

**Honor and profit lie not all in one sack:  
The cost of CEO reputation**

Qizhi Tao

School of Finance, Southwestern University of Finance and Economics, Chengdu,  
China  
[taoqizhi@swufe.edu.cn](mailto:taoqizhi@swufe.edu.cn)

Di Gao

School of Finance, Southwestern University of Finance and Economics, Chengdu,  
China  
[gaodi1593@163.com](mailto:gaodi1593@163.com)

Robert Anderson\*

University of California, Berkeley  
[anderson@econ.berkeley.edu](mailto:anderson@econ.berkeley.edu)

\*Corresponding author

# **Honor and profit lie not all in one sack: The cost of CEO reputation**

## **Abstract**

This paper proposes a novel channel through which high-reputation CEOs can affect firm profitability. We posit that R&D and capital expenditures have different impacts on short-term profitability, and these two kinds of investment reduce liquidity if paid for in cash. Through a comprehensive analysis of capital investment made by high-reputation CEOs using a sample of 2,557 firms listed on the stock exchanges in Shanghai and Shenzhen over the period 2007–2015, we find that better CEO reputation is associated with lower R&D but not with lower capital expenditures. This suggests that high-reputation CEOs are more likely to seek short-term profitability, rather than manipulate liquidity. Consistent with the free-cash-flow hypothesis, we also find that high-reputation CEOs hold excess cash to pursue their own objectives, which leads to a reduction in long-run profitability. In additional analysis, CEO reputation has a significantly positive effect on short-term profitability but a significantly negative effect on long-run firm value. In contrast to the conventional view of CEO reputation as a sign of firm reputation, we document that high-reputation CEOs raise agency costs and destroy shareholder value.

*Keywords:* CEO reputation, corporate profitability, investment decisions, liquidity management

*JEL classifications:* D72; D82; G32; G34

## **1. Introduction**

The reputation of a company's chief executive officer (CEO) is a highly valuable asset for the company. CEOs represent their company, so their reputation is closely related to the company's prospects (Lewellyn and Muller-Kahle, 2012). In addition, CEO reputation represents competent management and the financial soundness of the company (Radbourne, 2003) and is related to the advantages that CEOs obtain from their social network and ties (Chikh and Filbien, 2011). Many studies focus on the connections between CEO reputation and firm value. CEO reputation is one of the determinants of company success (Fuller et al., 2002), and it has a positive impact on corporate profitability (Francis et al., 2008; Gompers et al., 2003; Milbourn, 2003). The rationale for the positive impact is that high-reputation CEOs hold more private information on available goods, sellers, buyers, and prices (Burt, 2000), involve lower costs for gathering information (Nahapiet and Ghoshal, 1998), and are better protected by their social network (Nguyen, 2012). Nevertheless, some literature shows that CEO reputation might decrease overall firm profitability. Research indicates that CEO reputation is positively related to excessive risk taking (Lewellyn and Muller-Kahle, 2012; Ferris et al., 2017). CEOs with a better reputation are less likely to notice potential threats (Magee and Galinsky, 2008) and are more likely to produce weaker critical analysis, leading to less fruitful decisions (Galema et al., 2012; Ishii and Xuan, 2014). This paper is motivated by these controversial empirical findings on the effect of high-reputation CEOs on firm value.

Firm value and liquidity are negatively correlated (Pinkowitz and Williamson, 2007; Dittmar and Mahrt-Smith, 2007; Harford et al., 2008; Lee and Lee, 2010; Huang and Mazouz, 2018). Gormley and Matsa (2016) document that increasing cash holdings is one kind of value-destroying decision by managers. The free-cash-flow hypothesis

states that liquidity can be viewed as a source of financing available to managers, who use it to serve their own interests rather than those of shareholders (Jensen, 1986; Harford, 1999). Moreover, Guariglia and Yang (2016) find that the median liquidity ratio is 12.1% for Chinese listed firms, much higher than the overall median (6.2%) in the 45 countries researched over the period 1998–2010 by Dittmar et al. (2003). Consistent with the free-cash-flow hypothesis, Lang et al. (1991) point out that US companies with excess liquidity invest in negative NPV projects, which has a negative impact on firm profitability. Lang believes that “the agency problem is more serious in China” (2014, p. 327) and infers that this may be because CEOs in China have a strong desire to expand and achieve big goals, thus high-reputation CEOs pursue and enhance their own reputation at the expense of company prospects. This raises an interesting question as to whether the CEO reputation has a significant impact on the relationship between liquidity and firm value.

Most of the literature on the agency problem has focused on how liquidity affects firm value, as excess liquidity could be seen as a kind of agency cost (Pinkowitz and Williamson, 2007; Dittmar and Mahrt-Smith, 2007; Huang and Mazouz, 2018). However, existing studies have not explored CEO reputation, so this paper looks at excess liquidity from a different perspective—that of CEO reputation. Moreover, a “managerial horizon problem” indicates that managers prefer decisions that offer relatively faster payback, and high-reputation CEOs pursue short-term results (Campbell and Marino, 1994; Jensen, 2004; Antia et al., 2010). Meanwhile, the theory of free cash flow suggests that agency conflicts can be explained by excess corporate liquidity (Jensen, 1986; Opler et al., 1999; Harford, 1999), so high-reputation CEOs may hold excess cash to pursue their own objectives, which is difficult to monitor because of a lack of transparency. Existing studies do not distinguish between CEOs’

tendencies to manipulate liquidity and to achieve short-term profitability. Because R&D and capital investment, key examples of capital investment decisions, have different impacts on short-term profitability but similar impacts on long-term firm value, we specifically focus on the impact of high-reputation CEOs on research and capital investment decisions. Through an in-depth analysis of research and capital investment decisions by high-reputation CEOs, we distinguish further high-reputation CEOs' motivations underlying those decisions.

Studies that focus on liquidity management and capital investment decisions can help to explain what drives firm value creation. Vogt (1997) argues that capital spending is strongly and positively related to cash flow. In particular, expenditures on R&D and capital investment reduce liquidity if paid in cash and increase leverage if financed using debt. Aggressive capital investment indicates either a high level of financial leverage or a low level of liquid assets. Hence, capital investment and liquidity are negatively correlated, and capital investment and long-run firm value are positively correlated. R&D and capital expenditure are two important contributors to long-run firm value (McConnell and Muscarella, 1985; Chung et al., 1998; Dechow and Sloan, 1991; Aghion et al., 2013; Tian and Wang, 2014). But they have different impacts on short-term profitability. R&D, as an expense, leads to weaker short-term profitability, while capital expenditure does not have a direct effect on company profitability in the short term. So if high-reputation CEOs, especially those with a short horizon problem, want to raise profitability in the short term, they simply reduce R&D instead of capital expenditure. If high-reputation CEOs wish to hold a larger proportion of liquidity in their own self-interest, they cut back R&D expenditure as well as capital expenditure, because both lead to less liquidity if paid in cash. Does a high-reputation CEO prefer to achieve short-term gains rather than manipulate

liquidity? What is the real agency cost of CEO reputation? To obtain evidence on this issue in the Chinese context, we distinguish the real motivations of high-reputation CEOs and further study how their decisions affect firm value, through an analysis of liquidity management and capital investment decisions by high-reputation CEOs at Chinese companies. In this paper, we complement previous research not only by studying the marginal impact of liquidity management on firm profitability due to CEO reputation-related agency problems but also by focusing more on how CEO reputation affects investment decisions, indicating the mechanism by which excess liquidity reduces long-run firm value.

We test how high-reputation CEOs affect firm value by investigating the role that CEO reputation plays in liquidity management, which is believed to relate to lower long-run firm value. We dig more deeply into the effects of CEO reputation on capital investment decisions since R&D and capital expenditure are two key capital investment decisions affecting short- and long-term profitability. Using a sample of 2,557 firms listed on the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) over the period 2007–2015, we find that the high-reputation CEOs raise short-term profitability rather than manipulate liquidity. Our analysis provides strong evidence in support of the free-cash-flow hypothesis and the short-term horizon argument. We also present the agency cost of CEO reputation, and our investigation provides better understanding of the role played by CEO reputation in liquidity management and investment decisions. Our findings indicate that high-reputation CEOs introduce more agency costs and lower value creation for shareholders.

As Kang et al. (2017) show, the agency conflict between CEOs and shareholders can be seen as a conflict between short- and long-term goals. First, we directly

investigate the relation between CEO reputation and short- to long-term profitability. Through a series of analyses, we find that the CEO reputation has a significantly positive impact on short-term profitability and a negative impact on long-term firm value. Second, we show that a better CEO reputation is associated with lower R&D, and there is no association between better CEO reputation and capital expenditure, which suggests that high-reputation CEOs expand short-term profitability, rather than manipulating liquidity.

Then, we examine how CEO reputation affects liquidity management. Our empirical results show that companies retain more liquidity when the CEO has a better reputation, which reflects higher agency costs.

Finally, we test the interaction between CEO reputation and liquidity on firm profitability. The negative relationship between liquidity and firm profitability has been shown in previous studies (Harford, 1999; Dittmar et al., 2003; Chen and Chuang, 2009). Unlike prior research that focuses only on CEO power, we take CEO reputation into account under the condition that liquidity can be seen as one of the means for managers to sideline the interests of shareholders. We find that the interaction of CEO reputation and liquidity has a negative impact on profitability, which demonstrates the negative impact of CEO reputation on shareholders' interests but does not support the existing view of competent management (Fuller et al., 2002; Radbourne, 2003) or reduction of information asymmetry (Burt, 2000; Nguyen, 2012).

Our study makes several contributions as follows. First, this paper distinguishes the motivations of high-reputation CEOs between obtaining short-term profit and liquidity manipulation by showing the effects of CEO reputation on investment decision-making, which improves our understanding of how liquidity negatively

affects firm value. From the perspective of agency theory, the level of R&D is related to agency conflicts between managers and shareholders (Baysinger et al., 1991), and the agency costs measured by cash and next-period capital expenditures are negatively correlated. At the same time, capital expenditure and R&D are two important aspects of corporate investment decisions that reflect the firm's investment opportunities, and they have the same impacts on long-run firm value but different impacts on short-term value. When expenditure on R&D and capital investment reduce liquidity if paid in cash (Lamont, 1997; Lipson and Mortal, 2009), which involves agency costs, the issue remains whether high-reputation CEOs affect firm liquidity through investment decisions, so we further explore the impact of high-reputation CEOs on investment decision-making. We argue that a high-reputation CEO with a short-decision-horizon problem simply reduces R&D, while a high-reputation CEO who prefers to hold a greater proportion of liquidity for selfish purposes decreases both R&D and capital expenditure. On the one hand, the short-term horizon hypothesis argues that a manager's decision horizons are usually shorter than shareholders' investment horizons (Campbell and Marino, 1994; Jensen, 2004; Antia et al., 2010). On the other hand, the free-cash-flow hypothesis suggests that agency conflicts can be explained by corporate excess liquidity (Jensen, 1986; Opler et al., 1999; Harford, 1999). But the distinction between profit and manipulation of liquidity has not previously been analyzed. In contrast to prior studies, we distinguish the tendency toward short-term profit from manipulation of liquidity.

Moreover, existing studies focus on the direct negative impact of cash on firm value (Pinkowitz and Williamson, 2007; Dittmar and Mahrt-Smith, 2007). Koussis et al. (2017) argue that payout policies chosen by managers are intended to maximize their own compensation, thus excessive levels of cash result in lower firm value. Huang



and Mazouz (2018) show that excess cash also affects firm value indirectly through its impact on stock liquidity, which is in line with Gormley and Matsa (2016). In addition, we contribute to the existing literature by providing evidence on how capital investment decisions, including capital expenditure and R&D, act as a channel through which liquidity can affect firm value indirectly.

Second, we shed light on the agency cost of CEO reputation and provide evidence of the reputation-related agency problem in the Chinese context. From the perspective of liquidity management, we find that high-reputation CEOs increase excess liquidity, which leads to lower firm value. Chikh and Filbien (2011) find that high-reputation CEOs are more willing to pursue a decision even if it is not supported by the market. Korkeamäki et al. (2017) argue that high-reputation CEOs are more capable of imprinting their personal preferences on the firm's capital structure. Considering the very high levels of liquidity that characterize Chinese firms and that the agency problem related to CEO reputation is more serious in China than in the US (Lang, 2014; Guariglia and Yang, 2016; Yang et al., 2017), we believe that the Chinese case represents an ideal laboratory for studying the effect of CEO reputation on firm valuation and the motives behind investment decisions and liquidity management. We complement previous research by studying the marginal impact of liquidity management on firm profitability. On the one hand, previous researchers find a significant connection between CEO reputation and firm profitability. On the other hand, previous studies show the negative relationship between excess liquidity and firm profitability (Pinkowitz and Williamson, 2007; Dittmar and Mahrt-Smith, 2007; Harford et al., 2008; Lee and Lee, 2010; Huang and Mazouz, 2018), especially in China (Yang et al., 2017). Although little empirical research analyzes how CEO reputation can affect firm profitability through liquidity management, it is necessary

to investigate how CEO reputation affects liquidity and explore the effect of CEO reputation on firm profitability.

Third, our study complements and extends the effect of CEO reputation on firm value. Indeed, a few studies observe that CEO reputation affects firm value, either positively (Fuller et al., 2002; Milbourn, 2003) or negatively (e.g., Magee and Galinsky, 2008; Galema et al., 2012; Lewellyn and Muller-Kahle, 2012; Ishii and Xuan, 2014). As the agency conflict between managers and shareholders could be related to short- and long-run profitability (Kang et al., 2017), past studies have documented that high-reputation CEOs decrease (increase) outcomes for shareholders, and the results are mixed. But the impact of reputation on short- and long-term profitability has not been studied. Hence, we are motivated to conduct a comprehensive analysis of the effect of CEO reputation on firm value in the short to the long term.

The remainder of the paper is organized as follows. Section 2 reviews agency problem–related CEO reputation, and Section 3 develops the hypotheses. Section 4 describes the data and sample. Section 5 presents the results of our empirical tests and provides robustness tests. Section 6 concludes.

## **2. Agency problem–related CEO reputation**

### ***2.1. CEO reputation***

The previous literature generally focuses on CEO power in the field of corporate governance, as Finkelstein et al. (2009, p. 246) argue: “agency theory is a theory about power.” CEO power is the key to the agency problem. Finkelstein (1992) divides CEO power into structural, ownership, expertise, and prestige power (CEO reputation). They either construct a unique comprehensive index or study CEO

characteristics separately to measure the strength of CEO power according to agency theory. CEO reputation is shown in the construction of the CEO power index, such as the E-index (Bebchuk et al., 2009) and the GEN-index (Mishra, 2014). By referring to Finkelstein's (1992) typology, a strand of the literature provides evidence that high-reputation CEOs are risk-taking (Lewellyn and Muller-Kahle, 2012), self-interested, and capable of imprinting their personal preferences on the firm's decisions (Chikh and Filbien, 2011; Korkeamäki et al., 2017).

As one type of CEO power, CEO reputation has more significant characteristics that deviate from shareholders' interests. In particular, high-reputation CEOs in China have a strong desire to enhance their own reputation at the expense of cool judgment, combined with the phenomenon of high liquidity at Chinese firms (Guariglia and Yang, 2016; Yang et al., 2017). Our interests focus on CEO reputation. In this paper, we use both business ties and political ties as measures of CEO reputation. CEOs who serve as independent directors at other firms could be viewed as being in demand or having a valuable reputation, which is widely used as a valuation measure for listed firms (Finkelstein, 1992; Finkelstein et al., 2009; Lewellyn and Muller-Kahle, 2012; Lisic et al., 2016). Moreover, in the previous research, political connections can benefit Chinese firms in terms of taxation, financing, and profitability (e.g., Li et al., 2008; Wu et al., 2012). As a symbol of good reputation, political ties permit Chinese firms to obtain social capital from government officials. The choice of the two measures is highly motivated by the fact that a CEO who has a part-time job at other listed firms or used to work in the government not only can obtain more social capital (Akerlof and Kranton, 2000) but can also reduce information asymmetry in the market.

## ***2.2. Agency problems***

Empirical studies show that a CEO with a better reputation is less likely to notice potential threats and is more likely to be overconfident, to take risks, and to analyze issues less critically, which could lead to less successful decisions or good opportunities forgone (Magee and Galinsky, 2008; Galema et al., 2012; Lewellyn and Muller-Kahle, 2012). Ishii and Xuan (2014) demonstrate that a better CEO reputation leads to poorer decision-making and lower value creation. In addition, a managerial “horizon problem” makes managers prefer decisions that offer relatively faster payback to enhance their reputation in the managerial labor market (Campbell and Marino, 1994). If a firm is managed by a high-reputation CEO, reputation-related problems arise. Morck et al. (1988) show that an important reason for short-horizon problems is management defense motivations: that CEOs usually want to maintain and consolidate their power of control. Lundstrum et al. (2002) believe that a firm’s investment opportunities are not easily observed in the case of asymmetric information, and shareholders can only deduce the manager’s ability from profitability. In addition, CEOs pay great attention to their own interests with a short-term horizon (Jensen, 2004) and might not make decisions that are in the best long-term interest of their firm (Antia et al., 2010). As a result, when firms are characterized with high-reputation CEOs who pursue short-term results to improve their own reputation and further improve their future compensation, CEOs develop a short-term horizon.

Despite managers’ short-horizon problem, the free-cash-flow hypothesis may also explain reputation-related problems, which predict that managers have a personal incentive to expand firms’ asset bases rather than to distribute cash to shareholders; as a result, excess liquidity is wasted, especially on value-destroying spending (Jensen,

1986). Because the free-cash-flow hypothesis states that free cash flows can be viewed as a source of financing available to managers who serve their own interests instead of shareholder interests, the agency problem can be explained by excess corporate liquidity (Harford, 1999; Opler et al., 1999). Along these lines, Harford et al. (2008) suggest that CEOs with a strong reputation are weakly controlled and pursue their own goals at the expense of shareholders, and are willing to hold liquid assets, rather than fixed assets, which are harder to steal. Thus, by observing investment behavior and liquidity management, we can examine whether high-reputation CEOs affect firm value as a result of CEO's short-term horizon or corporate liquidity manipulation.

The agency conflicts between shareholders and managers are reflected in a comparison between firms' long- and short-term profitability. Unlike shareholders, who are likely to take a long-term view and focus on long-run firm value (La Porta et al., 1999; Faccio and Lang, 2002), CEOs pay great attention to their own interests with a short-term horizon and might not make decisions that are in their firm's best long-term interest (Jensen, 2004; Antia et al., 2010). In addition, the previous literature assumes that, in the short term, managers engage in activity that damages the long-term value of their company (Bebchuk and Stole, 1993; Edmans, 2009). Firms' short-term profitability is an important indicator of a CEO's achievement. If high-reputation CEOs want to achieve goals in the short term, they want to improve short-term profitability, which is usually measured by EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and have little incentive to increase long-run firm value, which is measured by Tobin's Q.

CEOs are considered the most powerful actors at their firms, as they control investment decisions and other corporate policies. When a firm is managed by a

high-reputation CEO, the influence of CEO reputation on value should be further discussed. “Capital expenditures and R&D are two key decision variables affecting EBITDA and Tobin’s Q,” as Kang et al. (2017, p.342) argues. Many scholars show that R&D is an important aspect of firm innovation that increases long-run firm value (Dechow and Sloan, 1991; Aghion et al., 2013; Tian and Wang, 2014), and R&D that is treated as an expense reduces short-term profitability (Kang et al., 2017). Previous studies also show that capital expenditures have a positive impact on firm value. McConnell and Muscarella (1985) confirm that the increase in capital expenditure is accompanied by increase in market value. In line with these studies, Chung et al. (1998) and Liao et al. (2016) support the view that capital expenditure decisions significantly affect firm value. According to Huang and Mazouz (2018), increasing R&D and capital expenditures leads to good growth opportunities from the perspective of investment decisions. Although capital expenditures and R&D are important for increasing long-run firm value, they have different effects on short-term profitability. R&D can reduce short-term profitability; by contrast, current capital expenditure does not have a direct effect.

The previous research argues that liquidity matters for investment, so the set of profitable investment projects increases as cash flow rises (Lamont, 1997; Vogt, 1997). Lipson and Mortal (2009) highlight one important role of liquidity in corporate decisions. In particular, expenditures on R&D and capital investment reduce liquidity if paid in cash and increase leverage if financed by borrowing. Hence, a high-reputation CEO who focuses on increases in short-term accounting measures of profitability has an incentive to conduct a suboptimal level of R&D but does not have an analogous incentive to reduce capital expenditures to a suboptimal level. High-reputation CEOs who prefer to hold liquid assets to pursue personal objectives

such as empire building and perk consumption have few incentives to expand investment spending, including capital expenditures and R&D. Hence, the investment decisions made by a high-reputation CEO reflect details of the reputation-related agency problem.

### **3. Hypothesis development**

Many authors document that high-reputation CEOs decrease (increase) outcomes for shareholders (e.g., Milbourn, 2003; Adams et al., 2009; Magee and Galinsky, 2008; Galema et al., 2012; Ishii and Xuan, 2014), with mixed results. However, little research has explored the impact of CEO reputation on profitability in the short to long term. As we have argued earlier, managers are more likely to focus on short-term profitability (Jensen, 2004), and they might not make decisions that are in the best long-term interest of the firm (Antia et al., 2010). On the basis of the short-term-horizon hypothesis, high-reputation CEOs have strong intentions to enhance their own good reputation in pursuit of short-term managerial goals. On the basis of the free-cash-flow hypothesis, managers hold excess liquidity to pursue personal objectives, such as empire building and perk consumption, which leads to lower value creation in the long run. “ROA controls for firm profitability, and Tobin’s Q controls for the presence of growth opportunities,” as Korkeamäki et al. (2017, p.22) argue. The company’s short- and long-term value can be better differentiated, as ROA represents short-term financial profitability, whereas Tobin’s Q represents market profitability in the long run. Because we want to show high-reputation CEOs’ impact from a short- and long-term perspective, we use ROA (EBITDA) to proxy for short-term firm profitability and Tobin’s Q (log Tobin’s Q) of the sample companies to proxy for long-run firm value to study the effect of CEO reputation, following

previous studies on firm profitability (Murray, 1989; Harford et al., 2008; Brookman and Thistle, 2009; Lee and Lee, 2010; Kang et al., 2017). Thus, CEOs with a good reputation pursue short-term profitability at the expense of long-run profitability. We expect that short-term firm value is positively related to CEO reputation, but long-run firm value is negatively related to CEO reputation.

*H1. Firms with high-reputation CEOs have higher ROA and lower Tobin's Q than firms without high-reputation CEOs.*

High-reputation CEOs have at least two possible motivations to decrease long-run profitability, improve short-term profitability, and manipulate liquidity. Agency problem-related high-reputation CEOs motivate us to distinguish between the short-term-horizon hypothesis and the free-cash-flow hypothesis. Building upon the relationship between capital investment and liquidity management, as discussed earlier, we concentrate on the impacts of high-reputation CEOs on R&D and capital expenditure. Previous studies find that R&D and capital expenditure have positive impacts on the long-run value of a company, but they have different impacts on the short-term value of the firm. Lundstrum et al. (2002) prove that R&D decreases as the CEO ages. Gerakos (2007) also finds that CEOs gradually reduce R&D costs when they are near retirement. Following existing studies, we use R&D investment to proxy for a CEO decision horizon. The economic interpretation is that short decision horizon of CEOs leads to under-investment in R&D. Because current capital expenditures do not have direct effect on short-term profitability, a high-reputation CEO who wants to improve profitability in the short term has no motivation to decrease capital expenditure. We argue that a high-reputation CEO with the



short-decision-horizon problem has an impact on R&D. Because R&D and capital investment reduce liquidity if paid in cash, one can argue that liquidity gives CEOs more freedom and is likely to be misused. Hence, we expect that CEOs with a better reputation will prefer to decrease capital expenditure to hold a greater proportion of liquidity for selfish purposes.

*H2a. A better CEO reputation is associated with lower R&D.*

*H2b. A better CEO reputation is associated with lower R&D and lower capital expenditure.*

After analyzing the real motivations of high-reputation CEOs, we investigate the possible mechanisms through which high-reputation CEOs affect firm profitability. In terms of liquidity management, a better CEO reputation leads to greater agency cost. Jensen (2004) and Antia et al. (2010) argue that CEOs' short-term managerial goals can be viewed as potential sources of agency costs. The agency costs can be explained by corporate excess liquidity (Opler et al., 1999). The free-cash-flow hypothesis (e.g., Jensen, 1986; Harford, 1999) states that free cash flows can be viewed as a source of financing available to managers, who serve their own interests instead of shareholder interests (e.g., Amihud and Lev, 1981; Opler et al., 1999). Managers prefer to hold liquid assets to pursue personal objectives such as empire building and perk consumption, so shareholder interests are compromised because of the excess cash holdings. Under the weak corporate governance in the Chinese context, we expected that high-reputation CEOs would want to further maintain and strengthen their reputations and thus would allocate more firm assets to liquidity. As discussed earlier, excess liquidity can be seen as one of the means for managers to control the

company's value as a result of the conflict between CEOs and firm shareholders. In addition, the negative impact of liquidity on corporate value has been widely recognized in prior studies (Dittmar et al., 2003; Dittmar and Mahrt-Smith, 2007; Harford et al., 2008; Lee and Lee, 2010). In firms with higher liquidity, investors are concerned that managers have more discretion to deploy corporate resources on value-destroying projects (Jensen, 1986). Therefore, we expect that the moderating effect of CEO reputation on corporate liquidity is negatively related to firm profitability.

*H3. A better CEO reputation is associated with more corporate liquidity, which leads to lower value creation.*

## **4. Data and sample**

### **4.1. Sample**

Our primary sample consists of data from 2007 to 2015 on all firms listed on the SHSE and the SZSE. We obtain the characteristics of listed firms and CEO information from the RESSET and CSMAR databases. Following Opler et al. (1999), Ozkan and Ozkan (2004), and Dittmar and Mahrt-Smith (2007), we omit financial companies and ST (special treatment) companies, because of their industry and financial status. We also exclude companies that went public that year and observations for which financial information is missing. The variables are winsorized at both the top and bottom 1% for each year. After the screening process, we have a final sample of 2,557 firms with 16,163 firm-year observations.

### **4.2. Measures of CEO reputation**

The main purpose of this paper is to study the agency problem of CEO reputation and how it affects firm profitability, so the main variable in this study is CEO reputation. We acknowledge that the measure of CEO reputation may be noisy. Previous researchers generally focus on it from the perspective of personal characteristics and consider only one dimension of CEO reputation, such as being a founder (Morck et al., 1998; Lisic et al., 2016), education background (Chikh and Filbien, 2011), and employment history (Ishii and Xuan, 2014). Some have noted that in China the sample size of founder-CEO enterprises is too small to be observed. In addition, as measures of CEO reputation, education background and employment history are controversial. Chikh and Filbien (2011), for example, use employment history related to acquisition to proxy for CEO reputation. It has also been noted that the reputation acquired through elite educational institutions is another source of CEO reputation, because they provide individuals with valuable knowledge gained through their interaction with elite individuals and institutions (D'Aveni and Kesner, 1993). Milbourn (2003) and Francis et al. (2008) use the number of articles correlated with CEOs from newspaper or websites as a measurement of CEO reputation, but La Fond (2008) challenges the validity of the press coverage, because of the possibility that not all media are well known, and not all exposure is positive.

Unlike the previous literature on reputation measures, we calculate business ties and political ties, defining the dummy variables *PART\_DUM* and *POLI\_DUM* as measures of CEO reputation. *PART\_DUM* refers to CEOs who serve as independent directors at other firms, which is widely used as a proxy for CEO reputation at listed firms (e.g., Finkelstein, 1992; Finkelstein et al., 2009; Lewellyn and Muller-Kahle, 2012; Lisic et al., 2016). Moreover, political connections, *POLI\_DUM*, play an important role for listed firms in previous Chinese research, because CEOs who used

to work in government have a significant impact on attaining financing, government subsidies, and tax avoidance (e.g., Li et al., 2008; Wu et al., 2012), and could be viewed as part of a valuable reputation. *PART* and *POLI* are proportional variables whose denominators are the board size of the firm.

#### ***4.3. Other variables***

Following Dittmar and Mahrt-Smith (2007) and Chen and Chuang (2009), we use *CASH* (cash and short-term investments divided by total assets) to measure excess firm liquidity. Other major variables in this study include short-term profitability (*ROA*) and long-run firm value (*TOBIN'S Q*), firm size (*SIZE*), leverage (*LEV*), capital expenditure (*CAP*), R&D expenditure (*R&D*), growth opportunities (*GROW*), non-cash assets (*NA*) and interest expenses (*I*). The definitions of all the variables are in the appendix, and financial variables are all collected from annual reports.

#### ***4.4. Summary statistics***

Summary statistics for all firm-years are in Table 1, which lists information on CEO and firm characteristics. Over the sample period, the mean for CEO reputation is measured by business ties (*PART*) and political ties (*POLI*) are 2.9% and 2.2%, respectively. When CEO reputation is measured by the dummy variables *PART\_DUM* and *POLI\_DUM*, about 25.1% of the CEOs hold a position at another company and 18.8% of the CEOs used to work in government, with a standard deviation of 43.3% and 39.1%, respectively. We can infer from this that many of the listed firms have CEOs who have a good reputation, which is consistent with previous studies. *ROA* has an average (median) of 3.9% (3.7%) while *TOBIN's Q* has a mean (median) of 1.911 (1.465), with a standard deviation of 1.324, indicating high volatility. *CASH* is

20.4%. In addition, the listed companies have an average level of *R&D* of 2.616 and *CAP* of 0.031. Other main variables are also reported in Table 1.

[Insert Table 1 Here]

## **5. Empirical results**

### ***5.1. CEO reputation, short-term profitability, and long-run firm value***

At the beginning of our empirical investigation, we employed a univariate test design to illustrate whether CEO reputation has a different effect on short-term profitability and long-run firm value. Because the agency problem can be seen as the conflict between short-term profitability and long-run firm value (Kang et al., 2017), the controlling shareholders in a company are likely to take a long-run view and focus on long-run firm value (La Porta et al., 1999; Faccio and Lang, 2002). By contrast, managers are likely to focus on short-term profitability, as discussed earlier. We take these variables into account and divide them into two groups. Table 2 reports our univariate test of firm value and CEO reputation for the subsamples of firms whose CEOs with and without a good reputation. On average, firms with high-reputation CEOs measured by business ties (*PART\_DUM*) tend to have a higher level of short-term profitability (*ROA*) and lower level of long-run firm value (*TOBIN's Q*) than do firms without high-reputation CEOs; the differences are 0.4% and -15.9%, respectively, significant at the 1% level. The differences are 0.8% and -13.9%, which are significant when the CEO reputation is changed to another measurement (*POLI\_DUM*). In addition, *CASH* is 21.6% in the subsample of firms with CEO reputation and 20.2% otherwise; the difference is significant at the 1% level, which supports our expectation that a better CEO reputation is associated with higher liquidity, which is related to shareholder interests. As shown by a positive mean

difference, CEO reputation is positively related to *ROA*, cash dividends *D*, and current earnings *E*, while it is negatively related to *TOBIN's Q*, *R&D*, *CAP*, and *GROW*. *PART\_DUM* and *POLI\_DUM* have discordant relationships with variables such as *CASH*, *ADJCASH*, *SIZE*, *LEV*, *NA*, and *I*. *PART\_DUM* is negatively related to *CASH* and *ADJCASH* and positively related to *SIZE*, *LEV*, *NA*, and *I*, *POLI\_DUM* the other way around, reflecting that CEOs with business ties tend to maintain less liquidity, have larger company assets, take on more non-cash assets, and pay more interest than those without them, while CEOs with political ties tend to maintain more liquidity, have fewer company assets, take on fewer non-cash assets, and pay less interests than those without them.

[Insert Table 2 Here]

Next, we show how CEO reputation affects short-term profitability and long-run firm value, using pooled cross-sectional regressions:

$$ROA (TOBIN'S Q) = \alpha + \beta_1 CEO\ reputation + \beta_2 CONTROL + \beta_3 INDU + \beta_4 YEAR + \varepsilon \quad (1)$$

Columns 1-3 in Table 3 report the results of the relationship between CEO reputation and short-term profitability. The coefficient of CEO reputation *PART\_DUM* is positive and significant at the 5% level of significance ( $\beta = 0.002$ ,  $t = 2.515$ ). CEO reputation proxied by *POLI\_DUM* is also positively related to *ROA* at the 5% level ( $\beta = 0.002$ ,  $t = 2.391$ ), thus suggesting that CEO reputation has a generally positive effect on short-term profitability. As mentioned earlier, this finding appears to have a rational explanation. CEOs with a good reputation have strong incentives to focus on *ROA* because they prefer more short-term payoff (Hirshleifer and Thakor, 1992), paying more attention to their own interests with a short-term horizon (Antia et al., 2010), and they are more likely to take excessive risk and to be

overconfident (Lewellyn and Muller-Kahle, 2012). The positive effect of CEO reputation on short-term profitability shows that it benefits the listed firms only for a short time. *R&D* has a negative relationship with *ROA* and a positive relationship with Tobin's *Q*. *CAP* has a positive relationship with Tobin's *Q*, but apparently no relationship with *ROA*. This indicates that a CEO with a short-term perspective is likely to underinvest in *R&D* (compared to the optimal level from the shareholders' point of view), but invest at about the right level in *CAP*. The table also shows no association between *CAP* and *ROA*, which implies that CEOs are investing about the right amount; the additional cash flow resulting from *CAP* just covers the cost of financing. *LEV* is negatively associated with *ROA* and Tobin's *Q*. *CASH* is positively associated with *ROA* and negatively associated with Tobin's *Q*. This says that a CEO with a short-term perspective is likely to choose to hold too much *CASH*, compared to the shareholders' point of view.

[Insert Table 3 Here]

Columns 4-6 in Table 3 indicates the effect of CEO reputation on long-run firm value. The table lists the coefficients of *PART\_DUM* and *POLI\_DUM* as -0.122 (t = -5.631) and -0.059 (t = -2.451), respectively. CEO reputation is negatively and significantly related to long-run firm value (*TOBIN's Q*). As noted above, if a CEO has a good reputation, he might not make decisions that are in the best long-term interest of the firm (Jensen, 2004; Ishii and Xuan, 2014). The rationale is that *TOBIN's Q* represents the interest of shareholders, among firms with high-reputation CEOs, and CEOs are able to maximize short-run firm profitability, even at the expense of long-run firm value. Consistent with Kang et al. (2017), we find that R&D and capital expenditure are important channels for increasing long-run firm value, and the coefficients of *R&D* and *CAP* are positive at the 1% level of significance. As for

short-term profitability, current capital expenditure does not have a direct effect on *ROA*, but *R&D* significantly reduces *ROA*. Thus, H1 is supported.

As discussed previously, it is important to analyze the reputation-profitability relation for the short term and long term separately, because they represent different goals for managers and shareholders. Tables 2 and 3 provide preliminary results indicating a direct relation between CEO reputation and firm profitability. Taken all together, CEO reputation benefits the listed firms only in the short run; in particular, long-run firm value directly decreases with a better CEO reputation. Does a CEO with a good reputation have a short-horizon problem? How does CEO reputation affect corporate profitability through investment decisions and liquidity management? The multifactor test results in the relationship are reported in the next section.

## ***5.2. The short-term-horizon hypothesis or the free-cash-flow hypothesis?***

### *5.2.1. CEO reputation, investment decisions, and firm profitability*

R&D is a major contributor to shareholder interests. As Aboody and Lev (2000, p.2748) argue, “R&D differs from other capital and financial inputs (e.g., property, plant, and equipment, inventory, or project financing) along several important dimensions related to information asymmetry between managers and investors.” And related studies (Dechow and Sloan, 1991; Aghion et al., 2013; Tian and Wang, 2014) show that R&D and capital expenditure are important parts of firm investment decisions that increase long-run firm value. Because firms with a good CEO reputation may have more agency problems at the expense of shareholder interests, we argue that a better CEO reputation is associated with shorter CEO decision horizons—in other words, firms with a good CEO reputation have lower-innovation



R&D. We argue that high-reputation CEOs who focus on increases in short-term accounting measures of profitability have an incentive to carry out a suboptimal level of R&D but do not have an analogous incentive to reduce capital expenditure to a suboptimal level. High-reputation CEOs who prefer to hold liquid assets to pursue personal objectives such as empire building and perk consumption have little incentive to expand investment spending, including both capital expenditure and R&D. We examine whether a high-reputation CEO with a short-decision-horizon problem has a negative effect on corporate profitability. We test the magnitude of the CEO reputation effect on investment decisions *R&D* and *CAP* using the following regression models. Our empirical specifications follow previous studies, and our firm control variables follow prior studies, such as Adams et al. (2009) and Kang et al. (2017):

$$R\&D\ (CAP) = \alpha + \beta_1 CEO\ reputation + \beta_2 CONTROL + \beta_3 INDU + \beta_4 YEAR + \varepsilon \quad (2)$$

$$TOBIN'S\ Q = \alpha + \beta_1 R\&D\ (CAP) + \beta_2 R\&D(CAP) \times CEO\ reputation + \beta_3 CEO\ reputation + \beta_4 CONTROL + \beta_{12} INDU + \beta_{13} YEAR + \varepsilon \quad (3)$$

[Insert Table 4 Here]

Ordinary least squares (OLS) regression results are reported in Table 4. Consistent with the previous literature (Aghion et al. 2013; Tian and Wang, 2014), we find that the ratio of *R&D* is negatively associated with CEO reputation, and the coefficients of *PART\_DUM* and *POLI\_DUM* become negative and significant in columns 1 ( $\beta = -0.002$ ,  $t = -2.947$ ) and 6 ( $\beta = -0.004$ ,  $t = -6.173$ ). We find that the input of firm innovation *R&D* is negatively related to CEO reputation. R&D is unique (firm-specific) relative to other forms of capital. We investigate the cost of CEO reputation from the perspective of a specific source of R&D, giving more direct evidence of the cost of CEO reputation. We also find that the *CAP* ratio is negatively

associated with CEO reputation, and the coefficients of *PART\_DUM* and *POLI\_DUM* become negative and insignificant in columns 5 ( $\beta = -0.002$ ,  $t = -0.531$ ) and 6 ( $\beta = -0.005$ ,  $t = -1.208$ ). The results do not change when year and industry effects are controlled for in columns 7 and 8. What's more, the table also shows that *CASH* is more positive for *R&D* than for *CAP*. If short-term perspective CEOs desire excess liquidity, then *CASH* should have similar positive effects on both *R&D* and *CAP*, so this suggests that excess liquidity is less important than other effects. *LEV* is positive for *CAP* and negative for *R&D*. This suggests that constraints exist on what banks will finance, and they are more willing to lend to finance capital expenditure than *R&D*; *R&D* has to be financed out of retained earnings. *GROW* is positively associated with both *R&D* and *CAP*.

[Insert Table 5 Here]

In Table 5, the coefficients of the moderating effects of CEO reputation on decision-making horizons *R&D*×*CEO reputation* are negative and significant in columns 1-4, which suggests that a high-reputation CEO with a short-decision-horizon problem has a negative effect on long-run firm value, and the coefficients of *CAP*×*CEO reputation* are insignificant in columns 5-8. High-reputation CEOs use R&D less effectively than other CEOs. *R&D* and *CAP* both increase Tobin's Q, but they do so less among high-reputation CEOs than among low-reputation CEOs. As shown in columns 1-8, the coefficients of *R&D* and *CAP* are significant and positive, which is in line with prior studies (Aghion et al., 2013; Dechow and Sloan, 1991; Tian and Wang, 2014), and *R&D* and *CAP* are important factors in increasing long-run firm value. Thus, H2a is supported. When expenditures on R&D and capital investment reduce liquidity if paid in cash, our findings indicate that high-reputation CEOs are more likely to boost short-term profitability than to

manipulate liquidity. Hence, in the next step we examine how high-reputation CEOs affect profitability through liquidity management, which refers to the agency cost.

### 5.2.2. CEO reputation, liquidity management, and firm profitability

In this section we test H3. Consistent with previous studies (Opler et al., 1999; Ozkan and Ozkan, 2004), we use a linear regression model to study how CEO reputation affects the level of corporate cash holdings (*CASH*), which is a ratio of cash and short-term investment divided by total assets, taking *SIZE*, *LEV*, *R&D*, *CAP*, *GROW*, and *FIRMAGE* as factors that influence liquidity management. Industry and year effects are controlled for in the fixed-effect regressions. We specify the model as follows:

$$CASH = \alpha + \beta_1 CEO_{reputation} + \beta_2 CONTROL + \beta_3 INDU + \beta_4 YEAR + \varepsilon \quad (4)$$

Table 6 presents the results of model (4) on the connection between liquidity management and CEO reputation, in which the dependent variable is firm liquidity. As shown in column 1, we find that the estimate on *PART\_DUM* is 0.012 ( $t = 3.919$ ), and in column 2, the coefficient of CEO reputation *POLI\_DUM* is positive and significant at the 5% level ( $\beta = 0.014$ ,  $t = 3.576$ ), which suggests that higher CEO reputation is associated with higher liquidity. As measured by rational variables, we find that the estimates on *PART* and *POLI* are 0.088 ( $t = 3.392$ ) and 0.112 ( $t = 3.427$ ), respectively. Regarding the control variables, we note that the coefficients of *SIZE* and *CAP* are significantly positive. These results suggest that listed firms with relatively larger total assets and more capital expenditure tend to maintain higher liquidity. By contrast, the significant negative coefficients of *LEV* and *FIRMAGE* indicate that companies with a higher leverage ratio and longer working years tend to hold less cash. Almost no impact is found from *R&D* and *GROW*. As shown in

columns 5 and 6, the coefficients of *PART\_DUM* and *POLI\_DUM* are 0.010 ( $t = 3.399$ ) and 0.010 ( $t = 2.710$ ), respectively. Whether we use dummy variables or ratio variables to measure CEO reputation, firms with a higher CEO reputation have higher liquidity. This is consistent with the finding that CEO reputation is associated with agency costs that will be reflected in excess cash holdings (Dittmar et al., 2003; Jensen, 2004; Dittmar and Mahrt-Smith, 2007; Chen and Chuang, 2009; Antia et al., 2010). Thus, H3 is supported.

[Insert Table 6 Here]

So far, we have shown that a better CEO reputation is associated with higher corporate cash holdings. As argued earlier, excess liquidity can negatively affect firm value (Dittmar and Mahrt-Smith, 2007; Harford et al., 2008; Lee and Lee, 2010). It is reasonable to expect that firms with a higher CEO reputation can affect firm profitability through liquidity management. Given a certain level of cash holdings, the agency problem is more serious at firms with high-reputation CEOs, so it is more likely that the excess liquidity held by these CEOs, which is a kind of shareholder loss, could lead to lower profitability. Accordingly, our next test examines the moderating effect of CEO reputation on liquidity management.

Then, we examine how CEO reputation affects firm profitability through liquidity management. Following Pinkowitz et al. (2006) and Dittmar and Mahrt-Smith (2007), we develop an empirical regression using a revised model to study how liquidity management affects firm profitability due to CEO reputation, which causes agency problems. We construct an interaction term, *CASH* × *CEO reputation*, to study whether excess corporate liquidity has a negative marginal impact on firm value due to the agency problem related to CEO reputation. Therefore, we expect a negative effect on this interaction term.

$$\begin{aligned}
\text{TOBIN's } Q = & \alpha + \beta_1 \text{CEO reputation} + \beta_2 \text{CASH} + \beta_3 \text{CASH} \times \text{CEO reputation} + \beta_4 \text{R\&D} \\
& + \beta_5 \Delta \text{R\&D}_t + \beta_6 \Delta \text{R\&D}_{t+1} + \beta_7 \text{CAP} + \beta_8 \Delta \text{CAP}_t + \beta_9 \Delta \text{CAP}_{t+1} \\
& + \beta_{10} \text{ANA}_t + \beta_{11} \Delta \text{ANA}_{t+1} + \beta_{12} I + \beta_{13} \Delta I_t + \beta_{14} \Delta I_{t+1} + \beta_{15} D + \beta_{16} \Delta D_t \\
& + \beta_{17} \Delta D_{t+1} + \beta_{18} E + \beta_{19} \Delta E_t + \beta_{20} \Delta E_{t+1} + \beta_{21} \Delta \text{TOBIN's } Q_{t+1} + \varepsilon \quad (5)
\end{aligned}$$

Table 7 reports the regression results based on Equation (5), with *TOBIN's Q* as the dependent variable. The standard errors are clustered at the firm and year level. As shown in the table, the coefficient on the interaction term *CASH*×*PART\_DUM* is -0.331 (t = -1.979) in column 1, and the coefficient on the interaction term *CASH*×*POLI\_DUM* is -0.353 (t = -1.857) in column 2. This suggests that, on average, a 1% increase in excess corporate liquidity has the marginal impact of reducing firm value by 0.35% due to the agency problem related to CEO reputation. When CEO reputation is proxied by ratio variables, the coefficient *CASH*×*CEO reputation* is also significantly negative in column 3 ( $\beta = -3.305$ , t = -2.197) and in column 4 ( $\beta = -3.648$ , t = -2.271). One thing that cannot be ignored is that higher corporate cash holdings lead to a significant and negative impact on firm value at the 1% level, which is shown in all columns. The evidence shows the dark side of a good reputation, such as being positively related to excessive risk taking and overconfidence (Lewellyn and Muller-Kahle, 2012). The results are consistent with prior findings (Hirshleifer and Thakor 1992; Ishii and Xuan, 2014), giving important implications that a self-interested CEO who has a good reputation can allocate more assets to liquid assets to reduce firm value, namely, the moderating effect of CEO reputation on liquidity will lead to lower value creation for shareholders. Therefore, the results in Table 7 support H3.

[Insert Table 7 Here]

The results reported in this section have three important findings. First, the effect of CEO reputation on firm profitability is significantly negative even though a good CEO reputation can benefit the listed firms in the short run. Second, a better CEO reputation is associated with lower R&D, but no association is found between high-reputation CEOs and capital expenditures. Third, the level of excess liquidity significantly increases with a better CEO reputation. CEO reputation has a moderating effect on the relationship between excess liquidity and firm profitability. These findings mainly show the negative impact of a good CEO reputation from the perspective of agency theory, giving strong and direct evidence of the cost of CEO reputation. A high-reputation CEO with a strong motivation makes achievement-oriented decisions in the short run and maintains excess liquidity, thus leading to lower firm profitability in the long run.

### ***5.3. Robustness tests***

We perform several robustness tests to confirm that our findings are not due to the specific estimation methodology used and are not driven by the particular measures of CEO reputation. Robustness tests are performed using a two-stage Heckman (1979) test to solve the self-selection bias problem, an alternative measure of CEO reputation, and an alternative measure of liquidity. The results are in Tables 8-10.

#### ***5.3.1. Endogeneity issues***

It is still possible that the self-selection bias problem remains, because we use dummy variables on CEO reputation in our earlier tests and use CEO reputation as an exogenous variable. However, it is likely that CEOs with a good reputation are more likely to be selected by the board at listed firms or firms with poor profitability when

they need their CEO to have a good reputation to obtain a positive reaction from market. In this case, a simple OLS regression is subject to an omitted variable problem with a non-randomly selected sample. We attempt to alleviate these concerns using the two-stage Heckman (1979) test.

For the first stage, we use probit regression (6), in which the dependent variable is CEO reputation. Milbourn (2003) argues that CEO tenure is significantly related to CEO reputation, and Antia et al. (2010) believe that both relative age and relative tenure are important determinants of CEO reputation. We also include firm size and the dummy variables *DUAL* and *CEO\_SHARE* to indicate whether a CEO simultaneously holds the position of chairman of the board and whether the CEO holds shares. The inverse Mills ratio (*IMR*) is computed in the first-stage regression using a probit model that predicts the likelihood that a firm has a CEO with a better reputation. In the second stage, *IMR* is used as an additional control variable in our models. The results are reported in Table 9. We use the following regression model:

$$CEO\ reputation = \alpha + \beta_1 AGE + \beta_2 TENURE + \beta_3 DUAL + \beta_4 CEOSHARE + \beta_5 SIZE + \beta_6 INDU + \beta_7 YEAR + \varepsilon \quad (6)$$

[Insert Table 8 Here]

Panel A in Table 8 lists the results for the first-stage regression in columns 1-2, which show the likelihood ratio of 1,039.558 and 1,359.955, respectively, and that all determinants of CEO reputation are significantly associated with *PART\_DUM* (*POLI\_DUM*). After controlling for *IMR*, the results in column 3 (4) for the second-stage regression show a significant positive association between CEO reputation and liquidity management. Moreover, Panel B reports the second-stage regression results for the interaction between CEO reputation and firm liquidity after controlling for *IMR*. The results in Panel B for the second-stage regression of firm

value (profitability) show negative coefficients on the two-way interaction ( $CASH \times CEO\ reputation$ ) using all measures of CEO reputation ( $PART\_DUM$  and  $POLI\_DUM$ ), which are significant at the 1% and 5% levels respectively. The results also show negative coefficients on firm liquidity, which are significant at the 1% level. These results in both panels suggest that CEO reputation is correlated with corporate liquidity and that a negative moderating effect of CEO reputation on firm profitability is greater at firms with higher liquidity. Collectively, the results in Table 8 indicate that our main findings are robust to the endogeneity issues.

### *5.3.2. Robustness of results to alternative methods of identifying CEO reputation*

In this section, we check for the robustness of the effect of CEO reputation on liquidity management as well as corporate profitability presented in section 5.2.2 using alternative CEO reputation measures. Harbaugh (1998) argues that donors have a preference for public disclosure of related information and that the pursuit of reputation is one of the most important motivations for donations. Donations can improve reputation, and a good reputation has a positive effect on some commodities. Through an analysis of American companies, Brown et al. (2006) also find that the management and the directors create a reputation or profit for themselves through corporate donations, although they play a role in commercial advertising. In line with prior studies, Shapira (2011) also believes that a company's charitable donations have a significant signal effect, that is, the higher the corporate donations, the more the company donations can improve its reputation. Thus corporate donations are a fast and effective way for managers to improve their reputation and to establish political relations with the government. To some extent, donations can reflect the desire of the CEO to seek a better reputation. CEO reputation thus can be measured by donations.



[Insert Table 9 Here]

In Table 9, we check the robustness of the relation between CEO reputation and corporate profitability presented in Tables 6 and 7, constructing multivariate equations using the alternative CEO reputation measure *DONATION*. The dependent variable in columns 1-2 is excess firm liquidity (*CASH*) and industry-adjusted excess firm liquidity (*ADJCASH*). As shown in Panel A, the coefficients of *DONATION* are significantly positive in columns 1 and 2 at the 1% level. Panel B shows that the coefficient on the interaction term *CASH*×*DONATION* is -0.584 (t = -2.662) in column 1, and the coefficient on the interaction term *ADJCASH*×*DONATION* is -0.688 (t = -2.812) in column 2. The coefficients are significantly negative, suggesting that firms with a better CEO reputation as measured by *DONATION* are more likely to have lower firm value, indicating that CEO reputation does cause a loss for shareholders. The results are similar to previous findings.

### 5.3.3. Robustness of results from alternative methods of identifying liquidity

As argued earlier, the CEO reputation built by business ties and political ties can affect corporate profitability through liquidity management, and our results show that excess liquidity held by CEOs with a good reputation could lead to lower profitability. Following others (e.g., Yang et al., 2017; Huang and Mazouz, 2018), we estimate excess firm liquidity using the residual of the following cross-sectional regression

$$CASH = \alpha + \beta_1 CEOreputation + \beta_2 SIZE + \beta_3 LEV + \beta_4 CAP + \beta_5 R\&D + \beta_6 NWC + \beta_7 ROA + \beta_8 MTB + \beta_9 DID + \beta_{10} INDU + \beta_{11} YEAR + \varepsilon \quad (7)$$

where *CASH* is the ratio of cash and short-term investments scaled by net assets and *MTB* is the market value of assets divided by total assets; other variables are described

in section 4. The residual  $\varepsilon$  in the specification is used as a proxy for excess firm liquidity (*ECASH*) in a given year. As Huang and Mazouz (2018) argue, a positive (negative) residual indicates that the firm hoards more (less) cash than it needs for its normal operational activities and investments during that year. Given the finding that excess cash can be seen as manipulated free cash flow, excess cash reflects agency conflicts in liquidity management. Thus, CEOs with a better reputation are more likely to be overconfident and risky, engaging in weaker critical analysis, which may make the monitoring of these CEOs weaker and cause firms to have more agency problems. We predict that the firms with high-reputation CEOs are more likely to hoard cash, which means that a high-reputation CEO will be associated with more excess cash (*ECASH*). We test the prediction using regression models (4) and (5) in section 5.2.2.

[Insert Table 10 Here]

Table 10 shows the robustness checks for the effect of CEO reputation on liquidity management as well as corporate profitability. Panel A shows the connection between CEO reputation and excess firm liquidity presented in section 5.2.2 using the alternative liquidity measures defined. The cash conversion cycle *ECASH* is used as a proxy for excess liquidity. In Panel A, columns 1 and 2, the coefficients on *PART\_DUM* and *POLI\_DUM* are 0.011 ( $t = 462$ ) and 0.007 ( $t = 1.995$ ) respectively; they are significantly positive, which indicates that high-reputation CEOs hold more cash. In columns 3 to 4, the positive magnitude of the CEO reputation effect on excess cash does not change. Overall, our results show that the presence of high-reputation CEOs can reduce the efficiency of liquidity management through larger excess cash. In addition, Panel B reports results that are similar in terms of magnitude and statistical significance to the findings in Table 7. We find a negative

and significant coefficient for the interaction of CEO reputation with excess firm liquidity when we use *ECASH* as a proxy for liquidity, which is generally significant and negative. Results in Tables 8 to 10 support the existence of the reputation-related agency problem and the free-cash-flow hypothesis. In sum, we find that our conclusions are unchanged using alternative measures of CEO reputation and excess liquidity.

## **6. Conclusion**

Using data on 2,557 Chinese companies listed on the SHSE and the SZSE with 16,163 firm-year observations over the period from 2007 to 2015, our study identifies the cost of a good CEO reputation. Because CEOs with a better reputation tend to pay attention to their own goals rather than shareholder interests, they are more likely to be associated with agency problems. In addition, the reality that CEOs have a strong desire to expand and a motivation for achievement at the expense of calm judgment and the weak corporate governance in the Chinese capital market motivate us to focus on the negative impact of CEO reputation as a source of agency cost. This study sheds new light on CEO reputation, taking into account a unique political connection in the Chinese market.

Our analysis of the role of CEO reputation at Chinese listed firms indicates that firms headed by a high-reputation CEO tend to have higher agency costs and lower profitability. Our findings can be summarized as follows. First, we give direct evidence that CEO reputation has a negative impact on long-term profitability and a positive impact on short-term profitability, which is related to managers' goals. Second, we show that a better CEO reputation is negatively related to R&D, which leads to a negative effect on corporate profitability. We find no association between

CEO reputation and capital expenditures. Because of the difference in accounting treatment, decreases in investment decisions for R&D suggest that high-reputation CEOs are more likely to boost short-term profitability, rather than maintain liquidity. Third, CEO reputation has a significant and positive impact on excess corporate liquidity, and the interaction between CEO reputation and excess corporate liquidity has a negative marginal impact on firm profitability. Our results are robust to proxies for corporate liquidity and CEO reputation. The evidence we offer in this paper is consistent with the notion that high-reputation CEOs are more likely to manipulate corporate short-term profitability at the expense of long-term value creation.

We investigate the relationship between CEO reputation and investment decisions, liquidity management as well as firm profitability, extending the existing literature on the economic value of CEO reputation. We contribute to the literature by focusing on the agency cost of CEO reputation, analyzing how CEO reputation can affect firm value through influencing liquidity management. Using both business ties and political ties as measures of CEO reputation, we confirm that a high-reputation CEO is more likely to prefer short-term expansions in profitability rather than manipulate liquidity, which confirms the free-cash-flow hypothesis among listed firms in China. Our study provides a more comprehensive analysis of the role of CEO reputation than earlier papers and can serve as a reference point for companies in improving profitability.

## References

- Aboody, D., Lev, B., 2000. Information asymmetry, R&D, and insider gains. *Journal of Finance*, 55, 2747–2766.
- Adams, R., Almeida, H., Ferreira, D., 2009. Understanding the relationship between founder–CEOs and firm performance. *Journal of Empirical Finance*, 16, 136–150.
- Aghion, P., Van Reenen, J., Zingales, L., 2013. Innovation and institutional ownership. *American Economic Review*, 103, 277–304.
- Akerlof, G.A., Kranton, R.E., 2000. Economics and identity. *Quarterly Journal of Economics*, 115, 715–753.
- Amihud, Y., Lev, B., 1981. Risk reduction as a managerial motive for conglomerate mergers. *Bell Journal of Economics*, 12(2), 605–617.
- Antia, M., Pantzalis, C., Park, J.C., 2010. CEO decision horizon and firm performance: An empirical investigation. *Journal of Corporate Finance*, 16, 288–301.
- Baysinger, B. D., Kosnik, R. D., Turk, T. A. 1991. Effects of board and ownership structure on corporate R&D strategy. *Academy of Management Journal*, 34, 205–214.
- Bebchuk, L., Stole L., 1993. Do short-term objectives lead to under-or overinvestment in long-term projects. *Journal of Finance*, 48, 719–729.
- Bebchuk, L., Cohen, A., Ferrell, A., 2009. What matters in corporate governance? *Review of Financial Studies*, 22, 783–827.
- Brookman, J., Thistle, P. D., 2009. CEO tenure, the risk of termination and firm value.

- Journal of Corporate Finance, 15, 331–344.
- Brown, W., Helland, E., and Smith, J., 2006. Corporate philanthropic practices, Journal of Corporate Finance, 12(5), 855–877.
- Burt, R.S., 2000. The network structure of social capital. Research in Organizational Behavior, 22, 345–423.
- Campbell, T. S., Marino, A. M., 1994. Myopic investment decisions and competitive labor markets. International Economic Review, 35(4), 855–875.
- Chen, Y.R., Chuang, W.T., 2009. Alignment or entrenchment? corporate governance and cash holdings in growing firms. Journal of Business Research, 62, 1200–1206.
- Chikh, S., Filbien J.Y., 2011. Acquisitions and CEO power: Evidence from French networks. Journal of Corporate Finance, 17, 1221–1236.
- Chung, K. H., Wright, P., Charoenwong, C., 1998. Investment opportunities and market reaction to capital expenditure decisions. Journal of Banking & Finance, 22(1), 41–60.
- D’Aveni, R. A., Kesner, I. F., 1993. Top managerial prestige, power and tender offer response: A study of elite social networks and target firm cooperation during takeovers. Organization Science, 4, 123–151.
- Dechow, P.M., Sloan, R.G., 1991. Executive incentives and the horizon problem: An empirical investigation. Journal of Accounting and Economics, 14, 51–89.
- Dittmar, A., Mahrt-Smith, J., 2007. Corporate governance and the value of cash holdings. Journal of Financial Economics, 83, 599–634.
- Dittmar, A., Mahrt-Smith, J., Servaes, H., 2003. International corporate governance

- and corporate cash holdings. *Journal of Financial and Quantitative Analysis*, 38, 111–133.
- Edmans A., 2009. Block holder trading, market efficiency, and managerial myopia. *Journal of Finance*, 64, 2481–2513.
- Faccio, M., Lang, L.H.P., 2002. The ultimate ownership of western European corporations. *Journal of Financial Economics*, 65, 365–395.
- Ferris, S. P., Javakhadze, D., Rajkovic, T., 2017. CEO social capital, risk-taking and corporate policies. *Journal of Corporate Finance*, 47, 46–71.
- Finkelstein, S., 1992. Power in top management teams: Dimensions, measurement, and validation. *Academy of Management Journal*, 35, 505–538.
- Finkelstein, S., Hambrick, D. C., Cannella, A. A., 2009. *Strategic Leadership: Theory and Research on Executives, Top Management Teams, and Boards*. Oxford: Oxford University Press.
- Francis, J., Huang, A. H., Rajgopal, S., Zang, A. Y., 2008. CEO reputation and earnings quality. *Contemporary Accounting Research*, 25, 109–147.
- Fuller, K., Netter, J., Stegemoller, M., 2002. What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions. *Journal of Finance*, 57, 1763–1794.
- Galema, R., Lensink, R., Mersland, R., 2012. Do powerful CEOs determine microfinance performance? *Journal of Management Studies*, 49, 718–742.
- Gerakos, J., 2007. CEO pensions: Disclosure, rent extraction, and incentive contracting. Philadelphia: University Pennsylvania 1-51.

- Gompers, P., Ishii, J., Metrick, A., 2003. Corporate governance and equity prices. *Quarterly Journal of Economics*, 118, 107-156.
- Gormley, T. A., Matsa, D. A., 2016. Playing it safe? Managerial preferences, risk, and agency conflicts. *Journal of Financial Economics*, 122(3), 431-455.
- Guariglia, A., Yang, J., 2016. Adjustment behavior of corporate cash holdings: the China experience. *European Journal of Finance*, 4, 1–29.
- Harbaugh, W., 1998. What do donations buy? A model of philanthropy based on prestige and warm glow. *Journal of Public Economics*, 67(2), 269–284.
- Harford, J., 1999. Corporate cash reserves and acquisitions. *Journal of Finance*, 54, 1969–1997.
- Harford, J., Mansi, S. A., Maxwell, W. F., 2008. Corporate governance and firm cash holdings in the US. *Journal of Financial Economics*, 87, 535-555.
- Heckman, J., 1979. Sample selection bias as a specification error. *Econometrica*, 47, 153–161.
- Hirshleifer, D., Thakor, A.V., 1992. Managerial conservatism, project choice, and debt. *Review of Financial Studies*, 5, 437-470.
- Huang, W., Mazouz, K., 2018. Excess cash, trading continuity, and liquidity risk. *Journal of Corporate Finance*, 48, 275-291.
- Ishii, J., Xuan, Y., 2014. Acquirer-target social ties and merger outcomes. *Journal of Financial Economics*, 112, 344-363.
- Jensen, M.C., 1986. Agency costs of the free cash flow, corporate finance and takeovers. *American Economic Review*, 76, 323–329.



- Jensen, M.C., 2004. The agency costs of overvalued equity and the current state of corporate finance. *European Financial Management*, 10, 549-565.
- Kang, H.C., Anderson, R.M., Eom, K.S., Kang, S. K., 2017. Controlling shareholders' value, long-run firm value and short-term performance. *Journal of Corporate Finance*, 43, 340-353.
- Korkeamäki, T, Liljeblom, E, Pasternack, D., 2017. CEO power and matching leverage preferences. *Journal of Corporate Finance*, 45, 19–30.
- Koussis, N., Martzoukos, S. H., Trigeorgis, L., 2017. Corporate liquidity and dividend policy under uncertainty. *Journal of Banking Finance* , 81,221-235.
- La Fond, R., 2008. Discussion of “CEO Reputation and Earnings Quality,” *Contemporary Accounting Research*, 25, 149-156.
- Lamont, O., 1997. Cash flow and investment: Evidence from internal capital markets. *Journal of Finance*, 52(1), 83–109.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 1999. The quality of government. *Journal of Law, Economics, and Organization*, 15, 222-279.
- Lang, L.H. 2014. *Corporate governance: Lang Xianping Academic corpus* (Supplement). Oriental publishing house. 12,326-348.
- Lang, L. H., Stulz, R., Walkling, R. A., 1991. A test of the free cash flow hypothesis: The case of bidder returns. *Journal of Financial Economics*, 29, 315-335.
- Lee, K. W., Lee, C. F., 2010. Cash holdings, corporate governance structure and firm valuation. Nanyang Technological University, Working paper.
- Lewellyn, K. B., Muller-Kahle, M.I., 2012. CEO power and risk taking: Evidence

- from the subprime lending industry. *Corporate Governance: An International Review*, 20, 289–307.
- Li, H., Meng, L., Wang, Q., Zhou, L.A., 2008. Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87, 283-299.
- Liao, L. K., Lin, Y. M., Lin, T. W., 2016. Non-financial performance in product market and capital expenditure. *Journal of Business Research*, 69(6), 2151–2159.
- Lipson, M. L., Mortal, S., 2009. Liquidity and capital structure. *Journal of Financial Markets*, 12(4), 611–44.
- Lisic, L.L., Neal, T.L., Zhang, I.X., Zhang, Y., 2016. CEO power, internal control quality, and audit committee effectiveness in substance versus in form. *Contemporary Accounting Research*, 33, 1199-1237.
- Lundstrum, L. L., 2002. Corporate investment myopia: A horserace of the theories. *Journal of Corporate Finance*, 8, 353–371
- Magee, J. C., Galinsky, A.D., 2008. Social hierarchy: The self-reinforcing nature of power and status. *Academy of Management Annals*, 2, 351-398.
- McConnell, J. J., Muscarella, C. J., 1985. Corporate capital expenditure decisions and the market value of the firm. *Journal of Financial Economics*, 14(3), 399–422.
- Milbourn, T.T., 2003. CEO reputation and stock-based compensation. *Journal of Financial Economics*, 68, 233-262.
- Mishra, R., 2014. The dark side of CEO ability: CEO general managerial skills and cost of equity capital. *Journal of Corporate Finance*, 29, 390–409.

- Morck, R., Shleifer, A., Vishny, R. W., 1988. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20, 293–315.
- Morck, R. K., Stangeland, D.A., Yeung, B., 1998. Inherited wealth, corporate control and economic growth: The Canadian disease. National Bureau of Economic Research Working paper no. w6814.
- Murray, A. I., 1989. Top management group heterogeneity and firm performance. *Strategic Management Journal*, 10, 125-141.
- Nahapiet, J., Ghoshal, S., 1998. Social capital, intellectual capital, and the organizational advantage. *Academy of Management Review*, 23, 242–266.
- Nguyen, B.D., 2012. Does the Rolodex matter? Corporate elite’s small world and the effectiveness of boards of directors. *Management Science*, 58, 236-252.
- Opler, T., Pinkowitz, L., Stulz, R., Williamson, R., 1999. The determinants and implication of cash holdings. *Journal of Financial Economics*, 52, 3–46.
- Ozkan, A., Ozkan, N., 2004. Corporate cash holdings: An empirical investigation of UK companies. *Journal of Banking and Finance*, 28, 2103–2134.
- Pinkowitz, L., Williamson, R., 2007. What is the market value of a dollar of corporate cash? *Journal of Applied Corporate Finance*, 19(3), 74–81.
- Pinkowitz, L., Stulz, R., Williamson, R., 2006. Does the contribution of corporate cash holdings and dividends to firm value depend on governance? A cross–country analysis. *Journal of Finance*, 61, 2725–2751.
- Radbourne, J., 2003. Performing on boards: The link between governance and corporate reputation in nonprofit arts boards. *Corporate Reputation Review*, 6,

212–222.

Shapira, R., 2011. Corporate philanthropy as signaling and co-optation. *Fordham Law Review.*, 80, 1889.

Tian, X., Wang, T. Y., 2014. Tolerance for failure and corporate innovation. *Review of Financial Studies*, 27, 211-255.

Vogt, S. C., 1997. Cash flow and capital spending: Evidence from capital expenditure announcements. *Financial Management*, 26(2), 44–57.

Wu, W., Wu, C., Zhou, C., Wu, J., 2012. Political connections, tax benefits and firm performance: Evidence from China. *Journal of Accounting and Public Policy*, 31, 277–300.

Yang, J., Guariglia, A., Guo, J. M., 2017. To what extent does corporate liquidity affect M&A decisions, method of payment and performance? Evidence from China. *Journal of Corporate Finance* <https://doi.org/10.1016/j.jcorpfin.2017.09.012>

## Appendix: Variable definitions

Variable label	Definition	Data source
<i>PART_DUM</i>	1 if the CEO serves as independent directors in other firms, and 0 otherwise	CSMAR and RESSET
<i>POLI_DUM</i>	1 if the CEO used to work in government, and 0 otherwise	CSMAR and RESSET
<i>PART</i>	<i>PART_DUM</i> /number of board members	CSMAR and RESSET
<i>POLI</i>	<i>POLI_DUM</i> /number of board members	CSMAR and RESSET
<i>ROA</i>	Net profit/assets	CSMAR
<i>TOBIN'S Q</i>	(Book value of debt + market value of equity)/book value of assets	CSMAR
<i>SIZE</i>	Ln(assets)	CSMAR
<i>LEV</i>	Debt/assets	CSMAR
<i>R&amp;D</i>	R&D expenses/assets	CSMAR
<i>CAP</i>	Capital expenditures/assets	CSMAR
<i>GROW</i>	Annual growth rate of main business	CSMAR
<i>CASH</i>	Cash and short-term investments/assets	CSMAR
<i>ADJCASH</i>	<i>CASH</i> -corresponding global industry median value in a given year at the two-digit standard industrial classification (SIC) level	CSMAR
<i>FIRMAGE</i>	Number of years since a firm was founded	CSMAR
<i>NA</i>	Non-cash assets/asset	CSMAR
<i>I</i>	Interest expenses/asset	CSMAR
<i>D</i>	Cash dividends/asset	CSMAR
<i>E</i>	Current earnings/asset	CSMAR
<i>DUAL</i>	1 if the CEO is also the chairman of the board, and 0 otherwise	CSMAR
<i>AGE</i>	Age of CEO	CSMAR
<i>TENU</i>	Number of years since a CEO took office at that company	CSMAR
<i>CEOSHARE</i>	1 if the CEO holds shares, and 0 otherwise	CSMAR
<i>DONATION</i>	Corporate charitable donations/total assets	CSMAR
<i>ECASH</i>	The residual $\varepsilon$ calculated from Eq. (7)	CSMAR

**Table 1: Summary statistics**

This table reports summary statistics of the main variables used in the regression analysis, including firm performance measure, the proxies of CEO reputation, and several control variables. The sample contains 2,557 companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange between 2007 and 2015. The unit of observation is firm-year. The characteristics of listed firms and information on CEO are collected from the RESSET and CSMAR databases. Financial companies and ST (special treatment) companies are deleted because of the particularity of their industry and financial status. We also delete companies that went public in that year and have missing financial information. The variables are winsorized at both the top and bottom 1% in each year. The definitions of all the variables are in the Appendix.

Variable	MEAN	SD	MIN	MED	MAX	N
<i>CEO characteristics</i>						
PART	0.029	0.052	0.000	0.000	0.250	16,163
POLI	0.022	0.046	0.000	0.000	0.143	16,163
PART_DUM	0.251	0.433	0.000	0.000	1.000	16,163
POLI_DUM	0.188	0.391	0.000	0.000	1.000	16,163
<i>Firm characteristics</i>						
ROA	0.039	0.057	-0.261	0.037	0.195	16,163
TOBIN'S Q	1.911	1.314	0.624	1.465	6.680	16,163
SIZE	21.870	1.270	19.114	21.708	25.574	16,163
LEV	0.445	0.223	0.047	0.443	0.990	16,163
R&D	0.026	0.048	0.000	0.011	1.694	16,163
CAP	0.031	0.106	0.000	0.002	0.808	16,163
GROW	0.464	1.518	-0.801	0.106	11.413	16,163
CASH	0.204	0.157	0.010	0.157	0.717	16,163
ADJCASH	0.038	0.143	-0.178	0.000	0.503	16,163
FIRMAGE	2.700	0.382	0.693	2.773	4.290	16,163
NA	0.796	0.157	0.283	0.843	0.993	16,163
I	0.008	0.013	-0.017	0.007	0.053	16,163
D	0.013	0.017	0.000	0.007	0.088	16,163
E	0.057	0.058	-0.157	0.054	0.242	16,163

**Table 2: Univariate test**

This table reports results of a univariate test of firm value and CEO reputation. This table presents the mean univariate statistics related to the variables that describe the CEO characteristics and firm performance for listed firms. Variable definitions are in the Appendix. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	<i>CEO reputation=1</i>		<i>CEO reputation =0</i>		<i>MeanDiff</i>	
	Mean (N=4051)	Mean (N=3042)	Mean (N=12112)	Mean (N=13121)	PART_DUM	POLI_DUM
ROA	0.042	0.045	0.038	0.037	0.004***	0.008***
TOBIN's Q	1.792	1.799	1.951	1.937	-0.159***	-0.139***
CASH	0.202	0.216	0.205	0.202	-0.003	0.014***
ADJCASH	0.037	0.050	0.038	0.035	-0.000	0.015***
SIZE	22.109	21.841	21.790	21.877	0.319***	-0.036
LEV	0.455	0.412	0.442	0.453	0.013***	-0.041***
R&D	0.024	0.025	0.027	0.026	-0.003***	-0.002***
CAP	0.029	0.026	0.032	0.033	-0.003	-0.007***
GROW	0.410	0.398	0.482	0.479	-0.072***	-0.082***
FIRMAGE	2.651	2.658	2.717	2.710	-0.066***	-0.052***
NA	0.798	0.785	0.795	0.798	0.003	-0.014***
I	0.008	0.007	0.008	0.008	0.000	-0.001***
D	0.014	0.014	0.012	0.012	0.002***	0.002***
E	0.061	0.063	0.056	0.056	0.005***	0.007***

**Table 3: Regression results of the effect of CEO reputation on the short-term performance and long-run value**

This table shows the regression results for CEO reputation on the short-term performance and long-term value. The regression equations are specified as follows:

$$ROA \text{ (TOBIN's } Q) = \alpha + \beta_1 \text{CEO reputation} + \beta_2 \text{CONTROL} + \beta_4 \text{INDU} + \beta_5 \text{YEAR} + \varepsilon \quad (1)$$

The dependent variable in regressions (1) - (3) is the short-term performance ROA. The dependent variable in regressions (4) - (6) is the long-term value TOBIN's Q. The definitions of variables are provided in Appendix. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Panel A: The effect of CEO reputation on short-term performance			Panel B: The effect of CEO reputation on long-run value		
	(1)	(2)	(3)	(4)	(5)	(6)
PART_DUM	0.002** (2.515)		0.002** (2.261)	-0.122*** (-5.631)		-0.118*** (-5.439)
POLI_DUM		0.002** (2.391)	0.002** (2.130)		-0.059** (-2.451)	-0.045* (-1.867)
R&D	-0.076*** (-5.703)	-0.077*** (-5.730)	-0.076*** (-5.687)	2.823*** (5.229)	2.853*** (5.270)	2.819*** (5.220)
CAP	0.000 (0.069)	0.001 (0.103)	0.001 (0.097)	1.382*** (8.786)	1.379*** (8.760)	1.379*** (8.762)
SIZE	0.012*** (23.168)	0.012*** (23.323)	0.012*** (23.157)	0.026** (1.962)	0.022 (1.608)	0.027** (2.006)
LEV	-0.126*** (-34.607)	-0.126*** (-34.474)	-0.126*** (-34.472)	-0.867*** (-10.447)	-0.883*** (-10.631)	-0.873*** (-10.507)
CASH	0.044*** (13.025)	0.044*** (13.043)	0.044*** (13.028)	-0.226** (-2.181)	-0.226** (-2.184)	-0.226** (-2.179)
GROW	0.002*** (5.268)	0.002*** (5.306)	0.002*** (5.303)	0.047*** (4.830)	0.047*** (4.811)	0.047*** (4.801)
FIRMAGE	0.001 (0.946)	0.001 (0.850)	0.001 (1.015)	0.438*** (15.621)	0.448*** (16.076)	0.436*** (15.538)
ALPHA	-0.193*** (-17.721)	-0.194*** (-17.845)	-0.193*** (-17.778)	0.244 (0.858)	0.321 (1.130)	0.250 (0.881)
YEAR	Yes	Yes	Yes	Yes	Yes	Yes
INDU	Yes	Yes	Yes	Yes	Yes	Yes
N	16,163	16,163	16,163	16,163	16,163	16,163
Adj. $R^2$	0.251	0.251	0.251	0.217	0.216	0.217
F-test	97.308***	97.678***	95.099***	104.531***	103.911***	101.653***



**Table 4: Regression results of the effect of CEO reputation on investment decisions**

This table shows the regression results for CEO reputation on investment decisions. The regression equations are specified as follows:

$$R\&D(CAP) = \alpha + \beta_1 \text{CEO reputation} + \beta_2 \text{CONTROL} + \beta_3 \text{INDU} + \beta_4 \text{YEAR} + \varepsilon \quad (2)$$

The dependent variable in regressions (1)–(4) is firm innovation R&D. The dependent variable in regressions (5)–(8) is capital expenditure (CAP). OLS regression results are in columns 1–8. The definitions of variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Panel A: The effect of CEO reputation on R&D				Panel B: The effect of CEO reputation on capital expenditure			
	R&D				CAP			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PART_DUM	-0.002*** (-2.947)		-0.002*** (-3.558)		-0.002 (-0.531)		-0.002 (-0.635)	
POLI_DUM		-0.004*** (-6.173)		-0.001* (-1.933)		-0.005 (-1.208)		-0.004 (-1.185)
SIZE	-0.002*** (-4.753)	-0.002*** (-4.885)	-0.002*** (-4.979)	-0.002*** (-5.165)	-0.026*** (-11.825)	-0.026*** (-11.842)	-0.024*** (-10.299)	-0.024*** (-10.309)
LEV	-0.045*** (-14.935)	-0.045*** (-15.113)	-0.028*** (-8.827)	-0.028*** (-8.878)	0.033*** (3.677)	0.033*** (3.670)	0.033*** (3.554)	0.032*** (3.546)
GROW	0.000 (1.339)	0.000 (1.315)	0.000*** (2.588)	0.000** (2.563)	0.002** (2.517)	0.002** (2.516)	0.002*** (2.604)	0.002*** (2.604)
CASH	0.047*** (11.313)	0.047*** (11.321)	0.031*** (7.826)	0.031*** (7.818)	0.028*** (3.128)	0.028*** (3.141)	0.034*** (3.700)	0.034*** (3.710)
FIRMAGE	-0.004*** (-3.900)	-0.003*** (-3.866)	-0.008*** (-9.190)	-0.008*** (-8.964)	0.045*** (6.991)	0.045*** (6.909)	0.047*** (3.549)	0.046*** (3.539)
ALPHA	0.089*** (11.455)	0.090*** (11.646)	0.069*** (8.574)	0.070*** (8.700)	0.449*** (11.421)	0.450*** (11.473)	0.410*** (6.537)	0.411*** (6.546)
YEAR	No	No	Yes	Yes	No	No	Yes	Yes
INDU	No	No	Yes	Yes	No	No	Yes	Yes
N	16,163	16,163	16,163	16,163	16,163	16,163	16,163	16,163
Adj. $R^2$	0.120	0.121	0.291	0.291	0.011	0.011	0.018	0.018
F-test	237.057***	236.119***	201.306***	206.872***	24.970***	25.168***	7.403***	7.434***

**Table 5: CEO reputation, investment decisions, and firm profitability**

This table shows fixed-effect regression results for Eq. (3).

$$TOBIN's\ Q = \alpha + \beta_1\ CEO\ reputation + \beta_2\ R\&D\ (CAP) + \beta_3\ R\&D\ (CAP) \times CEO\ reputation + \beta_4\ CONTROL + \beta_5\ INDU + \beta_6\ YEAR + \varepsilon \quad (3)$$

The dependent variables are the measures of liquidity of the firm. *CAP* is the ratio of capital expenditure investments divided by total assets, *R&D* is the index of research and development of the firm. CEO reputation is measured by dummy variable. The definitions of variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	<i>O</i>		<i>logO</i>		<i>O</i>		<i>logO</i>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
R&D	0.635*** (2.797)	0.677*** (2.990)	0.203** (2.263)	0.212** (2.367)	1.710*** (4.913)	1.702*** (4.889)	0.746*** (4.562)	0.744*** (4.546)
CAP	0.203*** (2.974)	0.204*** (2.982)	0.084*** (3.128)	0.085*** (3.137)	0.692*** (6.429)	0.705*** (6.351)	0.321*** (6.082)	0.338*** (6.126)
R&D x PART_DUM	-2.100* (-1.648)		-1.166** (-2.316)					
R&D x POLI_DUM		-4.974*** (-4.161)		-1.837*** (-3.891)				
CAP x PART_DUM					0.978 (0.857)		0.699 (1.309)	
CAP x POLI_DUM						0.012 (0.041)		-0.039 (-0.332)
PART_DUM	-0.015 (-0.513)		-0.006 (-0.518)		0.001 (0.023)		-0.010 (-0.949)	
POLI_DUM		0.094** (2.557)		0.027* (1.850)		-0.047** (-2.132)		-0.023** (-2.198)
SIZE	-0.971*** (-51.921)	-0.974*** (-52.128)	-0.395*** (-53.524)	-0.397*** (-53.730)	-0.433*** (-41.014)	-0.432*** (-40.957)	-0.210*** (-41.601)	-0.210*** (-41.571)
LEV	1.114*** (15.285)	1.115*** (15.313)	0.522*** (18.139)	0.523*** (18.181)	0.442*** (6.855)	0.435*** (6.745)	0.356*** (10.895)	0.353*** (10.801)
CASH	-1.425*** (-19.619)	-1.429*** (-19.690)	-0.836*** (-29.154)	-0.838*** (-29.240)	-0.681*** (-8.658)	-0.682*** (-8.653)	-0.396*** (-9.519)	-0.397*** (-9.540)
GROW	0.002 (0.453)	0.002 (0.442)	-0.001 (-0.522)	-0.001 (-0.530)	0.017** (2.553)	0.017** (2.502)	0.006* (1.857)	0.005* (1.799)
FIRMAGE	1.298*** (12.441)	1.291*** (12.380)	0.802*** (19.479)	0.799*** (19.407)	0.437*** (18.137)	0.434*** (18.090)	0.248*** (21.530)	0.248*** (21.564)
ALPHA	18.282*** (36.467)	18.348*** (36.626)	6.461*** (32.632)	6.489*** (32.793)	9.279*** (42.435)	9.286*** (42.401)	3.920*** (38.664)	3.926*** (38.644)
YEAR&INDU	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	16,163	16,163	16,163	16,163	16,163	16,163	16,163	16,163
Adj. $R^2$	0.444	0.445	0.546	0.546	0.343	0.343	0.382	0.382
F	301.109***	301.673***	453.383***	453.673***	158.486***	158.129***	221.746***	220.570***

**Table 6: Regression results of the effect of CEO reputation on corporate liquidity**

This table shows fixed-effect regression results for Eq. (4).

$$CASH = \alpha + \beta_1 \text{CEO reputation} + \beta_2 \text{CONTROL} + \beta_3 \text{INDU} + \beta_4 \text{YEAR} + \varepsilon + \varepsilon \quad (4)$$

The dependent variables are the measures of liquidity of the firm. *CASH* is the ratio of cash and short-term investments divided by total assets.

The definitions of variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

	<i>CASH</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PART_DUM	0.012*** (3.919)				0.010*** (3.399)			
POLI_DUM		0.014*** (3.576)				0.010*** (2.710)		
PART			0.088*** (3.392)				0.075*** (3.146)	
POLI				0.112*** (3.427)				0.085*** (2.830)
SIZE					0.013*** (5.706)	0.013*** (5.809)	0.013*** (5.745)	0.013*** (5.826)
LEV					-0.314*** (-38.345)	-0.314*** (-38.353)	-0.314*** (-38.368)	-0.314*** (-38.363)
R&D					-0.019 (-0.716)	-0.020 (-0.746)	-0.019 (-0.713)	-0.020 (-0.741)
CAP					0.030*** (3.696)	0.030*** (3.705)	0.030*** (3.689)	0.030*** (3.703)
GROW					-0.001 (-1.472)	-0.001 (-1.499)	-0.001 (-1.483)	-0.001 (-1.495)
FIRIMAGE					-0.302*** (-25.081)	-0.302*** (-25.056)	-0.303*** (-25.094)	-0.302*** (-25.072)
ALPHA	0.176*** (8.299)	0.177*** (8.383)	0.176*** (8.337)	0.177*** (8.377)	0.792*** (13.450)	0.788*** (13.389)	0.791*** (13.436)	0.788*** (13.381)
YEAR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDU	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	16,163	16,163	16,163	16,163	16,163	16,163	16,163	16,163
Adj. $R^2$	0.142	0.142	0.142	0.142	0.271	0.271	0.271	0.271
F	80.553***	80.446***	80.393***	80.403***	148.533***	148.363***	148.466***	148.390***

**Table 7: CEO reputation, liquidity management, and firm profitability**

This table shows fixed-effect regression results for Eq. (5).

$$TOBIN's\ Q = \alpha + \beta_1\ CEO\ reputation + \beta_2\ CASH + \beta_3\ CASH \times CEO\ reputation + \beta_4\ R\&D + \beta_5\ \Delta R\&D_t + \beta_6\ \Delta R\&D_{t+1} + \beta_7\ CAP + \beta_8\ \Delta CAP_t + \beta_9\ \Delta CAP_{t+1} + \beta_{10}\ \Delta NA_t + \beta_{11}\ \Delta NA_{t+1} + \beta_{12}\ I + \beta_{13}\ \Delta I_t + \beta_{14}\ \Delta I_{t+1} + \beta_{15}\ D + \beta_{16}\ \Delta D_t + \beta_{17}\ \Delta D_{t+1} + \beta_{18}\ E + \beta_{19}\ \Delta E_t + \beta_{20}\ \Delta E_{t+1} + \beta_{21}\ \Delta TOBIN's\ Q_{t+1} + \varepsilon \quad (5)$$

The coefficient of interaction between CEO reputation and cash holdings can reflect the effect of CEO reputation on the marginal value of cash holdings. The definitions of variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable: Q	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CASH	-0.522*** (-5.229)	-0.534*** (-5.361)	-0.517*** (-5.193)	-0.518*** (-5.213)	-0.728*** (-5.306)	-0.731*** (-5.320)	-0.722*** (-5.275)	-0.718*** (-5.234)
CASH x PART_DUM	-0.331** (-1.979)				-0.273* (-1.656)			
CASH x POLI_DUM		-0.353* (-1.857)				-0.312* (-1.665)		
CASH x PART			-3.050** (-2.197)				-2.588* (-1.888)	
CASH x POLI				-3.648** (-2.271)				-3.196** (-2.015)
PART_DUM	0.017 (0.415)				0.008 (0.215)			
POLI_DUM		0.104** (2.007)				0.085* (1.665)		
PART			0.272 (0.809)				0.191 (0.577)	
POLI				1.032** (2.332)				0.815* (1.865)
R&D	1.652*** (3.922)	1.641*** (3.895)	1.654*** (3.927)	1.644*** (3.903)	1.952*** (4.678)	1.944*** (4.657)	1.955*** (4.683)	1.946*** (4.662)
$\Delta R\&D_t$	0.805*** (3.044)	0.804*** (3.042)	0.803*** (3.036)	0.802*** (3.033)	0.803*** (3.056)	0.802*** (3.050)	0.801*** (3.049)	0.800*** (3.042)
$\Delta R\&D_{t+1}$	1.260*** (5.099)	1.258*** (5.089)	1.259*** (5.092)	1.257*** (5.087)	1.537*** (6.256)	1.536*** (6.249)	1.535*** (6.249)	1.535*** (6.246)
CAP	0.890*** (6.969)	0.893*** (6.994)	0.889*** (6.964)	0.894*** (7.008)	0.812*** (6.417)	0.813*** (6.428)	0.812*** (6.413)	0.815*** (6.439)
$\Delta CAP_t$	-0.164**	-0.167**	-0.164**	-0.168**	-0.154**	-0.156**	-0.154**	-0.157**

