risk [6], more conservative financial reporting practices [7], and a lower likelihood of financial statement manipulation [8], corporate fraud , or cross-listing firms [9]. Subsequent research indicates heightened risk aversion among female managers as a rationale on behalf of the “gender” disparity in CEO remuneration [10]. Examining the influence of female directors on the structure of firm's capital, a critical corporate policy, existing research indicates that companies led by female executives exhibit lower leverage [11] and issue less debt [4], consistent with the risk-averse tendencies of female leaders.

Though, the evidence in the literature is not dependable. Recently, most studies indicate that women in executive positions exhibit “risk seeking” and viable performances comparable to men complements, whereas other research fails to establish board gender variety and corporate “risk-taking” significantly correlation [12]. Matsa and Miller [13], in Norway, examine the influence of gender rations on corporate leverage finding no alteration in firm leverage following the implementation of the quota of board gender, concluding that, to corporate decision-making, “risk aversion” might not be a characteristic part of females’ approach. Collectively, the results indicate that in managerial risk-taking, gender-specific differences and their impact on organizational performance, for example company’s leverage, is further intricate and multifaceted than previously suggested by scholars.

To achieve the main goal of this study, the main question and sub questions is built. So, the main question is “how the leverage decisions can be mediate the association between the CFO gender and Firms’ financial performance”. To answer the main question, must the sub questions be answered: “how the CFO gender impact on financial/leverage decisions” and “how the financial/ leverage decisions influence the firms’ financial outcomes”.

To the existing literature, this research contributes by exploring. from the novel perspective, gender-specific differences in the decisions of firms’ leverage and how these decisions affect the financial performance. Under gender differences, we analyze the situations manifest and explore their implications for understanding leaders' “risk-taking preferences” and the influence of CFOgender on firms’ strategies. This study extends the work of Huang and Kisgen [4] , and Faccio, et al. [11] through analyzing the woman CFOs affect the corporate leverage within a example of UK public corporations. Contrasting previous researches, we obvious considering the environment of managerial decision-making that influences how leverage decisions affected by CFOs gender. The findings of this study indicate that CFOs gender correlate with reduced leverage decision, specifically female CFOs, and in cases where female CFOs are appointed from outside the organization. This study examines how the gender of CFO influence corporate leverage, for instance, the position of CFO serves as a pertinent context for analyzing managerial gender differences. Leverage is a key responsibility of CFOs in UK corporations [14], with other critical decision-makers, and their interactions such as the CEO and the board directors, further illuminate this relationship. Moreover, leverage serves as a well-established indicator of a firm's risk profile [11, 15] and, in corporate risk-taking, facilitates the analysis of the presence and conditions of gender differences.

The CFO has debatably emerged as mostly significant company executive aside from CEOs. CFOs oversee critical characteristics of organizations' strategic decision-making, that include financial reporting, the allocations of capital structure, , the management of fiscal risk and financial planning [16]. Nonetheless, the literature has significantly portion of investigative the managerial gender impact on firms’ strategies and financial performance predominantly emphasizes the roles of female board members and CEOs representation [5, 11], while the role of the CFO has been comparatively overlooked, despite its increasing significance in contemporary corporations. Gupta, et al. [8] emphasize that the neglect of CFOs in academic research is particularly concerning regarding the financial decisions of firms, and where the CFO exerts considerable impact.

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This study offers multiple contributions to the literature. Initially, it is contributed to the limited yet expanding body of literature regarding the influence of CFOs type on corporate performance interacted by the financial decisions particularly, leverage decisions. Numerous experiential researches indicate associating of CFOs gender with enhanced build up quality and heightened accounting opposition [7], diminished future stock price crash risk [6], more advantageous loan contract terms from banks, and a reduced propensity to manipulate financial statements [17]. My findings indicate that the existence of the gender of CFOs is inversely connected with corporate leverage, nonetheless solely once the possess increased autonomy to influence the decisions of corporate. Just one more research investigates the circumstances in which female CFOs exert the greatest influence on particular corporate decisions to our knowledge. Gupta, et al. [8] utilize the theory of managerial discretion elucidate the propensity of CFOs gender to alter financial accounts. Consequently, this study broadens the investigation of the variables that give rise to gender differences by examining the influence of the decision-making environment of internal senior on the manifestation of gender impact and how these decisions influence the firms' financial performance.

