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The Influence of CEO's Education Level and Accounting Professional Background on Financial Slack

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Abstract

Purposes: This study examines the influence of the CEO's education level and accounting background on financial slack, providing insights into how executive characteristics shape economic decisions.

Methods: The research uses data from non-financial public companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022, covering 1,001 firm-year observations. The study employs multiple linear regression analysis to assess the relationship between CEO characteristics and financial slack, controlling for firm-specific and macroeconomic factors.

Findings: The results show that the CEO's education level does not significantly affect financial slack. On the contrary, this study finds that CEOs with an accounting background can reduce financial slack.

Novelty: This research supports the upper echelons theory, which argues that top executives' characteristics influence strategic decisions. Specifically, CEOs with an accounting background shape financial slack decisions. The findings offer valuable insights for companies on accounting qualifications when hiring CEOs during crises, emphasizing financial slack as crucial for sustaining survival and growth. Additionally, this research aids investors in assessing corporate leadership for better investment decisions, contributing to corporate governance discussions on financial strategies and executive decision-making in uncertain economic conditions.

Keywords*:* Accounting Professional Background of CEO, Education Level of CEO, Financial Slack, Governance, Upper Echelons Theory.

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INTRODUCTION

The economic crisis caused by the COVID-19 pandemic has posed significant challenges for companies, similar to the global financial crisis of 2007–2009. The pandemic has caused significant disruptions to global supply chains, demand fluctuations, and economic instability,

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leading to uncertainty in corporate decision-making. Companies must maintain stability and resilience amid liquidity pressures, declining profitability, and operational constraints in this highly volatile environment (Moridu & Abidin, 2023). Therefore, a company's ability to strategically manage financial resources is key in determining its survival and long-term growth. Previous research highlights the importance of financial slack as a reserve of economic resources that can help companies cope with uncertainty and survive crises (Li et al., 2023). In particular, financial slack becomes a critical buffer during emergencies such as economic downturns or unforeseen opportunities, as it alleviates financial pressure and allows companies to respond flexibly to challenges.

In several studies, such as those by Li (2021), it was found that financial slack plays an essential role in reducing the negative impact of the COVID-19 pandemic on company performance. Financial slack can help companies combat supply shortages, secure sufficient liquidity, and maintain company performance. According to a study by Ashwin et al. (2016), financial slack protects companies from innovation failure. If innovation succeeds, financial slack can also help companies launch new products and benefit from them. Financial slack is a vital buffer resource for companies during economic crises (Lefebvre, 2024; Li et al., 2023; Rudyanto, 2023).

Various studies have proposed different measurement approaches to understand the empirical significance of financial slack to reflect its availability and strategic relevance. John et al. (2017) used the Current Ratio (current assets divided by current liabilities) to assess short-term liquidity, indicating a firm's ability to fulfil immediate obligations. A more conservative measure, the Cash Ratio (cash and short-term investments divided by total current liabilities), has also been widely used to capture the extent of liquid assets readily deployable in times of financial pressure (Fang et al., 2018). Other scholars incorporated combinations of liquidity indicators and reserve funds, such as cash-to-assets ratios, to evaluate slack from a broader resource perspective (Ashwin et al., 2016; Lefebvre, 2024). These varying measurement approaches underscore the importance of financial slack as a dynamic financial cushion that firms can utilize to weather economic turbulence.

However, while the positive aspects of financial slack have been well-documented, some studies warn of its potential downsides. Excessive accumulation of slack may indicate managerial inefficiency or weak internal controls, potentially hindering a firm's ability to pursue new opportunities (Bao et al., 2020; Fang et al., 2018). This concern introduces a different perspective, aligned with agency theory, which suggests that managers may misuse company resources for personal benefit or inefficient expenditures, ultimately harming shareholder value. (DesJardine & Shi, 2022; Jensen & Meckling, 1976).

While this body of literature provides a comprehensive view of the benefits and risks of financial slack, it primarily focuses on external and governance-related factors. Previous studies have examined macro-level determinants such as industry structure (related variety), board attributes, dual leadership, ownership structure, and the role of external auditors (Ashwin et al., 2016; Fang et al., 2018 ; Lu et al., 2023; Weng & Yang, 2024). However, studies that discuss the influence of CEO individual characteristics, such as education level and accounting professional background, on financial slack are still minimal. Research on this topic is essential because the CEO's profile often influences a company's strategic decisions. Despite the growing interest in CEO characteristics, limited empirical research has examined how specific traits, such as education level and accounting expertise, affect corporate resilience during crises. Understanding these factors is crucial to designing better leadership structures for financial decision-making under uncertainty.

Given that numerous studies have examined the role of financial slack in responding to economic crises and the factors that influence it, there remains a significant gap in the literature concerning individual CEO characteristics, particularly educational background and accounting profession experience (Jaggia & Thosar, 2021; Yao, 2021). Research specifically investigating the

impact of these characteristics on corporate financial slack is still minimal, especially in the context of developing countries such as Indonesia. Yet, CEO characteristics, as strategic decision-makers, play a crucial role in shaping a company's financial policies during times of crisis. Therefore, this study makes a theoretical contribution by expanding the understanding of the CEO's role in corporate strategic policy, particularly in managing financial slack during periods of economic uncertainty (Blank & Hadley, 2021). Practically, the findings of this study may serve as valuable insights for shareholders and boards of directors in recruiting or evaluating corporate leaders capable of enhancing the company's financial resilience in the face of crises.

