ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

The Impact of CEO Attributes on Firm Value: An Upper Echelons Perspective from Egyptian Listed Companies

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Publication Date: 2026/11/27

Abstract:

- ***Purpose:***
This study investigates whether three attributes of the chief executive officer (CEO)—equity incentives, integrity and power—are reflected in the market value of Egyptian listed firms. Drawing on agency, stewardship and upper echelons theories, it argues that the person at the top shapes how efficiently resources are used and how investors assess the firm (Filatotchev et al., 2025; Alrobai and Albaz, 2025).

- ***Design/Methodology/Approach:***
The study analyses firms included in the EGX30 index over 2017–2021. CEO incentives are measured by the CEO's shareholding, CEO integrity by the asset utilisation ratio and CEO power by the combination of tenure and experience, while firm size and firm age are controlled for. Following F, Breusch–Pagan and Hausman tests, a pooled panel regression is estimated in EViews.

- ***Findings:***
All three CEO attributes are positively and significantly associated with firm value. Firms whose CEOs hold larger equity stakes, use assets more efficiently and combine longer tenure with greater experience are valued more highly by the market.

- ***Originality/Value:***
The study offers evidence from Egypt, where CEO attributes have received limited attention, and integrates governance and upper echelons perspectives to show that boards should consider incentive design, ethical conduct and accumulated managerial capital jointly when appointing and evaluating CEOs.

Keywords: *CEO Incentives; CEO Integrity; CEO Power; CEO Tenure; CEO Experience; Firm Value; Upper Echelons Theory; Agency Theory; Stewardship Theory; Egypt.*

How to Cite: Omar Mohamed Abozeid; Mohamed El-Shahat Ahmed Esmail; Ola Alaa Eldine Elsayed (2026) The Impact of CEO Attributes on Firm Value: An Upper Echelons Perspective from Egyptian Listed Companies.
International Journal of Innovative Science and Research Technology, 11(11), 1827-1836.
https://doi.org/10.38124/ijisrt/26nov575

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I. INTRODUCTION

Sound corporate governance helps management to monitor and control the use of corporate resources. When governance is perceived as effective, stakeholders form a more favourable view of the firm relative to its peers and expect higher future cash flows, which tends to be reflected in share prices and overall firm value (Aggarwal et al., 2019; Laili et al., 2019). This argument is not universal, however: Ammann et al. (2011) note that the cost of implementing governance practices can be high enough to erode value in some settings.

Within the governance system, the CEO occupies a pivotal position. The CEO directs top management, shapes strategy and is responsible for the reliability and transparency of financial information (Soliman and Abd Elsalam, 2012). Upper echelons theory argues that organisations reflect the values, experience and cognitive base of their top executives (Hambrick and Mason, 1984), and recent evidence shows that investors respond to visible CEO attributes when valuing firms (Filatotchev et al., 2025). In Egypt, recent studies have linked CEO characteristics to ESG performance, dividend policy and the value relevance of disclosure (Taha et al., 2024; Alrobai and Albaz, 2025; Gazia, 2025), yet the joint effect of CEO incentives, integrity and power on firm value has not been examined. This study addresses that gap.

The study makes three contributions. First, it examines three distinct CEO attributes—an economic attribute (equity incentives), an ethical attribute (integrity) and a structural–human capital attribute (power through tenure and experience)—within a single model, rather than studying them in isolation. Second, it combines agency, stewardship and upper echelons theories to explain why these attributes should matter for value. Third, it provides evidence from the largest and most liquid Egyptian firms, an emerging-market setting in which ownership is concentrated and boards rely heavily on the CEO.

➢ *Research Aim and Questions*

The study aims to examine the effect of CEO incentives, integrity and power on firm value by answering the following questions:

- Does CEO incentive affect firm value?
- Does CEO integrity affect firm value?
- Does CEO power affect firm value?

II. THEORETICAL BACKGROUND

➢ *Agency Theory*

Agency theory describes the relationship in which one or more principals engage an agent to perform services on their behalf and delegate decision-making authority to that agent (Jensen and Meckling, 1976; Shettima and Dzolkarnaini, 2018). Because the agent may pursue personal interests, the outcomes of delegated decisions can diverge from what owners would choose. Within the firm, the clearest example is the relationship between the board, acting for shareholders, and the CEO (Mohammed et al., 2020).