Ultimately, for corporate boards and policymakers seeking, the study's findings had practical significance to enhance the female presence executives in organizations. In light of the mounting pressures on policymakers and directors in boards to enhance women representing in policymaking roles. The results point out that simply augmenting the females number in designated positions, such as through gender quotas, is improbable to significantly enhance women's influence on corporate policies. the findings suggest that enhancing the role and influence of female managers in organizations necessitates an examination of the wider management decision-making context in which they function, as well as their relationships with other pivotal decision-makers, including the board members and CEOs. Providing female directors adequate autonomy to influence business policies, policy makers and corporate boards should prioritize the establishment of an inclusive environment.

In the end, the remainder of this paper will proceed. In the second section, Literature and hypothesis development are derived. Third section gives an introduction to methodology, as well as definitions of the variables and an explanation of the baseline technique. In Section 4, the findings of the empirical tests that were conducted on the overall are presented. A comprehensive summary of our findings (conclusions) and a discussion of the implications the results have for policy makers and decision makers are presented in Section 5, while Section 6 presents some recommendations for policymakers, investors, companies and top management.

Literature and Hypothesis Development

According to Modigliani and Miller [1], substantial body of literature exists regarding the factors of corporate leverage, originating by means of the foundational research. Over all, research has sought to associate company leverage with market, industry, and business attributes; on the other hand, recent literature posits that the debt preferences and personal behaviors of the managers as a primary factors influencing corporate leverage overseeing the organizations. and Korkeamäki, et al. [18] illustrate manifesting directors' personal debt preferences in the structure of enterprises' capital. Frank and Goyal [19] prove, utilizing manager fixed effects, that CFOs have a substantial impact on the structure of firms' capital and less influential in clarifying CEOs than corporate leverage. As well, investigation of Beattie, et al. [14] indicates that top managers, especially CFOs, is regarded as the primary determining factors of capital structure objectives for UK firms. A critical measure of a company's risk profile is leverage serves as: elevated leverage correlates with an increased default risk and probability of financial distress [15] [11]. Additionally, the heightened risks may result in greater career hazards for the firm's directors. Managers facing financial trouble and default exhibit an increased propensity for career turnover and diminished prospects for subsequent employment in other organizations. Collectively, these findings suggest favoring less firms' leverage by CFOs whom risk-averse to alleviate adverse profession repercussions stemming from fiscal difficulties besides to synchronize their firms' actions with their "personal risk" tolerance.

This prediction offers a compelling framework for examining the influence of the gender of CFO on company leverage. A substantial body of data indicates that women generally engage in less risky decision-making, adopt more conservative investment strategies, and display lower levels of overconfidence compared to men [20]. Study indicates that women tend to prioritize tactics that mitigate adverse outcomes and enhance security. Females are more inclined to evaluate risk factors, such as potential losses and uncertainty, and prioritize risk mitigation in their investment strategies. Additionally, women tend to favor, in their retirement portfolios, less risky assets [21]. Furthermore, there is increasing evidence that at the senior management level, the gender-specific risk-taking inclinations influence firms' decision making. For example, female CFOs, whom led companies, demonstrate less aggressive firms' actions and policies, characterized by supplementary practices of traditional financial reporting [7], reduced stock price crash risks [6], diminished likelihood of financial misreporting [8], and lesser inclination to pursue M&A or to incur debts [4].

Consequently, if CFO is a female exhibits greater risk aversion and this inclination influences their business actions, I anticipate observing reduced leverage levels in enterprises led by CFOs gender.

Hypothesis 1: CFOs gander has a positive and significant influence the leverage level decisions.

Several previous experimental researches explored the associations among leverage and corporate success. Several researchers, such as [22], demonstrate favorable correlations among leverage and corporate outcomes. Hu, et al. [23] emphasize that a firm's performance be able to improve by incurring debt, since the profits gained surpass the average interest expenses associated with leverage. Successful organizations take high-quality signals by enhancing their leverage, aligning their outcomes with previous foundational studies, like [24].Some studies shown a detrimental impact of leverage on business performance, however other scholars, including [25], identified no significant correlation between firm performance and leverage. Some studies assert that a negative correlation exists between leverage and economic performance attributable to agency issues. Thus, according to these studies the second hypothesis of this study is below:

Hypothesis 2: leverage decisions significantly influence the firm’s financial performance

The agency theory posits that directors, such as CFOs, serve as representatives for shareholders, with their decisions influenced by their risk and reward preferences[2]. Gender differences in risk aversion may influence the firm’s approach to debt and, ultimately, its financial performance. Moreover, according to the study of Croson and Gneezy [26], gender disparities in risk preferences are extensively recorded, with females often exhibiting greater risk aversion than males. This adjustment in risk tolerance is anticipated to influence leverage decisions, especially in firms with conservative debt strategies. Furthermore, the Resource-Based View (RBV) posits that organizations exhibiting superior financial management and judicious capital structures are more adept at establishing sustainable competitive advantages. Gender diversity in leadership, particularly in the role of CFO, may enhance decision-making and resource allocation efficacy.