To ground this investigation, this study adopts the Upper Echelons Theory. Based on the Upper Echelons Theory, CEO characteristics are reflected in a company's strategic actions in determining its future performance. Hambrick & Mason (1984) suggested that psychological factors and observable traits (e.g., education, age, financial position) influence strategic choices. This theory suggests that CEOs' unique backgrounds can lead to distinct strategic choices, including how they manage slack resources (Saleem et al., 2023). Applying this lens, this study focuses on two key CEO traits: educational level and accounting background. CEOs with higher education levels tend to possess broader perspectives and complex analytical abilities, which may influence how they manage financial resources in times of crisis (Nawaz, 2022). On the other hand, accounting-background CEOs focus on financial control and risk management, which can impact how financial slack is managed during crises.

CEOs with higher educational attainment tend to demonstrate superior problem-solving capabilities and strategic foresight. They are more adept at allocating financial resources efficiently and planning for long-term stability, especially in uncertain economic climates (Erlim & Juliana, 2017). Postgraduate-level CEOs often incorporate complex analysis, critical reasoning, and data-driven decisions, which support value creation, improved market competitiveness, and portfolio diversification (Ghardallou et al., 2020; Setiawan & Gestanti, 2018). In times of crisis, these executives are more likely to maintain a sustainable outlook, opting to retain financial slack as a strategic buffer, even at the cost of short-term efficiency. As emphasized in the Upper Echelons Theory (Hambrick & Mason, 1984), observable educational characteristics reflect deeper psychological attributes that guide strategic choices. CEOs' academic exposure influences their risk perception, decision-making logic, and overall approach to managing organizational resources, including financial slack. Therefore, we propose:

H_1: The CEO's educational level positively affects the company's financial slack

CEOs with an accounting background tend to be more conservative in their financial decision-making, especially during economic turbulence. Their training emphasizes risk aversion, cost control, and strict adherence to regulatory compliance (Hu et al., 2017). These executives are more inclined to maintain liquidity reserves and avoid risky financial behavior that could jeopardize the firm's stability. Instead of increasing long-term debt, they may opt for internal restructuring or government-backed relief programs to safeguard operational continuity without overextending the company's financial obligations (Harymawan et al., 2020). This cautious stance reflects a broader strategic orientation toward efficiency and sustainability in financial management.

Aligned with the Upper Echelons Theory (Hambrick & Mason, 1984), which posits that executive background traits, such as education and professional experience, influence strategic organizational choices. Accounting-trained CEOs prefer transparent reporting, strict budget monitoring, and measured use of company resources. These traits often result in a lower tolerance for excessive financial slack, which may be considered inefficient or idle capital (Borgi et al., 2021). Moreover, empirical findings suggest that accounting-background CEOs not only prioritize financial discipline but also extend their risk-averse outlook into broader strategic domains such as ESG reporting and tax policy optimization (Oehoedoe et al., 2023; Silvina et al., 2022). In crisis

management, their conservative mindset may reduce the willingness to build up slack resources, favouring tighter control and cautious liquidity preservation. Thus, CEOs with an accounting background are expected to influence corporate financial slack policies toward more conservative levels. Therefore, the second hypothesis proposed is:

H_2: A CEO with a professional background in accounting has a negative effect on the company's financial slack

To empirically test these hypotheses, this study analyzes all non-financial public companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The selection of this period is based on companies' efforts to restore their financial condition following the COVID-19 pandemic, reflecting significant economic challenges and managerial strategy adjustments in response to uncertainty. Focusing on non-financial companies ensures that strict regulations and the unique characteristics of the financial sector, such as minimum capital requirements and stringent liquidity rules, do not influence the management of financial regulations and the unique characteristics of the financial industry, such as minimum capital requirements and strict liquidity rules do not influence the management of financial slack.

This study aims to answer whether a CEO's educational level and accounting background influence the company's financial slack. This research fills a gap in previous studies by exploring the impact of specific CEO characteristics on corporate financial flexibility. This aspect has not been widely examined in emerging markets like Indonesia. This research is the first to empirically examine how a CEO's academic and professional qualifications influence financial slack in companies listed on the IDX during a significant economic crisis. The novelty of this study lies in its approach to linking CEO characteristics with corporate financial resilience by combining the Upper Echelons perspective with a financial management lens in a developing market context. This provides new insights into how corporate leaders can contribute to more adaptive financial management strategies amid economic pressures.

Furthermore, this research highlights how CEOs' differences in academic and professional backgrounds can influence corporate financial decisions, particularly in managing financial slack as a strategic reserve in economic instability. This study is expected to provide theoretical contributions by expanding the understanding of the role of CEO characteristics in corporate strategic policies. Additionally, it has practical implications for shareholders and boards of directors in selecting CEOs with the right qualifications to strengthen corporate financial resilience, especially in navigating economic uncertainty. These findings can also guide investors in evaluating corporate leadership for better investment decision-making. This research also contributes to the broader discussion of corporate governance by exploring how CEO attributes influence financial strategies, thereby providing insights that extend beyond the current crisis to future economic uncertainties.

METHODS

This study adopts a quantitative approach to analyze the relationship between CEO characteristics and financial slack. Specifically, it examines two independent variables: the CEO's educational level and professional accounting background, while financial slack serves as the dependent variable. This approach identifies systematic patterns across firms and periods, particularly in understanding how top executive profiles influence firms' financial flexibility.

The study employs pooled cross-sectional data, which includes firm-year observations from 2020 to 2022. In this structure, firms are observed for one or more years, and the number of observations may vary annually due to the availability of financial reports. Some firms provide complete data across all years, while others have missing data in one or more years. By adopting this design, the study maximizes sample coverage by including observations for which relevant data is available rather than excluding entire firms due to partial reporting. This approach is

instrumental in emerging markets like Indonesia, where reporting inconsistencies are more common, and strict panel structures may significantly reduce the usable sample.

The sample consists of non-financial companies listed on the Indonesia Stock Exchange (IDX), as firms in the financial sector are subject to distinct regulations and liquidity requirements that could confound the measurement of financial slack. Industries are categorized using the 1-digit Standard Industrial Classification (SIC) codes, allowing for a broad classification of firms by sector. The initial sample comprises 2,643 observations, from which 540 financial sector observations and 453 firm-years with missing data are excluded. Additionally, firms presenting financial reports in non-rupiah currencies are omitted to maintain consistency in monetary units. The final sample consists of 1,001 firm-year observations, providing sufficient variation across sectors and time to conduct meaningful statistical inference.

Table 1 summarizes the distribution of the final research sample by year and SIC code. The most significant proportion of observations (26%) originates from manufacturing sectors such as food processing, chemicals, and petroleum refining (SIC 2). These industries are typically capital-intensive and more exposed to commodity cycles and operational risks, which could affect corporate strategies related to liquidity and slack. Their dominance in the sample mirrors Indonesia's industrial structure and underscores the economic relevance of manufacturing firms in the national context.

Conversely, the smallest sectoral representation (3%) comes from healthcare, education, and consulting services (SIC 8), sectors often characterized by intangible assets, human capital dependence, and relatively flexible cost structures. These sectoral differences introduce natural heterogeneity in liquidity management practices and may shape how CEOs navigate slack under varying environmental constraints. This sectoral composition reflects broader macroeconomic trends and aligns with Indonesia's 2022 Purchasing Managers' Index (PMI), as reported by S&P Global (Kusnandar, 2020). Consequently, the industry-based distribution of the sample provides a relevant backdrop for exploring the intersection of CEO traits and financial strategies.

Table 1. Distribution of Research Samples

Industry	Year			Total
	2020	2021	2022	
SIC 0: Agriculture, Forestry, and Fishing	20	21	23	64
SIC 1: Mining & Construction	34	36	43	113
SIC 2: Manufacturing (Food, Chemicals, Petroleum Refining)	84	88	91	263
SIC 3: Manufacturing (Stone, Glass, Metals, Electronic Equipment)	44	45	46	135
SIC 4: Transportation & Public Utilities	42	50	45	137
SIC 5: Wholesale & Retail	43	43	47	133
SIC 7: Services (Business)	40	37	46	123
SIC 8: Services (Health, Education, and Consulting)	11	12	10	33
Total	318	332	351	1,001

Source: Data Processed by the Author (2024)

This study employs documentation and literature review methods to ensure data integrity and methodological rigour. The documentation method systematically collects data from published annual reports, financial statements, and the OSIRIS database. This allows for accurately extracting firm-level financial data and CEO background information. Simultaneously, a literature review supports the development of theoretical foundations and the construction of research hypotheses. Sources include academic journal articles, books, industry reports, and credible digital publications, which are sorted, analyzed, and synthesized to contextualize the empirical model.

The empirical analysis uses a multiple linear regression model estimated in STATA 17.0. Several diagnostic tests are performed to validate the model assumptions. Heteroskedasticity is addressed by implementing clustered standard errors at the firm level, following recommendations by (Han & Kim, 2023). This allows for robust inference despite possible variance inconsistencies across firms. The Variance Inflation Factor (VIF) is calculated to detect potential multicollinearity, ensuring that the independent variables do not exhibit strong intercorrelations.

Although autocorrelation is typically less of a concern in pooled cross-sectional designs, using clustered standard errors also helps mitigate potential within-firm correlations over time. Firms and years are grouped using firm codes (tickers) and time variables, facilitating regression that accounts for unobserved heterogeneity. Recognizing the risk of endogeneity, mainly due to reverse causality or omitted variable bias, the study incorporates industry and year-fixed effects to control for structural differences across sectors and macroeconomic shocks. Additionally, several firm-level control variables are included to isolate the impact of CEO characteristics on financial slack. These controls account for size, profitability, leverage, and other relevant corporate factors that may confound the analysis.

The following section presents the empirical model used in this study, capturing the core relationship between CEO-level attributes and financial slack within the Indonesian corporate landscape. The following is the empirical model used in the primary analysis:

$$CURRENT_{it} = \alpha_1 + \beta_1 CEOEDU_{it} + \beta_2 CEOACC_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 Industry\ FE_{it} + \beta_7 Year\ FE_{it} + \varepsilon_{it} \quad \ldots\ldots(1)$$

Next, the study uses the cash ratio for the robustness test, so the following empirical model is used:

$$CASH_{it} = \alpha_2 + \beta_8 CEOEDU_{it} + \beta_9 CEOACC_{it} + \beta_{10} FSIZE_{it} + \beta_{11} LEV_{it} + \beta_{12} ROA_{it} + \beta_{13} Industry\ FE_{it} + \beta_{14} Year\ FE_{it} + \varepsilon_{it} \quad \ldots\ldots(2)$$

Table 2 presents the details of the dependent, independent, and control variables, along with their respective definitions, measurements, and sources, to clarify the operational definitions and measurements used in this study. As shown in Table 2, the study measures financial slack using two proxies to enhance the robustness and credibility of the findings. The current ratio (CURRENT) is the primary proxy, capturing a firm's short-term liquidity and overall ability to meet its obligations. To verify the consistency of the results, the cash ratio (CASH) is used as a robustness check, offering a more conservative and stringent measure of slack by focusing solely on the most liquid assets. This dual-proxy strategy strengthens the reliability of the analysis by assessing whether the relationships observed hold across different operational definitions of financial slack.

The independent variables in this study consist of CEO characteristics, namely the educational level and professional accounting background. These variables reflect CEOS' cognitive and technical capacities, which may influence their decision-making processes and risk tolerance, particularly in liquidity management. Several control variables are incorporated into the model to isolate the effect of CEO characteristics from other firm-level factors. These include firm size, leverage, and return on assets (ROA), each selected based on theoretical foundations and empirical evidence. Firm size is a key control as larger firms often enjoy better access to external capital markets and greater financial flexibility. Leverage accounts for existing financial obligations, which may constrain managerial discretion and reduce available slack. ROA represents the firm's internal profitability and operational efficiency, capturing its internal capacity to generate excess resources.

The model includes fixed effects for industry and year to account for unobserved heterogeneity. These fixed effects control for time-invariant characteristics across sectors (e.g.,

capital intensity or regulatory environment) and macroeconomic variations over time (e.g., policy changes or economic shocks). Using a fixed effects model is methodologically justified, as it is generally more appropriate than a random effects model when firm-specific or sectoral differences are expected to correlate with the regressors, a common scenario in corporate governance studies. This structured and theoretically grounded model specification ensures a comprehensive and credible analysis of CEO characteristics associated with variations in financial slack. By combining rigorous variable selection, appropriate econometric techniques, and robustness checks, the study aims to generate statistically reliable and practically meaningful insights.

Table 2. Operational Definition Table of Variables

Variable	Type	Definition	Measurement	Source
Financial Slack (CURRENT for model 1, CASH for model 2)	Dependent Variable	Indicates the company's financial resources available to manage uncertainty or crises.	Current Ratio (CURRENT): Current assets divided by current liabilities. Cash Ratio (CASH): Cash and short-term investments divided by total assets (robustness test).	John et al. (2017)
CEO's Educational Level (CEOEDU)	Independent Variable	Represents the highest education level attained by the CEO.	A scale value assigned: 0 = Diploma, 1 = Bachelor's, 2 = Master's, 3 = Doctoral.	Harymawan et al. (2020)
CEO's Professional Background in Accounting (CEOACC)	Independent Variable	Indicates whether the CEO has an accounting certification.	Binary variable: 1 = CEO holds an accounting certification (CPA, CA, CMA, etc.), 0 = No accounting certification.	Fang et al. (2018)
Firm Size (FSIZE)	Control Variable	Measures the size of the company.	Natural logarithm of total assets.	Fang et al. (2018)
Leverage (LEV)	Control Variable	Reflects the company's level of debt relative to total assets.	Long-term liabilities divided by total assets.	Fang et al. (2018)
Return on Assets (ROA)	Control Variable	Indicates the company's profitability relative to total assets.	Net income divided by total assets.	Fang et al. (2018)
Industry Fixed Effects (Industry FE)	Fixed Effect Variable	Controls for industry-level differences.	Grouping based on the 1-digit Standard Industrial Classification (SIC) code.	Harymawan et al. (2020)
Year Fixed Effects (Year FE)	Fixed Effect Variable	Controls for year-level differences.	Fixed effect dummy variables for each year in the study period (2020–2022).	Harymawan et al. (2020)

Source: Data Processed by the Author (2024)

RESULTS AND DISCUSSIONS

To understand the financial and leadership profiles of the firms studied, Table 3 presents descriptive statistics that offer critical initial insights into the key variables studied. The average current ratio (1.463) reveals that many firms in the sample maintained a relatively healthy level of financial slack during the study period. However, the high standard deviation (0.793) indicates variation across firms. This variation is central to the research objective, as it sets the foundation

for exploring how CEO characteristics may shape these differences in liquidity strategy. The average CEO education level (0.948) implies that most CEOs hold at least a bachelor's degree, supporting the assumption in Hypothesis 1 (H1) that higher education may influence strategic financial management. Meanwhile, the extremely low mean of CEOACC (0.014) highlights the rarity of CEOs with accounting certification, aligning with the argument in Hypothesis 2 (H2) that such backgrounds may be associated with more conservative financial decisions.

Table 3. Descriptive Statistics

	Mean	Median	SD	Minimum	Maximum
CURRENT	1.463	1.354	0.793	0.013	3.499
CEOEDU	0.948	1.000	0.922	0.000	3.000
CEOACC	0.014	0.000	0.117	0.000	1.000
FSIZE	28.226	28.105	1.727	24.101	32.826
LEV	0.170	0.125	0.147	0.001	0.593
ROA	0.011	0.018	0.109	-1.277	0.349

Source: Data Processed by the Author (2024)

Additionally, negative ROA values in the dataset reflect the financial difficulties several firms experienced during the COVID-19 pandemic. These conditions serve as a relevant backdrop to examine how CEO backgrounds, especially in education and accounting, affect financial slack during economic uncertainty. Rather than simply describing firm-level characteristics, these descriptive statistics offer contextual cues about the diversity of leadership profiles and financial conditions that may explain variation in financial slack, thus motivating the following regression analyses.

Building upon these descriptive patterns, the Spearman correlation matrix in Table 4 offers further insight into the direction and significance of bivariate relationships. Table 4 reports the Spearman correlation matrix, which provides insights into the bivariate relationships among the key variables. The correlation between CEOEDU and CURRENT is negative but not statistically significant, indicating that a CEO's educational attainment alone does not directly influence financial slack. This finding suggests that while higher education may equip CEOs with strategic thinking skills, it does not necessarily translate into more aggressive liquidity management, partially contradicting the expectation in Hypothesis 1. In contrast, CEOACC shows a significant negative correlation with CURRENT ($p < 0.01$), supporting Hypothesis 2 and implying that CEOs with accounting backgrounds manage liquidity more conservatively by maintaining lower financial slack. This reinforces the view that accounting-trained CEOs focus on financial control and efficiency, aligning with the risk-averse behavior described in the theoretical framework.

Among control variables, firm size (FSIZE) and leverage (LEV) both exhibit significant negative correlations with CURRENT, which may suggest that more prominent and more indebted firms rely less on internal liquidity buffers, possibly due to better access to external financing or higher capital utilization. However, return on assets (ROA) shows a strong positive correlation with CURRENT, indicating that more profitable firms are likely to hold more significant liquidity reserves, consistent with prior literature linking financial performance and slack capacity. These correlations help validate the theoretical expectation that executive characteristics and firm-specific factors interact in shaping financial slack, supporting the analytical framework and methodological choices presented earlier.

The main regression results presented in Table 5 formally test the hypotheses regarding the relationship between CEO characteristics and financial slack. Table 5 presents the multiple linear regression analysis results examining the relationship between CEO characteristics and financial slack, proxied by the current ratio. Specification (1) shows that the CEO's educational level has a negative but statistically insignificant coefficient ($\beta = -0.003$; $t = -0.11$). Specification (2) reveals

Table 4. Spearman Correlation

		[1]	[2]	[3]	[4]	[5]	[6]
[1]	CURRENT	1.000					
[2]	CEOEDU	-0.043	1.000				
		(0.172)					
[3]	CEOACC	-0.090***	-0.078**	1.000			
		(0.004)	(0.013)				
[4]	FSIZE	-0.087***	0.171***	0.068**	1.000		
		(0.006)	(0.000)	(0.031)			
[5]	LEV	-0.359***	0.059*	0.045	0.276***	1.000	
		(0.000)	(0.061)	(0.150)	(0.000)		
[6]	ROA	0.409***	0.021	-0.051	0.224***	-0.200***	1.000
		(0.000)	(0.506)	(0.105)	(0.000)	(0.000)	

Source: Data Processed by the Author (2024)

that CEO accounting background has a negative and statistically significant effect at the 1% level (β = -0.385; t = -2.81). When both variables are included in Specification (3), the CEO's educational level remains insignificant (β = -0.007; t = -0.28), while the CEO's accounting background retains its significant negative effect (β = -0.389; t = -2.82). Control variables show consistent directions across models: firm size (FSIZE) and leverage (LEV) have significant negative effects, while return on assets (ROA) has a substantial positive impact on financial slack. The R^2 of the final model (0.227) indicates that the model explains 22.7% of the variation in financial slack.

These findings provide partial support for the research hypotheses. The first hypothesis (H1), which posits a positive relationship between CEO educational level and financial slack, is rejected. The second hypothesis (H2), which posits a negative relationship between CEO accounting background and financial slack, is supported. From a theoretical perspective, these results support the Upper Echelons Theory, which suggests that the characteristics of top executives influence organizational strategies. In this study, the CEO's accounting background clearly influences financial slack management, highlighting a preference for conservative practices during economic crises. The R2 value of 0.227 in Specification (3) indicates that the independent and control variables explain 22.7% of the variance in financial slack, with the remaining 77.3% influenced by factors not examined in this study.

Despite the significant findings, this study is not without limitations. One notable concern is the potential for endogeneity bias, particularly due to omitted variables that may simultaneously affect CEO characteristics and financial slack. For instance, unobserved factors such as corporate governance practices, risk appetite, or the firm's strategic orientation may influence the selection of CEOs and how firms manage liquidity. Additionally, the cross-sectional design and reliance on secondary data limit the ability to establish causal inferences. While industry and year-fixed effects were included to mitigate unobserved heterogeneity, future studies should consider employing methods such as instrumental variable regression or panel data techniques to address endogeneity concerns better.

These findings have practical implications. Companies facing economic uncertainty, such as during the COVID-19 pandemic, may benefit from CEOs with accounting backgrounds, as their cautious financial strategies can help maintain liquidity and minimize risk. However, excessive conservatism may hinder the exploration of growth opportunities. This balance between risk management and opportunity exploration remains a key consideration for stakeholders when

Table 5. Multiple Linear Regression

	CURRENT	CURRENT	CURRENT	NOTES
CEOEDU	-0.003		-0.007	H1 Rejected
	(-0.11)		(-0.28)	
CEOACC		-0.385***	-0.389***	H2 Accepted
		(-2.81)	(-2.82)	
FSIZE	-0.040**	-0.038**	-0.038**	
	(-2.58)	(-2.52)	(-2.43)	
LEV	-1.489***	-1.490***	-1.490***	
	(-8.55)	(-8.64)	(-8.64)	
ROA	2.171***	2.142***	2.142***	
	(5.69)	(5.62)	(5.64)	
_cons	2.853***	2.833***	2.824***	
	(6.67)	(6.67)	(6.59)	
Year FE	Ya	Ya	Ya	
Industry FE	Ya	Ya	Ya	
R2	0.224	0.227	0.227	
R^2_Adjusted	0.214	0.217	0.216	
N	1001	1001	1001	

Source: Data Processed by the Author (2024)

evaluating leadership profiles. The practical implications of these results suggest that firms facing economic uncertainty should consider hiring CEOs with accounting backgrounds to prioritize resource efficiency. However, firms focused on innovation and long-term growth may benefit more from highly educated CEOs who tend to support long-term investment strategies.

To verify the consistency of the main findings, a robustness test was conducted by replacing the primary proxy for financial slack, the current ratio with the cash ratio, a narrower but widely recognized liquidity measure. Following the approach of John et al. (2017), the cash ratio is calculated as cash and short-term investments divided by total assets. This alternative perspective allows for a more specific assessment of immediate liquidity and tests whether CEO characteristics consistently influence financial slack when applying a different definition. The results of the robustness analysis are summarized in Table 6, providing further insights into how CEO characteristics shape liquidity management strategies during periods of economic uncertainty.

The regression results in Specification (1) reveal that the CEO's educational level has a positive and statistically significant effect on the cash ratio at the 1% level (coefficient = 0.010, t = 3.37). CEOs with higher levels of education are more likely to maintain more considerable cash reserves, potentially due to their ability to perform complex risk assessments and prioritize the need for financial buffers in times of crisis. Such a finding supports Hypothesis 1 (H1) in the context of the robustness test and aligns with the Upper Echelons Theory, which posits that executive educational backgrounds shape strategic decisions. The significance of CEO education in the cash ratio, but not in the current ratio, may be attributed to the fact that the cash ratio is a stricter measure of liquidity, focusing solely on immediately available funds. In contrast, the current ratio includes broader components like receivables and inventories, which may dilute the impact of forward-looking risk assessments that are more aligned with educational capabilities. Well-educated CEOs may be more inclined to adopt risk-averse approaches and implement forward-looking liquidity management strategies that preserve operational stability.

In contrast, Specification (2) shows that the CEO's accounting background has a negative but statistically insignificant effect on the cash ratio (coefficient = -0.018, t = -1.36). This differs from the primary analysis using the current ratio, in which the accounting background (CEOACC) had a negative and significant effect on financial slack. This inconsistency suggests that accounting-trained CEOs focus more on optimizing components of current assets, such as accounts receivable and inventory, rather than on holding large amounts of idle cash. Their emphasis on internal control and asset efficiency might not necessarily translate into high cash holdings, which could explain the cash ratio model's insignificance. The lack of statistical significance in this context implies that accounting expertise is more limited when financial slack is measured using a strict liquidity definition.

Specification (3), which includes CEO education and accounting background in the same model, confirms these patterns. The CEO's education level consistently positively correlates with the cash ratio, while the accounting background remains statistically insignificant. These results emphasize how financial slack is defined: CEO educational level appears more relevant when firms focus on building cash reserves, while accounting expertise plays a more prominent role in broader asset-based liquidity strategies. These findings indicate that the influence of CEO characteristics is contingent on how financial slack is measured, reinforcing the notion that executive traits shape liquidity management but also vary depending on the financial metric used.

The divergence between the main results and the robustness test underscores the multidimensional nature of financial slack. While the current ratio offers a broader view of short-term financial health, including accounts receivable and inventory, the cash ratio isolates the most liquid assets, providing a stricter view of liquidity. This difference in measurement helps explain why CEO education is significant in the cash ratio but not in the current ratio and why CEO accounting background behaves inversely. This distinction is essential for interpreting how CEO characteristics influence specific liquidity strategies. CEOs with advanced education may seek to safeguard cash reserves as a proactive response to external shocks. At the same time, those with accounting expertise may be more focused on maximizing efficiency and minimizing idle cash positions.

These results partially support Hypothesis 2 (H2), which proposed that CEOs with accounting backgrounds negatively affect financial slack. The hypothesis is held in the primary analysis using the current ratio but not in the robustness check. Meanwhile, Hypothesis 1 is supported consistently across both models. These findings are consistent with prior literature Hu et al. (2017), which found that CEOs with higher education levels adopt conservative financial strategies, while Harymawan et al. (2020) reported that accounting professionals focus on efficiency rather than cash accumulation. The robustness test highlights that the impact of CEO characteristics on liquidity strategies is sensitive to the definition of financial slack, indicating that different CEO traits may be aligned with other financial priorities. In sum, the robustness test confirms that CEO characteristics remain important determinants of corporate liquidity strategies, though their influence varies depending on how financial slack is conceptualized and measured.

The Effect of the CEO's Educational Level on the Company's Financial Slack

The findings of this study indicate that the CEO's level of formal education does not significantly influence financial slack when measured using the current ratio. This result contrasts the expectations outlined in Hypothesis 1, which assumed that higher educational attainment would be positively associated with improved liquidity management. While higher education is often linked to enhanced cognitive ability, strategic adaptability, and broader managerial insight (Allen et al., 2021; Vito & Gómez, 2020), these traits do not appear to translate directly into more effective handling of short-term liquidity at least when assessed through this particular financial indicator.

Table 6. Robustness Test

	CASH	CASH	CASH	NOTES
CEOEDU	0.010***		0.010***	H1 Accepted
	(3.37)		(3.32)	
CEOACC		-0.018	-0.011	H2 Rejected
		(-1.36)	(-0.84)	
FSIZE	0.006***	0.007***	0.007***	
	(3.92)	(4.39)	(3.95)	
LEV	-0.162***	-0.161***	-0.162***	
	(-8.70)	(-8.65)	(-8.71)	
ROA	0.196***	0.196***	0.195***	
	(6.31)	(6.43)	(6.28)	
_cons	-0.086*	-0.099**	-0.087*	
	(-1.81)	(-2.06)	(-1.82)	
Year FE	Ya	Ya	Ya	
Industry FE	Ya	Ya	Ya	
R2	0.176	0.168	0.177	
R^2_Adjusted	0.166	0.157	0.165	
N	1001	1001	1001	

Source: Data Processed by the Author (2024)

Unlike cash-focused indicators, the current ratio encompasses many current assets, such as accounts receivable and inventory, particularly vulnerable to market fluctuations. During economic downturns, companies often experience rising bad debts, delays in customer payments, and inventory write-downs (Golubeva, 2021). These external shocks can severely affect the composition and value of current assets, meaning that even CEOs with advanced educational credentials may find it challenging to mitigate their impact. Consequently, their influence on this broader proxy of financial slack may be limited.

This outcome offers a more nuanced interpretation of the Upper Echelons Theory, Hambrick & Mason (1984) which posits that organizational outcomes are partly shaped by executive attributes such as education. The findings suggest that while education may contribute to high-level strategic thinking, it may not be sufficient to influence all aspects of financial decision-making, particularly those tied closely to day-to-day liquidity management and the operational realities of external market pressures.

However, the findings shift when financial slack is more narrowly defined using the cash ratio, which focuses exclusively on highly liquid assets. In this robustness test, the CEO's educational level is found to have a positive and significant association with higher liquidity buffers. This suggests that highly educated CEOs may adopt a more cautious and risk-sensitive approach, holding more considerable cash reserves as a form of anticipatory risk management. In times of uncertainty or potential crisis, such behaviour may reflect a forward-looking strategy to safeguard operational continuity.

Thus, the results partially support Hypothesis 1, depending on the measure of financial slack used. While education does not enhance broader working capital control (as captured by the current ratio), it may positively shape decisions related to pure liquidity preservation. These findings enrich the broader discussion on CEO heterogeneity by highlighting that the effects of executive characteristics are not uniform across financial indicators. Different dimensions of

liquidity require other forms of oversight and expertise, and the CEO's educational background may only influence certain aspects of this spectrum. This insight is particularly relevant for corporate boards and policymakers: companies aiming to strengthen their cash positions and crisis resilience may benefit from appointing CEOs with a strong academic background. This could be especially advantageous in sectors prone to external shocks, such as manufacturing, logistics, or retail, where immediate liquidity is critical for navigating market volatility.

The Effect of the CEO's Professional Background in Accounting on the Company's Financial Slack

In contrast to the findings related to CEO educational level, this study observes a statistically significant negative relationship between a CEO's professional background in accounting and the level of financial slack, as proxied by the current ratio. This finding supports Hypothesis 2 and reinforces insights from previous studies, which suggest that accounting-trained CEOs possess advanced capabilities in financial risk assessment, cost control, internal auditing, and cash flow forecasting (Bao et al., 2020; Hu et al., 2017). These skills are especially critical during economic stress or liquidity pressure, when companies must make swift decisions about restructuring short-term obligations, optimizing working capital, and managing supplier or client payment terms (Gounopoulos et al., 2023; Hoitash et al., 2016).

The observed decline in the current ratio under accounting-trained CEOs may reflect a deliberate, efficiency-driven strategy to minimize idle resources and channel funds toward productive or urgent uses. In this context, the reduced liquidity buffer is not necessarily a sign of financial weakness but instead of disciplined financial stewardship, where excess current assets, especially those with limited immediate utility, are reallocated to support operations, reduce financing costs, or invest in value-generating activities. This behavior resonates with accounting conservatism, where decision-makers prefer prudent, transparent, and efficient financial practices over accumulating passive assets.

This conservative liquidity management approach highlights a philosophical and operational distinction between CEOs with accounting expertise and those with more generalized managerial backgrounds. Accounting-trained executives prioritize measurable performance, compliance, and operational discipline, often avoiding hoarding liquid assets unless strictly necessary. Their approach may also be influenced by their familiarity with financial regulations, audit standards, and risk-based performance evaluations.

Interestingly, this relationship becomes statistically insignificant when financial slack is measured using the cash ratio, which isolates cash and cash equivalents from broader current assets. CEOs with accounting expertise may not prioritize cash holdings per se but instead manage liquidity by tightly controlling receivables, inventory, and payables, components included in the current ratio but excluded from the cash ratio. Their financial influence is, therefore, more visible in composite indicators that reflect working capital efficiency rather than in narrow measures of cash liquidity. This inconsistency underscores the importance of proxy selection in assessing executive behaviour and partially supports Hypothesis 2.

Theoretically, these findings contribute to a more granular understanding of the Upper Echelons Theory (Hambrick & Mason, 1984) by illustrating that different facets of CEO identity, educational attainment versus professional training, manifest in distinct strategic orientations. While higher education may inform the broad strategic vision and forward-looking preferences, professional accounting experience shapes concrete financial practices and real-time resource deployment, particularly in volatile or uncertain environments. Notably, this study extends prior work that has traditionally focused on CFOs by showing that CEOs with accounting backgrounds exert similar, if not broader, influence over organizational liquidity policies. (Harymawan et al., 2020).

This finding has significant practical implications. Appointing a CEO with accounting expertise could enhance internal financial discipline, operational control, and transparency for

companies operating in sectors with tight liquidity margins, limited access to external funding, or frequent exposure to market shocks. These qualities are particularly valuable in industries with high working capital intensity, such as retail, construction, and manufacturing, where day-to-day liquidity management is crucial for continuity and competitiveness.

Furthermore, in emerging markets like Indonesia, where market inefficiencies, regulatory opacity, and information asymmetry are more pronounced, CEOs with strong accounting backgrounds may help firms navigate institutional voids more effectively. Their technical knowledge and risk-sensitive behaviour can build investor trust, strengthen governance structures, and ultimately enhance firm resilience. Professional identity, particularly in fields like accounting, should receive greater attention in executive recruitment, succession planning, and long-term financial strategy formulation.

CONCLUSIONS

This study examines the impact of CEO educational level and accounting professional background on financial slack in non-financial public companies listed on the Indonesian Stock Exchange (IDX) during 2020–2022. The objective was to determine whether CEO characteristics significantly influence the level of financial slack, using the current and cash ratios as proxies. The findings provide clear answers to the research objective: CEOs with an accounting professional background significantly reduce financial slack, as proxied by the current ratio, while CEOs with higher education levels positively and significantly influence financial slack when measured by the cash ratio. These results suggest that CEO characteristics affect financial slack differently depending on the proxy used. CEOs with higher education tend to prioritize liquidity, as evidenced by their positive impact on the cash ratio, reflecting a preference for maintaining liquid reserves during crises. Conversely, CEOs with an accounting background focus on restructuring short-term liabilities, directly reducing the current ratio, signalling a more conservative approach to optimizing resource allocation.

These findings contribute to developing upper echelons theory by providing evidence from an emerging market context that CEO education and professional background influence strategic financial decisions differently. The study extends previous models by showing that the choice of financial slack proxy can reveal distinct dimensions of managerial influence, highlighting the complexity of liquidity management. Practically, this study offers relevant suggestions for companies, especially those facing economic turbulence by recommending carefully considering CEO qualifications. Firms may benefit from appointing CEOs with higher educational attainment to preserve cash liquidity during crises, whereas accounting professionals may be better suited for efficiency-focused environments. Investors, too, can use this information to evaluate company resilience based on executive profiles.

However, this study has certain limitations. Some companies did not provide adequate financial reports, so data on CEO educational levels and professional backgrounds were limited. The limited sample size and reliance on two financial slack proxies may constrain generalizability. Future research could address these limitations by using additional proxies for financial slack or examining sector-specific differences to offer a more comprehensive understanding of the relationship between CEO characteristics and financial slack. Further studies may explore other CEO attributes such as international experience, gender, or technological expertise. In addition, a longitudinal design is recommended to investigate how CEO financial strategies evolve and their implications for corporate sustainability and crisis resilience.

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