	(-2.241)	(-2.286)	(-2.237)	(-2.299)	(-2.121)	(-2.153)	(-2.117)	(-2.162)
$\Delta CAP_{t+1}$	0.327***	0.326***	0.327***	0.326***	0.275***	0.273***	0.275***	0.273***
	(4.376)	(4.363)	(4.374)	(4.369)	(3.689)	(3.666)	(3.690)	(3.671)
$\Delta NA_t$					-0.561***	-0.562***	-0.561***	-0.561***
					(-5.595)	(-5.611)	(-5.596)	(-5.599)
$\Delta NA_{t+1}$					-0.171	-0.175	-0.171	-0.174
					(-1.546)	(-1.579)	(-1.542)	(-1.571)
I					1.179	1.224	1.182	1.233
					(0.730)	(0.757)	(0.731)	(0.762)
$\Delta It$					3.906***	3.880***	3.908***	3.867***
					(3.120)	(3.098)	(3.121)	(3.088)
$\Delta It+1$					-3.694***	-3.689***	-3.695***	-3.682***
					(-2.757)	(-2.753)	(-2.758)	(-2.748)
D					0.331	0.298	0.340	0.304
					(0.279)	(0.251)	(0.287)	(0.257)
$\Delta Dt$					-0.886	-0.883	-0.884	-0.879
					(-1.213)	(-1.209)	(-1.211)	(-1.204)
$\Delta Dt+1$					-1.284	-1.323	-1.275	-1.321
					(-1.540)	(-1.586)	(-1.528)	(-1.584)
E					3.291***	3.290***	3.291***	3.287***
					(11.551)	(11.544)	(11.554)	(11.533)
$\Delta Et$					-0.637***	-0.642***	-0.638***	-0.642***
					(-4.064)	(-4.096)	(-4.068)	(-4.094)
$\Delta Et+1$					1.771***	1.773***	1.770***	1.772***
					(10.870)	(10.882)	(10.863)	(10.873)
$\Delta Qt+1$	-0.267***	-0.267***	-0.267***	-0.267***	-0.260***	-0.260***	-0.260***	-0.260***
	(-34.832)	(-34.877)	(-34.826)	(-34.890)	(-34.171)	(-34.202)	(-34.165)	(-34.211)
ALPHA	0.778***	0.758***	0.772***	0.753***	0.549***	0.530***	0.543***	0.527***
	(4.462)	(4.349)	(4.428)	(4.325)	(3.125)	(3.019)	(3.095)	(3.002)
YEAR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDU	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$R^2$	12,038	12,038	12,038	12,038	12,038	12,038	12,038	12,038
N	0.307	0.307	0.307	0.307	0.326	0.326	0.326	0.326
F-test	118.776***	118.709***	118.772***	118.784***	99.346***	99.298***	99.347***	99.338***

**Table 8: Endogeneity issues: Heckman Two-Stage Estimation**

This table reports the results from Heckman (1979) self-selection two stage regression model. To get the Inverse Mills Ratio (IMR), we use the following probit regression model :

$$CEO\ reputation = \alpha + \beta_1 AGE + \beta_2 TENURE + \beta_3 DUAL + \beta_4 CEOSHARE + \beta_5 SIZE + \beta_6 INDU + \beta_7 YEAR + \varepsilon \quad (6)$$

Panel A reports relation between CEO reputation and liquidity management. The results from the first stage regression of CEO reputation (proxied by *PART\_DUM* and *POLI\_DUM*) are provided in Column 1 and 2, the second stage regression of corporate cash holdings ((proxied by *CASH*) on CEO reputation. Inverse Mills Ratio (*IMR*) and control variables are provide in Column 3 and 4, respectively. Intercept is included in all regressions. *AGE* is the age of the CEO who works for firm. *TENURE* is the number of years the CEO has held that position. *DUAL* and *CEOSHARE* are dummy variables that explain whether CEO holds the position of chairman and whether CEO holds shares. Panel B reports the regression results of the moderating effects of CEO reputation on liquidity management and the interaction term *CASH x CEO reputation* is constructed to show whether the corporate cash holdings have a negative marginal impact on firm value, Inverse Mills Ratio (*IMR*) from first stage analysis. The definitions of other variables are provided in Appendix. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

**Panel A. CEO reputation and liquidity management**

Variables	First stage: Probit Regression		Second stage regressions	
	<i>PART_DUM</i> (1)	<i>POLI_DUM</i> (2)	<i>CASH</i> (3)	(4)
<i>PART_DUM</i>			0.007** (2.506)	
<i>POLI_DUM</i>				0.006* (1.735)
<i>AGE</i>	0.007*** (3.668)	0.010*** (4.854)		
<i>TENURE</i>	0.003*** (7.587)	0.003*** (5.800)		
<i>DUAL</i>	0.659*** (24.074)	0.802*** (28.339)		
<i>CEOSHARE</i>	-0.259*** (-10.571)	0.147*** (5.581)		
<i>SIZE</i>	0.162*** (16.176)	0.040*** (3.685)	0.016*** (6.967)	0.016*** (7.579)
<i>LEV</i>			-0.305*** (-38.266)	-0.305*** (-38.224)
<i>R&amp;D</i>			0.016 (0.644)	0.015 (0.618)
<i>CAP</i>			0.031*** (3.950)	0.031*** (3.953)
<i>GROW</i>			-0.001 (-1.364)	-0.001 (-1.380)
<i>FIRMAGE</i>			-0.274*** (-23.446)	-0.273*** (-23.390)
<i>IMR</i>			-0.014*** (-2.731)	-0.021*** (-5.167)
<i>ALPHA</i>	-4.579*** (-18.989)	-2.064*** (-7.956)	0.664*** (11.058)	0.648*** (11.215)
<i>YEAR</i>	Yes	Yes	Yes	Yes
<i>INDU</i>	Yes	Yes	Yes	Yes
<i>R<sup>2</sup></i>			0.280	0.281
<i>N</i>	14,991	14,991	14,991	14,991
Likelihood ratio	1039.558	1359.955		

**Panel B. CEO reputation , liquidity management and firm profitability**

Dependent Variable: $Q$	Second stage regressions	
	(1)	(2)
CASH	-1.421*** (-10.077)	-1.488*** (-10.444)
CASH x PART_DUM	-0.584*** (-3.665)	
CASH x POLI_DUM		-0.368** (-2.011)
PART_DUM	0.109*** (2.799)	
POLI_DUM		0.098* (1.933)
IMR	0.410*** (8.164)	0.073* (1.686)
R&D	1.618*** (3.910)	1.690*** (4.070)
$\Delta R\&Dt$	-0.461* (-1.689)	-0.461* (-1.680)
$\Delta R\&Dt+1$	0.281 (1.053)	0.310 (1.159)
CAP	0.824*** (6.558)	0.854*** (6.771)
$\Delta CAPt$	-0.233*** (-3.314)	-0.244*** (-3.457)
$\Delta CAPt+1$	0.250*** (3.382)	0.254*** (3.413)
$\Delta NAt$	-0.806*** (-8.340)	-0.807*** (-8.320)
$\Delta NAt+1$	0.021 (0.197)	0.001 (0.012)
I	1.104 (0.684)	0.624 (0.385)
$\Delta It$	4.135*** (3.391)	4.292*** (3.503)
$\Delta It+1$	-2.626** (-1.987)	-2.903** (-2.189)
D	3.944*** (3.690)	4.090*** (3.812)
$\Delta Dt$	-1.347** (-1.988)	-1.435** (-2.108)
$\Delta Dt+1$	0.741 (0.957)	0.762 (0.980)
E	0.430*** (4.298)	0.409*** (4.062)
$\Delta Et$	-0.004 (-0.597)	-0.002 (-0.323)
$\Delta Et+1$	0.260*** (3.917)	0.260*** (3.897)
$\Delta Qt+1$	-0.246*** (-32.732)	-0.247*** (-32.656)
ALPHA	0.238 (1.267)	0.678*** (3.677)
YEAR	Yes	Yes
INDU	Yes	Yes
$R^2$	0.355	0.349
N	11,110	11,110
F-test	101.988***	99.559***

**Table 9: Robustness checks: alternative methods of identifying CEO reputation**

This table reports the results of robustness checks. Panel A reports CEO reputation and cash holdings using OLS regression. *DONATION* is the ratio of corporate charitable donations to total assets. Panel B reports corporate cash holdings and firm value using fixed-effect regressions. The definitions of variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

**Panel A. Robustness check: CEO reputation and liquidity management**

Dependent Variable:	CASH (1)	ADJCASH (2)
DONATION	0.007*** (3.190)	0.007*** (2.992)
SIZE	0.014*** (6.143)	0.015*** (6.821)
LEV	-0.315*** (-38.454)	-0.297*** (-36.745)
R&D	-0.020 (-0.759)	-0.025 (-0.956)
CAP	0.030*** (3.705)	0.030*** (3.742)
GROW	-0.001 (-1.499)	-0.001 (-1.429)
FIRMAGE	-0.303*** (-25.156)	-0.278*** (-23.329)
ALPHA	0.772*** (13.072)	0.560*** (9.600)
YEAR	Yes	Yes
INDU	Yes	Yes
$R^2$	0.271	0.192
N	13,078	13,078
F-test	148.478***	94.767***

**Panel B. Robustness check: CEO reputation, liquidity management and firm profitability**

Dependent variable: <i>Q</i>	(1)	(2)
CASH	0.785*** (5.577)	
ADJCASH		0.886*** (6.272)
CASH x DONATION	-0.584*** (-2.662)	
ADJCASH x DONATION		-0.688*** (-2.812)
DONATION	0.462*** (9.283)	0.367*** (13.068)
ALPHA	1.235*** (15.362)	1.319*** (17.851)
CONTROL	Yes	Yes
YEAR	Yes	Yes
INDU	Yes	Yes
$R^2$	0.194	0.195
N	12,816	12,816
F-test	55.110***	55.063***



**Table 10: Robustness checks: alternative methods of identifying liquidity**

This table reports the results of robustness checks. Panel A reports CEO reputation and cash holdings using fixed-effect regressions. *ECASH* refers to the excess liquidity, which is measured by the residual  $\varepsilon$  in the specification following Yang et al. (2017). Panel B reports corporate cash holdings and firm value using fixed-effect regressions. The definitions of other variables are in the Appendix. \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

**Panel A. Robustness check: CEO reputation and liquidity management**

Dependent Variable: <i>ECASH</i>	(1)	(2)	(3)	(4)
PART_DUM	0.011*** (4.162)			
POLI_DUM		0.007** (1.995)		
PART			0.087*** (3.844)	
POLI				0.058** (2.050)
ALPHA	-0.217*** (-4.097)	-0.223*** (-4.213)	-0.218*** (-4.127)	-0.224*** (-4.226)
CONTROL	Yes	Yes	Yes	Yes
YEAR	Yes	Yes	Yes	Yes
INDU	Yes	Yes	Yes	Yes
$R^2$	0.088	0.087	0.088	0.087
N	16,163	16,163	16,163	16,163
F-test	35.348***	34.953***	35.272***	34.959 ***

**Panel B. Robustness check: CEO reputation, liquidity management and firm profitability**

Dependent variable: <i>Q</i>	(1)	(2)	(3)	(4)
ECASH	-1.133*** (-10.045)	-1.136*** (-10.070)	-1.126*** (-10.001)	-1.130*** (-10.023)
ECASH x PART_DUM	-0.317* (-1.943)			
ECASH x POLI_DUM		-0.356* (-1.927)		
ECASH x PART			-3.008** (-2.202)	
ECASH x POLI				-3.328** (-2.140)
PART_DUM	-0.039 (-1.632)			
POLI_DUM		-0.004 (-0.122)		
PART			-0.234 (-1.165)	
POLI				-0.043 (-0.151)
ALPHA	0.913*** (6.268)	0.892*** (6.129)	0.907*** (6.228)	0.891*** (6.125)
CONTROL	Yes	Yes	Yes	Yes
YEAR	Yes	Yes	Yes	Yes
INDU	Yes	Yes	Yes	Yes
$R^2$	0.325	0.325	0.325	0.325
N	12,816	12,816	12,816	12,816
F-test	113,165***	113.083***	113.157***	113.112***