Based on the theories above, leverage decisions, concerning the selection among debt and equity financing, are critical to a firm's financial policy. The structure of a company's capital, especially the ratio of debt to equity, significantly influences its cost of capital, financial risk, and overall financial performance. The leverage decisions could be affected by several factors, including the financial risk taken of senior directors.

There are several researches indicating CFOs risk preferences significantly affect leverage choices. Schrand and Zechman [27] stated that Female who appointed as CFOs typically implement more conservative financial approaches, favoring reduced debt levels to mitigate financial risk and enhance financial flexibility. This feeling in the direction of conservatism might yield diminished financial leverage, hence reducing a firm's vulnerability to default risk and promoting long-term stability, which could increase firm’s financial performance.

Therefore, leverage decisions might influence the association between CFO gender and financial performance. Female CFOs might favor reduced leverage, resulting in enhanced financial stability and performance, especially in contrast to male CFOs who might employ more aggressive leverage methods.

Hypothesis 3: leverage decisions has positive and significant as mediate variable on the CFO gender and firm financial performance association.

Methods

Research Model

Research model as below:

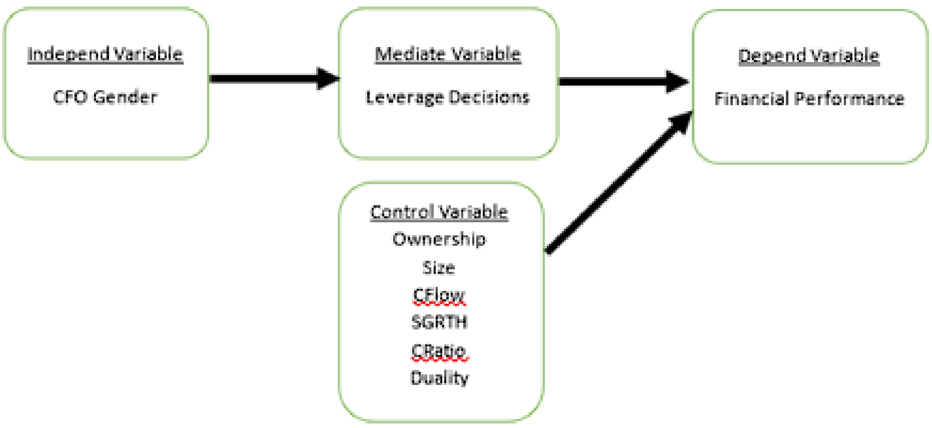

Figure 1. *Research Model*

Mathematical Models of Regression Test

To test the research hypothesis, the researcher builds the three mathematical models as shown below:

Lev.=α_0+α_1 CFO Gender+α_2 OWNERSHIP+α_3 SIZE+α_4 CFLOW+α_5 SGRTH+α_6 CRATIO+α_7

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DUALITY+α_8 years dummies+ε (1)

FFP=α_0+α_(1) Lev.+α_2 OWNERSHIP+α_3 SIZE+α_4 CFLOW+α_5 SGRTH+α_6 CRATIO+α_7 DUALITY+α_8 years dummies+ε (2)

CFP=α_0+α_1 CFO Gender+α_(2) Lev.+α_3 (CFO Gender*Lev.)+α_4 OWNERSHIP+α_5 SIZE+α_6 CFLOW+α_7 SGRTH+α_8 CRATIO+α_9 DUALITY+α_10 years dummies+ε (3)

Variables	Definitions
Independ Variable	
FFP	Firms' financial performance using Tobin's Q
Depend Variable	
CFO Gender	Dummy variable, 1 for Male, and 0 for female.
Mediate Variable	
LEV.	Using total short-term and long-term debt sum divided by total assets
Control Variables	
Ownership	Dummy variable, 1 for government companies, and 0 otherwise.
Size	Using "natural logarithm of total assets"
CFlows	Using "operations cash flow divided by total assets"
SGRTHs	Using "sales revenues in year t minus sales revenues in year t-1 divided by sales revenue in year t-1".
CRatio	Using "current assets divided by current liabilities"
Duality	dummy variable Use, 1 if CEO is also the board chairman, otherwise 0