The board therefore relies on two levers: incentives that reward value-creating behaviour and monitoring that sanctions value-destroying behaviour. A CEO whose financial decisions lead to losses is likely to face board opposition, whereas one who introduces successful innovations is rewarded (Fama, 1980). From this perspective, equity incentives and ethical conduct are mechanisms that narrow the gap between the CEO's interests and those of shareholders, while excessive power may widen it.

➢ *Stewardship Theory*

Stewardship theory offers a contrasting view. It assumes that executives are motivated by higher-order needs and derive satisfaction from the firm's success, so that their interests are naturally aligned with those of the organisation (Davis et al., 1997; Bak-Coleman et al., 2021; Hahn, 2021). Rather than self-serving agents, executives are seen as self-actualising stewards who place organisational goals above personal ones (Subramanian, 2018). Formal controls such as close monitoring and incentive pay are therefore viewed as unnecessary and potentially counterproductive (Thomas and Tymon, 1982; Jensen and Meckling, 1994). This view predicts that empowered, experienced and ethical CEOs create value rather than extract it.

➢ *Upper Echelons Theory and an Information-Processing Perspective*

Upper echelons theory holds that executives interpret strategic situations through their experience, values and personalities, so that firm outcomes partly reflect who the top managers are (Hambrick and Mason, 1984; Hambrick, 2007). The CEO can also be viewed as the firm's central information processor: the CEO decides which information systems are developed, how information is used in decisions and how the firm communicates with investors. Recent studies support this view, showing that a CEO's digital technology orientation raises investors' valuation of the firm (Filatotchev et al., 2025), that CEOs with an IT background direct attention towards digital innovation (Zhang et al., 2025), and that CEO power combined with technological expertise accelerates corporate digital transformation (He and Gan, 2025). These perspectives suggest that CEO incentives, integrity and power influence value not only through agency costs but also through the quality of the decisions and information the CEO produces.

Taken together, the three theories lead to complementary rather than conflicting expectations: agency theory explains why incentives and integrity reduce value-destroying behaviour, stewardship theory explains why empowered CEOs may act in the firm's interest, and upper echelons theory explains why experience and tenure shape the quality of strategic and information-related decisions.

III. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This section reviews the evidence on each CEO attribute, highlights where prior findings disagree and explains how the hypotheses follow from that evidence.

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➢ *CEO Incentives and Firm Value*

CEO incentives have long been a central topic in behavioural and governance research (Coles et al., 2006; Frydman and Jenter, 2010), because the design of the incentive package determines how closely the CEO's interests align with those of shareholders and other stakeholders. Equity-based components such as stock options and restricted shares encourage the CEO to think like an owner, whereas pension-type compensation aligns the CEO more with debtholders (Sundaram and Yermack, 2007). Boards can also make pay more or less sensitive to firm risk in order to influence risk-taking (Core and Guay, 2002; Coles et al., 2006).

Most evidence suggests that the form of compensation matters more than its amount. Variable, equity-based pay is more strongly associated with long-term firm value than fixed salaries (Callan and Thomas, 2014; Karim et al., 2018), while fixed cash payments have been found to relate negatively to value (Stanwick and Stanwick, 2001; Cai and Vijh, 2005). Recent evidence from the MENA region shows that boards increasingly tie CEO pay to governance and sustainability outcomes, although enforcement remains weak (Ayed, 2026). Motivation theory explains why ownership-based incentives work: individuals exert effort when they believe that effort will lead to performance and that performance will be rewarded (Kast, 1974; Alian, 1978).

Alian's (1978) dynamic motivation model links the value of rewards, the probability that rewards depend on performance and the expectancy that effort improves performance to the effort managers invest in the firm's overall results. When the CEO holds a meaningful equity stake, rewards become directly tied to the firm's market value, which strengthens all three elements of the model. Ownership is therefore a natural and observable proxy for CEO incentives.

Accordingly, the first hypothesis is:

- H1: CEO incentives are positively and significantly associated with firm value.

➢ *CEO Integrity and Firm Value*

Integrity is commonly defined as the quality of being honest and holding strong moral principles. The ethics literature shows that integrity overlaps with related concepts such as honesty, morality, justice and authenticity (Bauman, 2013; Verissimo and Lacerda, 2015); applied to the CEO, it refers to honesty, fidelity and moral courage in leading the firm. CEOs with high integrity are more likely to identify the ethical aspects of decisions and to give them priority (Eisenbeiss et al., 2015), and to disclose information about the firm's activities and performance honestly, which strengthens public trust and the firm's reputation.

Recent studies show that integrity also has economic consequences. CEO integrity strengthens the positive effect of integrated reporting on firm value among Indian listed firms (Laskar, 2025), consistent with the view that investors place more confidence in information produced under ethical leadership. Integrity is not without trade-offs, however: high-integrity CEOs may be more cautious about risk-taking and innovation (Gala and Kashmiri, 2022). Whether the net effect on value is positive therefore remains an empirical question.

Because integrity cannot be observed directly in archival data, this study follows the agency-cost approach (Pham and Pham, 2020), which assumes that opportunistic CEO behaviour generates agency costs that appear in measurable indicators. The asset utilisation ratio (total sales divided by total assets) captures how efficiently management uses a unit of the firm's assets to generate revenue.

A low asset utilisation ratio signals revenue lost through inefficient use of assets and poor investment choices, both of which are typical consequences of self-serving behaviour. Higher asset utilisation therefore reflects both managerial efficiency and the quality of CEO integrity.

Accordingly, the second hypothesis is:

- H2: CEO integrity is positively and significantly associated with firm value.

➢ *CEO Power and Firm Value*

The effect of CEO power on firm value is one of the most contested issues in the governance literature. On the negative side, powerful CEOs insulated from market discipline may prefer a 'quiet life' to difficult, risky investments (Bertrand and Mullainathan, 2003), and may use their control to serve personal interests rather than maximise value (Armstrong et al., 2012). Recent evidence supports this concern: politically connected, powerful CEOs reduce board power and firm value in Taiwan and Pakistan (Amin and Cumming, 2023), powerful CEOs reduce climate-change disclosure and firm transparency (Bose et al., 2025), and some dimensions of CEO power reduce value in Indonesian state-owned enterprises (Wibowo and Retnawati, 2025).

On the positive side, powerful CEOs are better able to implement strategic decisions, even when those decisions do not serve their personal interests (Adams et al., 2005; Francoeur et al., 2017), and both formal and informal power can help translate stakeholder engagement into value-creating strategies (Walls and Berrone, 2017). In Egypt, CEO power has been found to shape firms' ESG strategy and performance (Alrobai and Albaz, 2025), and in other emerging markets its effect on risk-taking depends on the institutional setting (Pham and Ngo, 2026).

Given these mixed results, this study examines the direction of the relationship in the Egyptian setting. Among the many sources of CEO power, it focuses on two that accumulate over time and are observable: tenure and experience.

- *Tenure*

CEO tenure—the length of time the CEO has held the current position—is an important characteristic because it captures how the CEO's influence over the firm develops over time (Nguyen et al., 2018). As tenure lengthens, the CEO

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

becomes more confident in a strategic vision built on the firm's history and more able to shape established policies (Hambrick and Fukutomi, 1991). Authority grows with each year in office, enabling the CEO to build a cohesive executive team with aligned views (Westphal and Zajac, 1995), to resist pressures for change and to reject proposals inconsistent with the firm's traditional orientation (Miller, 1991; Wei et al., 2018).

Long tenure also allows the CEO to develop social networks with regulators and financiers and to gain experience in managing downturns and protecting liquidity (Hartnell et al., 2016; Saeed and Ziaulhaq, 2019). Other studies, however, document a negative relationship between tenure and firm value, arguing that newly appointed CEOs—particularly outsiders less attached to the status quo—are better able to introduce strategic change and enter new markets (Hambrick and Fukutomi, 1991; Westphal and Fredrickson, 2001; Chen, 2013; Balsmeier et al., 2014). Recent evidence reconciles these views by documenting an inverted U-shaped relationship: tenure improves performance up to a threshold, after which it becomes a burden (Chikunda et al., 2025), and long-tenured CEOs can leave weaker performance for their successors (Colak and Liljeblom, 2022).

- *Experience*

Boards usually appoint CEOs on the basis of professional expertise and prior executive experience, because the CEO's tasks require a different skill set from that of lower-level managers (Zhang et al., 2006; Salem et al., 2019). Experienced CEOs have a richer knowledge base that supports better strategic decisions and performance than less experienced CEOs (Hamori and Koyuncu, 2015), and CEOs with financial expertise are less likely to manipulate earnings. Egyptian evidence shows that CEO financial expertise also strengthens the positive effect of CSR disclosure on firm value (Gazia, 2025).

The evidence is again mixed. Some studies find that CEOs with prior CEO experience perform worse than first-time CEOs and that firms hiring them face a higher risk of failure (Ang and Nagel, 2009; Custodio and Metzger, 2014; Mohammed et al., 2020). The market also reacts differently depending on whether the experienced successor is an insider or an outsider, because job-specific skills do not always transfer across firms with different strategies and cultures (Elsaid et al., 2011; Hamori and Koyuncu, 2015; Shurafa and Mohamed, 2016; Giannopoulos and Pham, 2018).

Because tenure and experience both represent accumulated managerial capital and influence, this study combines them into a single measure of CEO power. Consistent with stewardship and upper echelons arguments, and with evidence that powerful CEOs can translate influence into value in emerging markets, the third hypothesis is:

- ✓ H3: CEO power is positively and significantly associated with firm value.

IV. RESEARCH METHODOLOGY

The study uses data on firms included in the EGX30 index of the Egyptian Exchange over the five-year period 2017–2021. Data were collected from annual reports and board of directors' reports. Table (1) defines the variables and their measurement.

Table 1 Research Variables

Independent variables			
CEO personal characteristics			
Incentive	Means compensation awarded, earned, paid, or any payable amount under the firm's incentive plan that can motivate CEO.	Percentage of CEO shares in the firm	Annual Reports and BOD Meetings reports
Integrity	The process of establishing baselines and monitoring for changes for the firm long-term strategy and for instilling values in employees.	Asset utilization (Totals sales divided by total assets)	Annual Reports and BOD Meetings reports
Power	The ability of influencing the key decision outcomes within the firm.	The total of tenure and experience (tenure + experience)	Annual Reports and BOD Meetings reports
Dependent variable			
Firm value			
Firm value	An economic measure reflecting the total market value of the entity	Market value= Market Capitalization + Market Value of Debt – Cash and Equivalents	Annual Reports
Control variables			
Firm age	The time between the firm installation creation and the present time	Number of years	Annual Reports
Firm size	The scale of operation turned out by a single firm.	Total market capitalization	Annual Reports

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

➢ *Research Conceptual Framework*

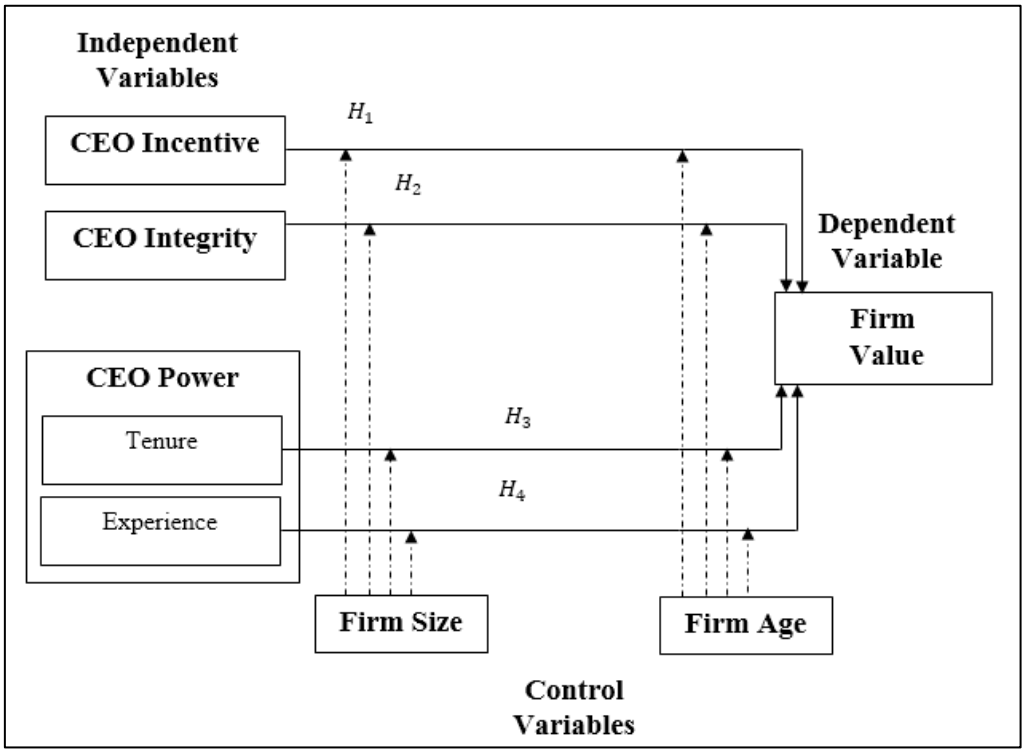

Fig 1 The Impact of CEO Incentive, Integrity and Power on Firm Value

The primary objective of any firm is to create value for its owners, and through firm value the welfare of all stakeholders can be improved. A high firm value attracts further investment and reflects consistently strong performance, which in turn is the outcome of decisions taken by the board and top management.

Within this structure, the CEO plays the dominant role in decision-making, so the CEO's performance contributes directly to improvements in firm value. The CEO also inspires employees to pursue the firm's vision and mission and influences investors through the decisions he or she makes.

CEO power can derive from five sources: reputation (prestige power), share ownership (ownership power), experience (expert power), formal position (structural power) and length of service in the position (tenure power) (Lasswell, 2017; Saidu, 2019). This study examines ownership power, expert power and tenure power.

From the ownership-power perspective, CEO shareholding is used to capture CEO incentives for two reasons. First, a CEO who owns shares shares the interests of other shareholders, and the larger the stake, the stronger the incentive to take decisions that raise firm value and shareholder wealth. Second, agency theory regards incentive systems as a key instrument for reducing conflicts between the firm and its stakeholders, so the study tests whether CEO ownership functions as an effective element of the firm's incentive system.

The framework also includes CEO integrity, reflecting the ethical leadership perspective. A CEO who decides with integrity avoids unethical choices and sets an example for others, which builds public trust, strengthens the firm's reputation and, ultimately, supports its market value.

V. STATISTICAL ANALYSIS AND RESULTS

A panel regression model is used to examine the effect of CEO attributes on firm value, measured by market value.

➢ *Linear OLS Panel Regression Model*

- *Model Structure View*

Because the data combine cross-sectional observations on several companies with repeated observations over time, a balanced panel regression is the most suitable way to represent the linear relationship. The model is written as follows:

$$\hat{y}_{it} = \hat{\beta}_0 + \hat{\beta}_1 x_{1t} + \cdots + \hat{\beta}_i x_{it} + \epsilon_{it}$$

Where

- ✓ $\hat{\beta}_0$: The estimated constant term.
- ✓ $\hat{\beta}_i$: The estimated independent Parameter coefficient.
- ✓ y: The dependent variable.
- ✓ x: The independent variable.
- ✓ i: The Company Number.
- ✓ t: Referring to the year.
- ✓ $\in$: Model white noise error.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

- *Steps of Constructing a Panel Regression Model*

✓ Define the time-series and cross-sectional identifiers to set up the panel.
✓ Estimate a pooled panel regression and assess its overall significance.
✓ Use the F-test to choose between the pooled and fixed-effects models.
✓ Use the Breusch–Pagan test to choose between the pooled and random-effects models.
✓ Use the Hausman test to choose between the fixed- and random-effects models.

For all three tests, the alternative hypothesis is accepted when the p-value is below 0.05.

Pooled OLS is the simplest panel estimator. Although it is often too restrictive, it provides a baseline against which more complex estimators can be compared.

Fixed Effects are constant across individuals, and random effects vary. For example, in a growth study, a model with random intercepts a_i and fixed slope b corresponds to parallel lines for different individuals, or the model $y_{it} = a_i + b_t y_{it} = a_i + b_t$. Kreft and De Leeuw (1998) thus distinguish between fixed and random coefficients.

✓ *Test the Normality of the Residuals.*
✓ *Perform the Model Diagnostic Tests:*
✓ *White Test for Heteroscedasticity:*

OLS assumes that the error variance is constant (homoscedasticity). When this assumption is violated, corrective procedures are required; the White test is used to detect the problem, with the null hypothesis of homoscedastic errors evaluated at the 5% level.

✓ *Normality of Residuals:*
The residuals should be normally distributed with a mean of zero. A chi-square test is used, and residuals are considered normal when the p-value exceeds 0.05.

✓ *Ramsey RESET Test for Model Specification:*
The RESET test checks whether the model includes all relevant variables and excludes irrelevant ones, so that the estimated coefficients are unbiased. The null hypothesis of correct specification is accepted when the p-value exceeds 0.05.

✓ *Variance Inflation Factors:*
The minimum possible value is 1.0; values above 10.0 indicate a potential multicollinearity problem.

✓ *Goodness-of-Fit Measures:*
Forecast accuracy can be assessed using the mean absolute error (MAE), root mean squared error (RMSE) and mean absolute percentage error (MAPE).

The fitted values are also presented graphically within the standard error of the model.

A linear panel regression is therefore estimated with CEO integrity, incentives and power as independent variables, firm value (market value) as the dependent variable, and firm size and firm age as control variables.

Based on the F, Breusch–Pagan and Hausman tests, the pooled panel model was found to be the most appropriate specification. The results are presented in Table (2).

Table 2 Pooled Linear Panel Model for Estimating Firm Value

Model	***Pooled linear Panel***	**Dependent variable**		***Firm value***	**VIF Test**
Independent variables	***Coefficient***	***t-ratio***	***p-value***	**Significance**	
Constant	0.489471	2.505	0.0135	Significant	
Integrity	0.182587	4.947	<0.0001	Significant	1.015
Incentives	0.117634	6.246	<0.0001	Significant	1.183
Power	0.866157	2.315	0.0210	Significant	1.755
Firm Size	0.320562	2.343	0.0206	Significant	1.842
Firm Age	0.858137	2.145	0.0243	Significant	1.254
Adjusted R-squared			45.9255%		
Ramsey RESET overall Test			**F-test**		**P – value**
			14.7951		0.67493
Overall test of Heteroscedasticity			**Chi-square**		**P – value**
			43.9204		0.00154
Normality of Residuals			**Chi-square**		**P – value**
			129.6497		0.64457

Source: Prepared by the Researcher from E-Views Software Output.

➢ *Table (2) Shows the Following:*
The pooled panel model is statistically significant, with an adjusted R^2 of 45.9255%, meaning that the independent variables (integrity, incentives and power) and the control variables (firm size and firm age) together explain about 45.93% of the variation in firm value. CEO integrity has a positive and significant effect on firm value (coefficient = 0.182587; $p < 0.05$): holding other variables constant, a one-

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

unit increase in integrity is associated with a 0.182587 increase in firm value.

CEO incentives also have a positive and significant effect (coefficient = 0.117634; $p < 0.05$), so a one-unit increase in incentives is associated with a 0.117634 increase in firm value, other things equal. CEO power has a positive and significant effect as well (coefficient = 0.866157; $p < 0.05$), the largest of the three CEO attributes.

Both control variables are positive and significant: firm size (coefficient = 0.320562; $p < 0.05$) and firm age (coefficient = 0.858137; $p < 0.05$).

The Ramsey RESET test yields a p-value of 0.67493, above 0.05, indicating that the model is correctly specified. The overall heteroscedasticity test yields a chi-square statistic of 43.9204 with a p-value of 0.00154.

The normality test yields a p-value of 0.64457, above 0.05, indicating normally distributed residuals. All VIF values are below 10, so multicollinearity is not a concern.

The estimated model is:

$$\widehat{Firm\,Value}_{it} = 0.489471 + 0.182587\ Intigrity_{it} + 0.117634\ Incentives_{it} + 0.866157\ \text{Power}_{it} + 0.320562\ Firm\ size_{it} + 0.858137\ Firm\ age_{it}$$

Figure (2) shows the fitted values of firm value for the 27 companies over the five-year period.

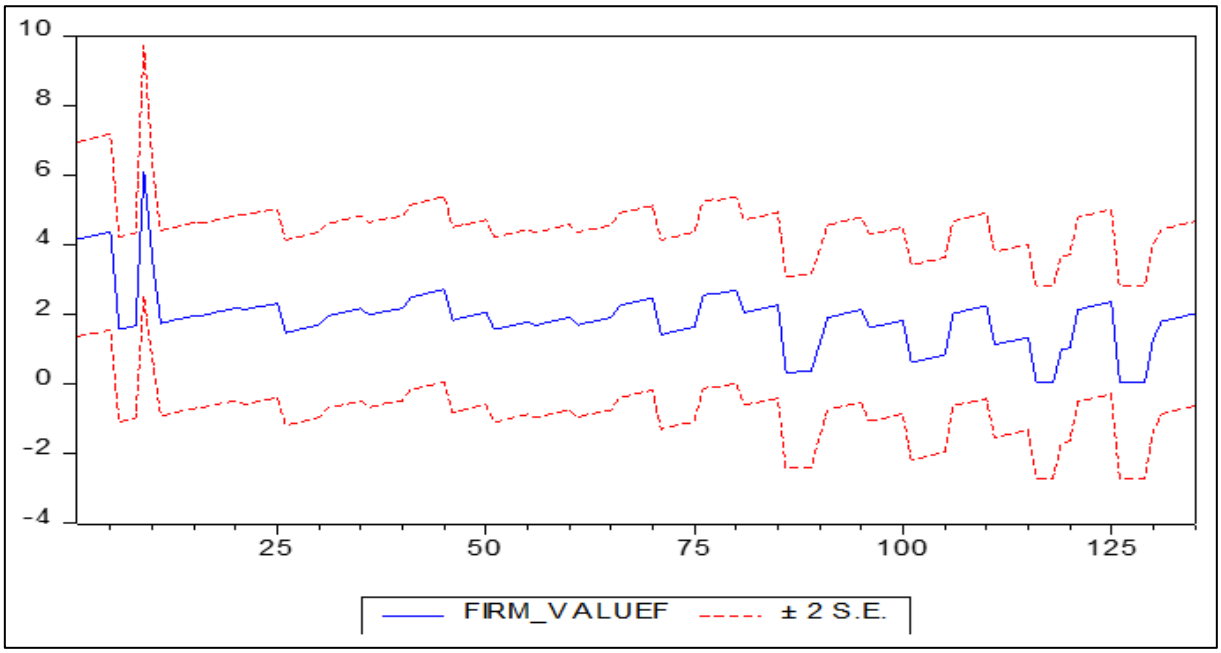

Fig 2 Firm Value Forecasted Values for 27 Companies Among Period 2017 till 2021.
Source: E-Views Software.

- *Based on Table (2):*

✓ CEO integrity has a positive and significant effect on firm value ($p < 0.05$).
✓ CEO incentives have a positive and significant effect on firm value ($p < 0.05$).
✓ CEO power has a positive and significant effect on firm value ($p < 0.05$).

Accordingly, all three hypotheses are supported:

✓ H_1: There is a positive significant relationship between CEO incentive and firm value.
✓ H_2: There is a positive significant relationship between CEO integrity and firm value.
✓ H_3: There is a positive significant relationship between CEO power and firm value.

VI. DISCUSSION AND CONCLUSION

This study examined whether CEO incentives, integrity and power are reflected in the market value of EGX30 firms over 2017–2021. All three attributes are positively and significantly associated with firm value. The positive effect of incentives supports the agency-theory argument that equity ownership aligns the CEO with shareholders, in line with evidence that boards increasingly use pay design to align executives with long-term value (Ayed, 2026). The positive effect of integrity, measured through efficient asset use, is consistent with evidence that ethical leadership increases the credibility and value relevance of corporate information (Laskar, 2025).

The positive effect of CEO power, captured by tenure and experience, supports the stewardship and upper echelons views rather than the entrenchment view. In the Egyptian

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26nov575

setting, where the largest firms operate in a volatile environment, accumulated experience and long tenure appear to give CEOs the knowledge and authority needed to implement value-creating strategies, consistent with recent Egyptian and emerging-market evidence on the strategic role of powerful CEOs (Alrobai and Albaz, 2025). At the same time, studies showing an inverted U-shaped relationship between tenure and performance (Chikunda et al., 2025) and value-reducing effects of some forms of CEO power (Amin and Cumming, 2023; Wibowo and Retnawati, 2025) suggest that the positive effect observed here may weaken when power becomes excessive or monitoring is weak.

Overall, CEO characteristics can affect firm outcomes in either direction. Boards should therefore assess their firm's needs, competitive position, strategy and peers in order to identify the CEO profile best suited to lead it, and should design incentives, ethical safeguards and monitoring arrangements together rather than separately.

VII. LIMITATIONS AND FURTHER RESEARCH

The study is limited to EGX30 firms over five years and to indirect proxies for integrity and power. Future research could extend the period, examine other outcomes such as performance, strategy and competitive advantage, and include further CEO characteristics such as duality, origin and demographics, as well as board composition, diversity, independence and ownership structure. From a business information systems perspective, future studies could also measure the CEO's IT background and digital orientation, which recent evidence links to digital innovation and firm value (Filatotchev et al., 2025; He and Gan, 2025; Zhang et al., 2025).

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