Table 1. *The descriptions of the research variables*

Research Methodology

Sample

Study design is of paramount significance that influence the examination from beginning to end. This research aims to examine the associations among CFO Gender, leverage decisions, and the corporate performance of non-financial corporate registered on the "Shenzhen Stock Exchange" in China the period 2011-2019 however, the research did not extend the research period because of Covid19 pandemic. Furthermore, the investigation methodology employs secondary data analysis sourced from the "China Stock Market", the "China Center for Economic Research" (CCER), and the "Accounting Research" (CSMAR) database, all systematized by the "China Securities Regulatory Commission" (CSRC). Ultimately, the variables' dimensions and analytical methods are designated in accordance with this situation.

Data Analysis Technique

STATA version 13.0 is adopted as the analysis technique covering succeeding steps. Descriptive statistics, pairwise correlation assessment, multi-collinearity test and "ordinary Least Squares" test and robustness test In this study.

Descriptive Statistics

Table 2 presents tall the study's variables' summary statistics in Chinese listed firms. The means of FFP are 1.896, of all observations of Chinese listed firms. Furthermore, the LEV. Decisions means, and CFO gender is 0.206 and 0.152, respectively.

Variable	Obsv.	Mean.	Stnd.Devn.	Min.	Max.
CFO Gender	10632	.152	.359	0	1
LEV.	10632	.206	.153	0	3.064
CFP	10632	1.896	2.999	0	192.9
Size	10632	22.242	1.318	16.52	28.036
CFlow	10632	.033	.121	-1.283	9.214
CRatio	10632	1.595	1.347	0	40.845

SGRTH	10632	10.196	612.742	-25.369	59411.6
ownership	10632	.197	.397	0	1
duality	10631	1.784	.412	1	2
Board Size	10632	8.331	2.667	0	18
Total Inds	10632	3.629	1.738	0	12

Table 2. *The Descriptive Statistics of Chinese Listed Firms*

Correlation

In general, Table 3 illustrates the Pearson correlation coefficients between all the variables in all of the sample. TobinQ is significant and negative correlated with the CFO Gender measure, leverage; size, cash flow, sales growth, duality and Ownership. While, it is also found that CFO Gender is positively correlated with leverage, sales growth, ownership and duality while with others negatively correlated. It is also found the measurement of leverage is positive associated with the others variables.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9
(1) CFO gender	1.000								
(2) TobinQ	-0.090	1.000							
(3) Lav.	0.069	-0.079	1.000						
(4) Size	-0.003	-0.357	0.135	1.000					
(5) CFlow	-0.024	-0.085	-0.037	0.050	1.000				
(6) CRatio	-0.016	0.123	-0.318	-0.208	-0.043	1.000			
(7) SGRTH	0.004	-0.004	0.002	0.010	0.007	-0.006	1.000		
(8)Own.	0.040	-0.083	0.081	0.167	0.006	-0.095	0.017	1.000	
(9) duality	0.004	-0.106	0.040	0.163	0.021	-0.077	0.000	0.139	1.000

Table 3. *Pairwise correlations in all listed Firms Fifth Scenario*

Result and Discussion

Regression results

Table 5 reports the multiple regression of the results of OLS models to measure relationship among Chief Financial Officer Gender (CFOGender) as independ variable and Leverage decisions (Lev.) as depend variable through providing evidence from all Chinese listed firms. In the table, the results shows that there is a negative association between CFOGender and Lev.. The coefficient of CFOGender is negatively and insignificant as (-4.464, t=-10.58). These results similarly to the finding of the study of Schopohl et al. (2024). The findings support the first hypothesis of this research.

	(1)
VARIABLES	Lev.
CFO Gender	-4.464***
	(-10.58)
Ownership	-0.625***
	(-3.413)
Size	0.908***
	(17.33)
CFlow	-0.564
	(-1.046)
CRatio	-0.407***
	(-7.880)
SGRTH	-0.000109

	(-1.035)
Duality	2.370***
	(14.69)
Year Dummy	Yes
Constant	-13.32***
	(-11.40)
Observations	10,631
R-squared	0.085
r2_a	0.0832

Table 4. *OLS results of CFO Gender and Leverage Decisions in all listed firms*

"t-statistics in parentheses"

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

Table 6 illustrates the findings of multiple regression of OLS models to measure relationship among Leverage decisions (Lev.) as independent variable and Corporate Financial Performance (TobinQ) as dependent variable through providing evidence from all Chinese listed firms. In the table, the outcomes illustrate that there is a positively association among Lev. and TobinQ. The coefficient of Lev. is positively and insignificant as (1.384, t=2.355). These results similarly to the finding of the study of Wang & Ahmad. (2024). The findings support the second hypothesis of this research.

VARIABLES	TobinQ
Lav.	1.384**
	(2.355)
Size	-0.00567
	(-0.0730)
CFlow	-0.578
	(-0.437)
CRatio	0.0175
	(0.161)
SGRTH	2.34e-05
	(0.305)
Duality	1.271***
	(3.825)
Year Dummy	Yes
Constant	12.92***
	(6.743)
Observations	10,631
R-squared	0.140
r2_a	0.135

Table 5. *OLS results of Leverage decisions and Corporate Financial Performance in all listed firms*

"t-statistics in parentheses"

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

Table 7 reports the findings of multiple regression of our third model to measure association between CFOGender and Firms financial performance (CFP) interacted by leverage decisions variable through providing evidence from all listed Chinese firms. In the table, the findings illustrate that there is a negative association among "Chief Financial Officer" and Corporate Financial Performance. The coefficient of CFO measure is negatively insignificant as (-0.251, t=-1.573, p>0.1. Additionally, the interaction of the leverage decisions is positive and high significant in research model as (0.0287, t=2.671, p<0.01). The findings support the third hypothesis of this study.

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	(1)
VARIABLES	TobinQ
CFO Gender	-0.251
	(-1.573)
FCO Gender*Lev.	0.0287***
	(2.671)
Lev.	0.0817
	(0.445)
ownership	-0.114
	(-1.536)
Size	-0.846***
	(-39.23)
CFlow	-1.840***
	(-8.422)
CRatio	0.0836***
	(3.978)
SGRTH	7.33e-07
	(0.0171)
duality	-0.236***
	(-3.587)
Year Dummy	Yes
Constant	21.06***
	(43.33)
Observations	10,631
R-squared	0.188
r2_a	0.187

Table 6. *Results of CFOGender and Corporate Financial Performance interacted leverage decisions in all listed firms*

Conclusion

1Recently, the prominence of CEOs gender and the participation of women on boards have garnered significant attention from policymakers, the media, and academia. Nevertheless, insufficient emphasis is placed on the influence of females in other significant the decision-making of firms' financial positions, such as CFOs.

This research aims to investigate whether the association among Chief Financial Officer Gender (CFO Gender) and Firms' financial performance (FFP) could be interacted by the leverage decisions. The findings illustrate that the relationship among the CFO gender is negative and insignificant consist with the results of some previous studies. While, the interaction of leverage decisions has positive and significant on that relationship. The authors argue that the CFO gender could destroy the firm performance. This research, based on our knowledge, is the first study investigate the association between the chief financial officer gender with firm performance mediating by leverage decisions.

In the sum. The aim of this research is exploring how the chief financial officer influence the leverage decisions and how the leverage decisions made by the CFO male or female influence the FFP. So, firstly, according to first hypothesis of this research, the research tests the relationship between the CFO gender and leverage decisions and found out there is a significantly positive association.

To test the second hypothesis, the second mathematical model is built. Thus, the result found out that there is a significantly positive association among the leverage and FFP meaning the leverage strategy is important for firms' success.

Finally, third model of this study is to test the main objective of the research which means how the leverage decisions interacting the relationship of CFO gender and firms' financial performance. The results show that

ISSN 2598 9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

leverage decisions has significantly positive interacted the association between the CFO gender and FFP.

The research has several significant contributions. Firstly, the study combines the use of several empirical techniques from a methodological perspective. Additionally, the research be responsible for some useful suggestions for practitioners and managers regarding the controversial association among CFO gender, leverage decisions and firms' financial performance.

To the literature, this study is providing understanding of the role of chief financial officer based on their gender in shape of leverage decisions as well adding the limitations on corporate finance. Additionally, the study provides the understand to firms about how the top management influence financial strategy and the firms' performance. To policy makers, this research is providing evidence in variety policies in financial leadership

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ISSN 2598 9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Vol 19 No 4 (2024): November
DOI: https://doi.org/10.21070/ijler.v19i4.1274
Article type: (Finance Management)

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ISSN 2598 9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo