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# What's in an education? Implications of CEO education for financial inclusion

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## Abstract

This article analyses the impact of chief executive officer's (CEO) educational background, that is, business degree (an MBA) on corporate strategies. In essence, the study tests how differences in educational backgrounds, MBACEOs vis-à-vis non-MBACEOs, determine their strategic choices pertaining to financial inclusion. The study evaluates this relationship in the third-sector, faith-based charity organizations (FCOs) context. Using a longitudinal sample of FCOs operating in a developing Muslim-majority country, this paper reports that CEO's educational background, that is, an MBA degree matters for financial inclusion. These findings demonstrate how CEO's educational background shape the strategic posture of third-sector organizations such as the FCOs. Additionally, the interaction effects further suggest that MBACEOs derive their imputes from robust sutural positions within the organization such as role duality, founder and internally hired CEO status. Results reported in this study have import economic and policy implications.

## KEYWORDS

CEO education, faith-based charity organizations, financial inclusion, MBACEOs, upper echelons theory

## JEL CLASSIFICATION

D64; G53; O16

## 1 | INTRODUCTION

Chief executive officers (CEOs) possess heterogeneous talents and abilities that shape the corporate strategic posture (Nawaz, 2020). The significance of managerial heterogeneity in relation to corporate strategies and outcomes is well recognized in various literatures.<sup>1</sup> The upper echelons theory tenets contended that CEOs' personal traits such as education, age and experience determine their strategic preferences while making corporate policy decisions (see Belenzon et al., 2019; Bertrand & Schoar, 2003; Hambrick &

Mason, 1984; Jensen & Zajac, 2004, among others). Similarly, an individual's cognitive ability have been linked to a number of socio-economic outcomes (Jensen, 1998). Empirical studies often consider education as a proxy for cognitive ability and submit that an individual's educational background, amongst other factors, explain variations in CEOs cognitive ability (Datta & Rajagopalan, 1998).

Superior educational attainment—business education, that is, an MBA, in particular—contain expectations on the latent ability of the CEO (King, Srivastav, & Williams, 2016). Various studies have focused on CEOs' educational

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backgrounds—business degrees such as an MBA degree, in particular—and their relationships with a wide range of corporate strategies (Bertrand & Schoar, 2003; Tang et al., 2015) that ultimately shape corporate outcomes (King et al., 2016; Nguyen et al., 2015). At the crux of these literatures is that MBA CEOs tend to be confident leaders (Malmendier & Tate, 2005) with the intrinsic ability to develop more innovative business models when leading complexed organizations (Bertrand & Schoar, 2003).

Taken together, both anecdotal and empirical evidence suggest that CEO's demographic traits such as education background, that is, an MBA degree do matter for corporate strategies. The existing research is however, largely focused on for-profit-organizations and has ignored the third-sector organizations, who play a crucial role in developed and developing economies.<sup>2</sup> Third sector initiatives derive their impetus from voluntary establishments, such as the faith-based charity organizations (FCOs), to address the socio-economic voids. FCOs have galvanized considerable interest among government and civic circles. Their role is even more significant in developing economies, including the Muslim majority countries, in which people voluntary remain excluded from the formal financial system due their religious beliefs (Demirgüç-Kunt & Klapper, 2013).

Given the increasing role of charity organizations in promoting socio-economic justice, the importance of good governance in charity organizations have been recognized (see Buse, Bernstein, & Bilimoria, 2016; Hyndman & McDonnell, 2009, among others). However, the existing literature centres on the organizational positions of corporate elites and ignores the role of executives who are responsible for designing and implementing strategies to achieve the organizational objectives (Jensen & Zajac, 2004). By contrast, the upper echelons theory holds that executives' traits and organizational positions exert a significant influence on corporate strategies (Finkelstein et al., 2009; Hambrick, 2007). In the non-profit sector, such as the FCOs in focus, the CEOs are expected to develop strategies that benefit the specific clientele who may not be the shareholders as such and rather rely on the incumbent organization for their economic survival.

Despite the theoretical and empirical implications, the impact of CEOs' education background, that is, MBA has not been tested in the context of FCOs. Pique by the literature on the demand for human capital, this study notes and fills this chasm in the literature. In essence, the study measures the impact of CEOs education background, that is, an MBA degree in relation to their strategic preferences using funds redistribution strategies: cash vs. bank transfer via a formal bank account in which the latter set of strategies bring the financially excluded (the unbanked) into the formal financial services system, thereby promoting financial inclusion. The study empirically test the theorizing using a

novel hand-built dataset belonging to 73 FCOs, operating in a Muslim majority country, that is, Pakistan for the period 2001 to 2017. This is the first study to analyse the effect of CEO's education background, that is, an MBA on corporate strategies pertaining to financial inclusion.

The study document that MBACEOs' with well-founded governance positions adopt strategies that promote financial inclusion. The main findings observed in the study remain unchanged when additional variables such as corporate governance attributes viz. board size, board diversity and CEO role duality; firm specific control variables such as size and age; and macroeconomic variables, that is, GDP growth rate, GDP per capita are included in the analysis.

The paper proceeds as follows: Section 2 presents background literature and research hypotheses followed by data and research variables description in Section 3. Descriptive statistics and econometric models are presented in Sections 4 and 5, respectively. Section 6 discusses the results including the further analysis and paper concludes with Section 7.

## 2 | BACKGROUND AND RESEARCH HYPOTHESES

### 2.1 | CEO education and financial inclusion

CEO's educational background is one of the foremost demographic characteristics thought to affect corporate strategy. Various studies have focused on CEOs' educational backgrounds—business degrees such as MBA, in particular—and their relationships with a wide range of corporate strategies (Bertrand & Schoar, 2003; Tang et al., 2015) that ultimately shape corporate outcomes (King et al., 2016; Nguyen et al., 2015). One well-recognized benefit of an MBA degree—from a prestige school—is the extensive social network that the appointees form during their MBA study (Useem & Karabel, 1986). MBA CEOs, thus, put the hiring organization in a more central position within the corporate social network, and this potentially create more value for shareholders (Nguyen et al., 2015). Empirical research on the personal qualities of MBAs with an economics concentration (Loe, Ferrell, & Mansfield, 2000) suggests that MBA CEOs typically exhibit superior firm performance and outperform their peers during turnaround situations, as they are generally fine-tuned to manage complexities associated with the use of innovative albeit riskier business models (Bhagat, Bolton, & Subramanian, 2010; King et al., 2016).

Others, yet, warn that MBA education fosters self-serving behaviour among celebrated MBA CEOs (Miller & Xu, 2016). Bertrand and Schoar (2003), for instance, submit

that MBA CEOs follow strategies that are more aggressive whereas Krishnan (2008) observes that MBAs give importance to self-oriented values such as leading an exciting lifestyle and personal pleasure. None of these empirical theses helps us to discern whether an MBA CEO is, or is not, better than a non-MBA CEO. The ambiguities compounded by the aforementioned studies are enormously contradictory. Perhaps this is because these studies were conducted in the context of for-profit organizations; they used different samples, assessed different variables and employed the differing levels of methodological rigor.

However, the earlier empirical work of Finkelstein et al. (2009) suggest that executives with an MBA degree tend to make different decisions than non-MBA executives. Further that executives with an MBA degree possess auxiliary skills related to strategic decision-making and, therefore, hold a greater ability to recognize and take advantage of opportunities that increase firm value (Lewis et al., 2014). MBA executives capitalize on these skills to rapidly reshape corporate strategies in response to any external environmental vicissitudes. Overall, the theoretical and empirical evidence suggests that CEOs educational background does have an important implications for corporate strategic outcomes.

Against this backdrop, this study argues that CEO's are likely to receive solid training in various segments of the business during their MBA studies that will help them master the knowledge and skills needed to lead complexed organizations such as the FCOs in focus. Unlike the for-profit sector where the prime pursuit is to maximize shareholders' wealth, CEOs in the not-for-profit sector are expected to act more ethically because their self-serving expedients will threaten the welfare of their clientele who are economically dependent on the incumbent organization, that is, FCO and are already socially deprived. It is anticipated that being the head of a religious charity organization such CEOs will not allege any misconducts such as conspiring to embezzle charity funds and will act ethically in the best interest of their clientele. As vigilant observers of their organizational milieus, MBA CEOs will apt for strategies—that is, redistribution of funds through a formal financial channel such as a bank-transfer rather than cash—that will promote financial inclusion. Thus, the upper echelon theory give rise to the following hypothesis (H1):

**Hypothesis 1 (H1):** *MBA CEOs are more likely to adopt strategies that promote financial inclusion.*

## 2.2 | Founder CEO and financial inclusion

Prior research suggests that having a founder-CEO increases the survival likelihood of the company. In a comparative

study, professional CEOs vis-à-vis founder-CEOs, He (2008) report that founder-managed firms possess higher financial performance with higher propensity to survive than professional CEOs. Interestingly, the study further note that firms make additional financial gains when the founder CEO assumes dual role, that is, CEO and board chair.

Forming a third sector organization such as a charity or an FCO is different from forming a for profit business organization. The imprints of founders on the value system, operating culture and strategic objectives for non-profit charity organizations is expected to be stronger than the for-profit business organizations. Because the purpose is to serve the humanity, founder CEOs leading the sampled FCOs are expected to support initiatives and strategies that will help and benefit others. Therefore, the study expect a positive relationship between founder CEO and financial inclusion.

**Hypothesis 2 (H<sub>2</sub>):** *Founder CEOs are more likely to adopt strategies that promote financial inclusion.*

## 2.3 | Internally hired CEO and financial inclusion

CEO's recruitment path, that is, inside vs. outside CEO is an important determinant of their strategic choices (Adams, Almeida, & Ferreira, 2005). Internally hired CEOs retain superior knowledge and skills to run the concern better relative to externally hired CEOs. Palomino and Peyrache (2013) argue that information asymmetry on externally hired CEO's firm-specific knowledge and skills potentially depict stakeholders to adverse-selection and moral-hazard problems. Hermalin (2005) warn that internally hired CEOs may strive for a longer tenure. This study speculates that internally hired CEO with enrich knowledge about the firm may have more informational power, especially, on the functioning of the company than the board, putting the CEO in a relatively comfortable position. Consequently, the board may consider such CEOs as formidable and do not scrutinize his/her performance appropriately. Thus, such powerful CEOs may spend more time on internal politics and retain power at the expense of stakeholders. Hence, the study expect a negative relationship between internally hired CEO and financial inclusion.

**Hypothesis 3 (H<sub>3</sub>):** *Internally hired CEOs are less likely to adopt strategies that promote financial inclusion.*

## 2.4 | CEO tenure and financial inclusion

Long-tenured CEOs tend to oppose initiatives and are detrimental for corporate outcomes (Hambrick &

Fukutomi, 1991). Belenzon et al. (2019) note that the level of task interest and nimbleness of acquiring task-related knowledge decreases among long serving CEOs. Consequently, long-tenured CEOs fail to tailor their organizational strategies to match the challenges posted by the external environment (Miller, 1991). CEOs gain power as they advance their tenure. They exercise the assumed power to resist pressure for change in structure and strategy that would antiquate their skills or threaten their prestige (Staw, Sandelands, & Dutton, 1981).

Linking this to the strategy in focus, that is, charitable funds redistribution: it is anticipated that long-tenured CEOs may resist the use of a formal financial services provider because the allocation or redistribution of funds via a bank leaves a clear tract record of financial transactions. As argued earlier, longer serving CEOs tend to holdback information and use the information for their own advantage, that is, to retaining their position as the lead executive. Such CEOs may see the use of formal banking services as a threat to their organizational knowledge because the financial trail is available easily form a machine rather than coming directly from the horse's mouth hence, the rest of the executives including the board of directors would have direct access to the verifiable financial information. Therefore, to protect their position—safe guarded by access to certain information such as the financial matters—longer tenured CEOs are expected to prefer redistribution of funds via cash. Cash redistribution give certain control to the CEO, as the cash-based financial transactions are not easily verifiable. Thus, this study expect the long-tenured CEOs to resist change, that is, from cash to formal bank transfer. Consequently, the study expect a negative relationship between CEO tenure and financial inclusion.

**Hypothesis 4 (H<sub>4</sub>):** *Longer serving CEOs are less likely to adopt strategies that promote financial inclusion.*

## 2.5 | Board attributes and financial inclusion

The role of board attributes is well recognized in the literature (e.g., Nawaz, Haniffa & Hudaib, 2020). Empirical studies of strategic decision-making in charity organizations have been relatively sparse to date (Steane & Christie, 2001) and only a few handful of studies have explored the inner sanctum of the non-profit boards (see a detailed analysis in Parker, 2007) with an exception for the FCO sector (Nawaz, 2020). This study adds to the aforementioned literature by analysing the impact of board attributes, namely, board size, board diversity, and CEO's role duality on corporate strategies pertaining to financial inclusion.

### 2.5.1 | Board size and financial inclusion

The strategic direction of concern is largely determined by its board of directors. Westphal and Fredrickson (2001) argue to that extent that board of directors may actually exert more influence on corporate strategies than executives do. Similarly, Bai (2013) observe that larger boards increase social performance of non-profit organizations. By contrast, Reddy, Locke, and Fauzi (2013) presage that larger board may upturn agency costs in charity organizations whereas Cornforth (2001) did not find strong evidence to suggest the impact of board size in non-profit organizations. Taken together, there is no consensus on the direction of the relationship.

Although there is no direct answer to the optimum board size in the context of charity organizations nonetheless from a strategic point of view, this study reasons that large board may not support strategies that offer transparency such as funds redistribution via a formal bank account in which bank transfers are traceable and auditable. Instead, large board may perceive such strategies as a threat to their authority/jobs and will vote down such initiatives thereby impeding financial inclusion. For that reason, a negative relationship between large board size and financial inclusion is expected.

**Hypothesis 5 (H<sub>5</sub>):** *Large boards are less likely to support strategies that promote financial inclusion.*

### 2.5.2 | Board diversity and financial inclusion

Board diversity in terms of race and gender signals norm adherence and positive working conditions, which enhances firm's reputation (Miller & del Carmen Triana, 2009). Likewise, Buse et al. (2016) observe that greater gender diversity erodes the negative impact of racial diversity and improves governance practices of non-profit firms. Ellwood and Garcia-Lacalle (2015) analyse the impact of female board of directors on service quality and financial returns and submit that female CEOs significantly reduce negative social outcomes without compromising financial management. In the same spirit, Terjesen, Hellerstedt, Andersson, and Wennberg (2013) report that board diversity in terms of age and gender has a negative effect on the female CEOs' turnover. Taken together, board diversity in terms of female representation on the board merits for further analysis. This is particularly important in the context of present study in which women are marginalized due to the gender stereotypes and other socio-religious norms and are under represented at board level. Female directors will bring divergent views

to the board. Their understanding of the hardships faced by the women in a male-dominating society such as the case for Pakistan where the sampled charity organizations are located will bring new insights to the board that will have direct implications to the corporate strategies. In view of that, a positive relationship is expected between board diversity and financial inclusion.

**Hypothesis 6 (H<sub>6</sub>):** *Diversified boards are more likely to support strategies that promote financial inclusion.*

### 2.5.3 | CEO duality and financial inclusion

CEO duality is one of the most widely discussed corporate governance phenomena (see Krause, Semadeni, & Cannella Jr, 2014 for a meta-analysis). Whether to combine or separate the roles of CEO and board chair is a lively topic across disciplines (Dalton & Dalton, 2011). Those in favour of unity of command argue that powerful CEOs define a clearer line of authority, achieve internal and convey sense of unity of command and strong leadership to stakeholders (Muller-Kahle & Schiehl, 2013). On the other hand, the agency theory tenants (e.g., Jensen, 1986) are actively adamant that dual CEO curtail board's ability or willingness to dispassionately evaluate the policies, practices, and performance of the CEO.

To that extent, it is argued that CEOs wield considerable structural power when the CEO and chairperson roles are combined. Due to their power status, such CEOs are likely to perceive redistribution of funds via bank transfers as antagonistic strategy, which might reduce their personal control associated with their desk. It is therefore, expected a negative association between role duality and financial inclusion.

**Hypothesis 7 (H<sub>7</sub>):** *Dual CEOs are less likely to adopt strategies that promote financial inclusion.*

## 3 | DATA AND ESTIMATIONS

### 3.1 | Dependent variable: Financial inclusion (FI)

Financial inclusion is an ease of access to appropriate and affordable formal financial services to all economic agents in the society. At its most basic level, financial inclusion instigates with having a bank account at a formal financial services provider that can be used to remit and receive payments (Demirguc-Kunt, Klapper, &

Singer, 2017). Empirically, an emerging stream of research recognize the role of financial inclusion in relation to economic and financial stability and human capital development (see, Alhassan, Li, Reddy, & Duppati, 2019; Jajah, Anarfo, & Aveh, 2020; Ofosu-Mensah Ababio, Attah-Botchwey, Osei-Assibey, & Barnor, 2020, among others).

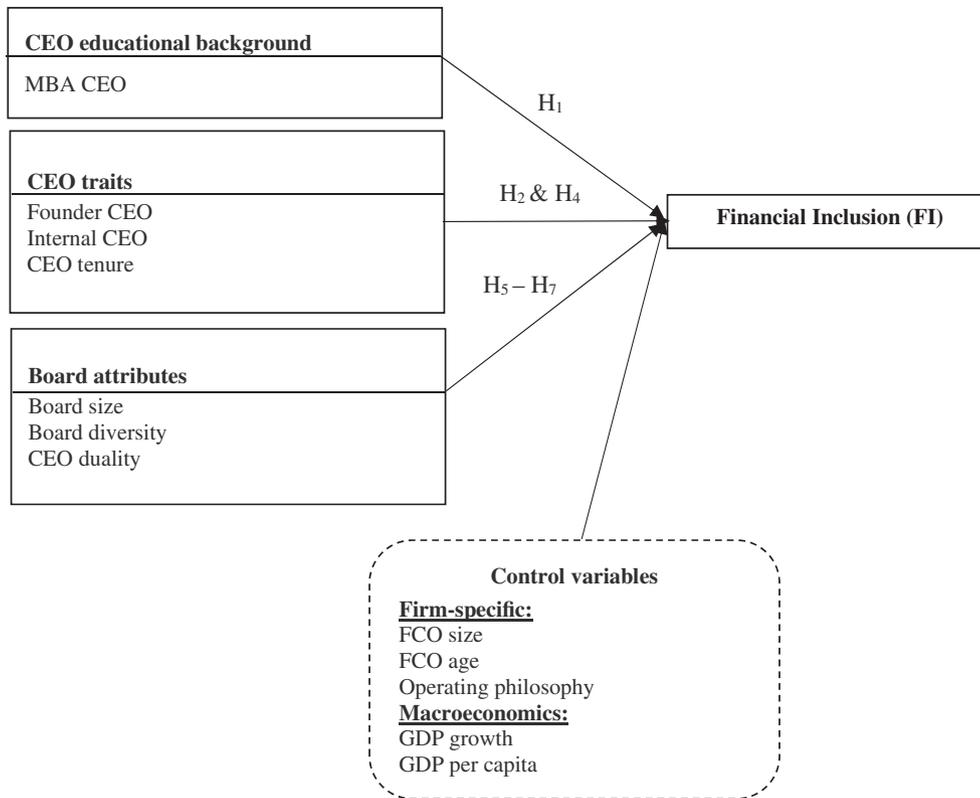
Measuring financial inclusion, however, is somewhat challenging (e.g., Alhassan et al., 2019; Jajah et al., 2020; Ofosu-Mensah Ababio et al., 2020). The financial inclusion phenomenon have been approached from supply and demand side which as produced mixed results (for details see, Demirgüç-Kunt & Klapper, 2013) that calls for further empirical research into this phenomenon. In their seminal work, Nawaz et al. (2020) has developed a unique proxy to measure financial inclusion, which focuses on the user-side data while considering barriers that the unbanked face to enter the formal financial services system. The study adopts the financial inclusion proxy developed by Nawaz et al. (2020). Econometrically speaking, the proportion of funds transferred to recipients via a formal bank account is used for FCO  $i$  in year  $t$ :  $FI_{i,t} = \frac{\text{Funds transferred via formal bank account}_{i,t}}{\text{Total funds redistributed by the FCO}_{i,t}}$  as a proxy for financial inclusion (FI).

### 3.2 | Independent variables

Consistent with the aim of this research, following independent variables are included for analysis. For CEO's governance positions, the study includes: (i) CEO educational background (MBA = 1), (ii) founder status (founder-CEO = 1), (iii) recruitment background, that is, internal vs. external hire, and (iv) CEO tenure. To account for the impact of corporate governance, the study include board size, board diversity (i.e., proportion of female directors on the board), and CEO role duality. In other controls, the study use FCO-size, FCO-age and operating philosophy as firm-level controls and macroeconomic variables GDP growth rate GDP per capita in the analysis. Figure 1 illustrate the research framework.

### 3.3 | Data

The study uses a unique and novel—hand build—dataset on FCOs that is immune from replication. The research data is derived from annual reports, charity account statements, charity registers, the websites, local newspapers, personal site visits and other publically available sources belonging to 73 FCOs, operating in Pakistan for the period 2001 to 2017.



**FIGURE 1** Conceptual framework

## 4 | DESCRIPTIVE STATISTICS

Table 1 presents the descriptive statistics and correlation matrix for all variables included in the study. As can be seen in Table 1, the main variable of interest, financial inclusion (FI) has a mean value of 0.17 with minimum and maximum values of 0.12 and 0.30, respectively, showing the average funds transfer via a formal bank account during the study period.

Enchantingly, 42% of the sampled FCOs are led business graduate, that is, MBA CEOs, indicating the trends in business educated leaders in the third sector and in religious charity organizations, in particular. Turning the focus to CEO structural attributes, it can be seen that 39% of the sampled CEOs are the founder CEOs while 59% of the sampled CEOs are internally hired. As for the governance mechanisms, the average board size is 6.4 with a minimum and maximum value of 3 and 13, respectively. Thus, the average board size is within the suggested limit of Jensen (1986), for effective monitoring and functioning. Results for board diversity suggest that the female directors dominate the FCO boards. Despite the higher fraction (59% to be exact) of women on the board 52% of the FCO boards are led by dual CEOs, that is, when the CEO also assumes the role of board's chairperson.

Among the firm-related control variables, the average FCO-size and age is 3.25 and 16.43 with a minimum

value of 0.52 and 5.44, and 5 to 32 years, respectively. Furthermore, 60% of the FCOs included in the sample follow the Sunni schism. Lastly, the average GDP growth and GDP per capita during the study period is 4.01 and 6.76, respectively shows the macroeconomic trends during the study period.

Although no major multicollinearity problems are witnessed in the correlation matrix, presented in Table 2 as a precautionary measure, all independent and control variables are tested for multicollinearity, using the variance inflation factors (VIF) technique. Results reported in column two of Table 2, suggest that all VIF scores are below the conventional value of 10. The average observed VIF score is 2.21 with minimum and maximum value of 1.03 and 3.92, respectively.

## 5 | ECONOMETRIC MODEL

Parsimonious versions of the following specification are used to test the research hypotheses<sup>3</sup>:

$$FI_{i,t} = \alpha_i + \beta_{CEO}CEO_{i,t} + \gamma_{i,j}X_{i,j,t} + \varepsilon_{i,t} \quad (1)$$

where  $FI_{i,t}$  is the proxy estimate for financial inclusion,  $\beta_{CEO}$  elucidate the impact of CEOs' traits and  $X_{i,j,t}$  are "j" control variables for "i" FCO.

**TABLE 1** Descriptive statistics

	Mean	Std. dev.	Min.	Max.
FI	0.167	0.043	0.125	0.308
MBACEO	0.416	0.493	0	1
CEO-founder	0.394	0.489	0	1
Internal-CEO	0.588	0.492	0	1
CEO-tenure	8.256	2.848	6	17
Board-size	6.401	2.863	3	13
Board-diverse	0.590	0.299	0.2	1
CEO-duality	0.521	0.500	0	1
FCO-size	3.248	1.335	0.519	5.440
FCO-age	16.434	10.276	5	32
OP	0.605	0.489	0	1
GDP-growth	3.110	1.778	0.989	7.547
GDPPC	5.401	0.396	6.119	7.301

Note: Variables' definitions: Financial inclusion (FI) is the proportion of funds transferred to recipients via a formal bank account for FCO  $i$  in year  $t$ :  $FI_{i,t} = \text{Funds transferred via formal bank account}_{i,t} / \text{Total funds redistributed by the FCO}_{i,t}$ . MBACEO is a binary variable taking the value of one if CEO has an MBA degree, and zero otherwise. CEO-founder is a binary variable taking the value of one if CEO is founder, and zero otherwise. Internal-CEO is a binary variable taking the value of one if CEO is hired-internally, and zero otherwise. CEO-tenure is the number of years as CEO in the current position. Board-size is the total number of directors on the FCO board. Board-diversity (board-diverse) is the proportion of female director to the total board size. CEO-duality is a binary variable taking the value of one if the CEO is also president/VP/chair and zero otherwise. FCO-size is log of total assets. FCO-age is the total number of years since inception. Operating-philosophy (OP) is a binary variable taking the value of one if the FCO operates under the Sunni schism and zero otherwise. GDP growth is the growth rate of GDP and GDP per capita (GDPPC) is the natural logarithm of per capita GDP.  $N = 981$ .

## 6 | ESTIMATION RESULTS

### 6.1 | Do FCOs led by MBA CEOs enhance financial inclusion?

First, the impact of CEO's demographic characteristics and organizational positions on financial inclusion (FI) is analysed. In Table 3 present results for five alternative parsimonious of using Equation (1). For univariate analysis, the baseline model (Model 1) regresses CEO's educational background (MBACEO) on FI. This model is then cumulatively augmented by CEO's organizational positions within the FCO viz. founder status, recruitment background, and CEO-tenure; governance mechanisms, that is, board size, board diversity, and CEO-duality; FCO-level and macroeconomic control variables to obtain Models 2 to 5. All models include dummy variables to account for time and firm effects.

Results reported in Table 3 suggest a positive and statistically significant at the 1% level relationship between MBACEO and FI proxy in all models, except for Model 1 and Model 2, in which the relationship is significant at 5% level, in the same direction. The significant positive relationship across MBACEO and FI measure indicates that this finding is robust to alternative model specifications. This finding clearly support hypothesis ( $H_1$ ) that MBACEOs are more like to apt strategies that promote financial inclusion relative to non-MBACEOs. The analysis thus suggest that CEO's education (i.e., MBA) does matter for corporate strategic outcomes. These findings compliment the earlier research (King et al., 2016; Loe et al., 2000; Nguyen et al., 2015), which submit a positive relationship between MBA and corporate strategic outcomes. The finding observed in this study suggest that MBACEOs have divergent strategic preferences compared to their non-MBA counterparts (Finkelstein et al., 2009) as they pursue strategies that are in the best interest of their socially- and economically-deprived clientele (i.e., grantee). The study further allude that MBACEOs act in an ethically correct manner and strive to deliver the goals of charity organizations.

Turing to the CEO's structural positions, the found analogous results for CEO's founder status. The results suggest a positive and statistically significant at the 1% level relationship between CEO's founder status and financial inclusion proxy. Thus, hypothesis ( $H_2$ ) that founder CEOs are more likely to apt strategies that promote financial inclusion is accepted. Contrary to the theorizing, a positive and statistically significant at the 5% level relationship between internally hired CEO and financial inclusion rejects hypothesis ( $H_3$ ). Finally, the results suggest that longer serving CEOs are less likely to apt strategies that promote financial inclusion. Based on the statistically strong at the 1% level negative relationship between CEO-tenure and financial inclusion, hypothesis ( $H_4$ ) is accepted. These results supplement the argument that long-tenured CEOs are detrimental for organizational strategies (Staw et al., 1981) and outcomes (Hambrick & Fukutomi, 1991).

As for the corporate governance mechanisms, a positive and statistically strong (significant at 1% level) relationship is observed between board size and financial inclusion. Thus, hypothesis ( $H_5$ ) is rejected. These results suggest that FCOs may benefit from larger boards as they may bring diversified talents, which are essential for such complexed organizations. Consistent with Nawaz (2019), these results suggest that large boards potentially provide balance for effective decision making in organizations, which are based religious ideologies. On the other hand, the analysis shows no statistical significance for the relationship between board diversity and financial inclusion.

TABLE 2 Correlation matrix

	VIF	FI	MBA	CEO	CEO-founder	Internal-CEO	CEO-tenure	Board-size	Board-diverse	CEO-duality	FCO-size	FCO-age	OP	GDP-growth
FI		1.00												
MBACEO	2.35	<b>0.221</b>												
CEO-founder	1.63	0.0795	<b>-0.2502</b>											
Internal-CEO	1.21	<b>0.1611</b>	<b>-0.1692</b>	0.0539										
CEO-tenure	1.68	<b>-0.1613</b>	-0.0392	<b>-0.1382</b>	0.0763									
Board-size	2.95	<b>0.3371</b>	<b>0.1003</b>	<b>0.3387</b>	0.0553	-0.048								
Board-diverse	2.37	<b>0.1884</b>	<b>0.119</b>	<b>0.2567</b>	0.073	<b>-0.1057</b>	<b>0.7258</b>							
CEO-duality	3.57	<b>0.4304</b>	<b>0.27</b>	<b>-0.3009</b>	<b>0.164</b>	<b>0.3057</b>	0.0881	-0.0227						
FCO-size	3.92	<b>-0.3791</b>	<b>-0.4139</b>	<b>0.1675</b>	-0.0654	<b>-0.4174</b>	<b>-0.2829</b>	-0.0734	<b>-0.7539</b>					
FCO-age	3.87	<b>0.4135</b>	<b>0.4861</b>	<b>-0.1456</b>	<b>0.1338</b>	<b>0.3675</b>	<b>0.2903</b>	<b>0.136</b>	<b>0.8494</b>	<b>-0.9084</b>				
OP	1.14	-0.057	<b>0.184</b>	-0.0853	<b>-0.1778</b>	0.0085	0.0268	-0.0047	0.0231	0.0644	-0.0473	0.0644		
GDP-growth	1.03	-0.0195	-0.0134	0.0077	-0.0198	-0.0053	-0.0137	-0.0352	0.0036	0.0007	-0.0068	0.0007	-0.0149	
GDPPC	1.08	0.0208	-0.0169	0.0198	<b>0.0956</b>	0.0247	-0.04	0.0221	0.0101	0.0162	-0.002	<b>0.1039</b>	<b>0.1032</b>	

Note: See Table 1 for variables' definitions. Variables significant at  $p < .05$  and  $p < .01$  are in bold.

**TABLE 3** The impact of MBACEO, CEO attributes and corporate governance mechanisms on financial inclusion

	Model 1	Model 2	Model 3	Model 4	Model 5
CEOMBA	0.00756**	0.00585**	0.0168***	0.0192***	0.0140***
CEO-founder			0.0298***	0.0298***	0.0270***
Internal-CEO				0.00602**	0.00634***
CEO-tenure					-0.0240***
Board-size		0.0262***	0.0158***	0.0164***	0.0152***
Board-diverse		-0.00240	0.000468	-0.000576	-0.00151
CEO-duality		0.0579***	0.0773***	0.0773***	0.0715***
FCO-size	-0.00823***	-0.00946***	-0.0135***	-0.0140***	-0.0154***
FCO-age	-0.00171***	-0.00469***	-0.00606***	-0.00617***	-0.00546***
GDP-growth	-0.000468	-0.000435	-0.000492	-0.000445	-0.000518
GDP-PC	0.00217	0.00303	0.00183	0.00122	0.00187
FCO fixed effects	+	+	+	+	+
Year effects	+	+	+	+	+
Constant	0.343***	0.305***	0.342***	0.343***	0.385***
R <sup>2</sup>	0.395	0.472	0.520	0.522	0.532

Note: See Table 1 for variables' definitions. Robust t-statistics in parentheses.

\*\*\*  $p < .01$ ,

\*\*  $p < .05$ .

Thus, there is no strong evidence to support hypothesis (H<sub>6</sub>). Similarly, the weak statistical significance does not allow to contradict or support earlier research (e.g., Adams & Ferreira, 2009). Interesting, a positive and statistically significant at the 1% level relationship between CEO duality and financial inclusion proxy suggest that dual CEOs are more likely to adopt strategies that promote financial inclusion than no-dual CEOs. Although hypothesis (H<sub>7</sub>) is reject, these results add to the ongoing debate on unity of command and CEO power (Dalton & Dalton, 2011; Krause et al., 2014) while contradicting the agency perspective (Jensen, 1986) who argue for the separation of CEO and board chairperson's role.

To strengthen this argument the study afford the opportunity to perform additional interactions and their impact of FI. Three alternative parsimonious of using Equation (1) are used to obtain Model 6–8. The interaction analysis is an extension of Model 5 presented in Table 3. We add three interactions variables as reported in Table 4.

Results for the interaction effects reported in Table 4 suggest that MBACEOs who are also founders (MBACEO\*Founder-CEO) and chair the board (MBACEO\*CEO-duality) promote financial inclusion. The argument get strengthen with a triple interaction, that is, MBACEO\*CEO-Founder\*CEO-duality. Thus, it is argued that FCOs led by MBACEOs who are founder and possess role-duality promote financial inclusion.

With regards to the effects of FCO-specific and macroeconomic control variables, the results presented Table 3 suggest that FCO-size and age relate negatively with FI proxy in all models. The consistent and statistically strong at the 1% level negative relationship implies that larger and older FCO prefer conservative strategies, that is, cash to bank transfer when redistributing charitable funds. The macroeconomic variables, that is, GDP growth and GDP per capita related negative and positive, respectively with FI however, the results are not statistically insignificant.

## 6.2 | Further analysis

The Muslim population in Pakistan is divided into Sunni (84%) and Shia (16%) as per the schism. The two sects however, coexist and observe many central beliefs and practices. There are differences among the two in terms of ritual, doctrine, theology and interpretation of the law. FCOs included in this study are from both the schism. People belonging to each schism rigidly follow their respective schism and support the schism-based initiatives such as running the charity under the flag of Sunni or Shia charity organization. The underlying schism doctrines will have direct implications for those running such religious organizations. Therefore, it is imperative to test if schism has implication on CEOs strategic choices pertaining to financial inclusion. Accordingly, a further

**TABLE 4** The interaction analysis

	Predicted sign	Actual sign	Model 6	Model 7	Model 8
CEOMBA	+	+***	0.0132***	0.0261***	0.0132***
CEO-founder	+	+***	0.0258***	0.0116***	0.0258***
Internal-CEO	–	+**	0.00630***	0.00265	0.00630***
CEO-tenure	–	–***	–0.0235***	–0.0228***	–0.0235***
MBACEO*founder-CEO			0.00302**		
MBACEO*CEO-duality				0.0632***	
MBACEO*CEO-founder*CEO-duality					0.00302**
Board-size	–	+***	0.0154***	0.00970***	0.0154***
Board-diverse	+	–†	–0.00163	–0.000116	–0.00163
CEO-duality	–	+***	0.0712***	0.0454***	0.0712***
FCO-size			–0.0150***	–0.0114***	–0.0150***
FCO-age			–0.00548***	–0.00473***	–0.00548***
GDP-growth			–0.000513	–0.000450	–0.000513
GDP-PC			0.00182	0.00228	0.00182
FCO fixed effects			+	+	+
Year effects			+	+	+
Constant			0.384***	0.379***	0.384***
R <sup>2</sup>			0.531	0.577	0.531

Note: See Table 1 for variables' definitions. Robust t-statistics in parentheses.

†Statistically insignificant.

\*\*\* $p < .01$ , \*\* $p < .05$ , \* $p < .1$ .

regression analysis is performed in the following section, controlling for the operating philosophy.

Results reported in Table 5 suggest that MBACEO do promote financial inclusion, regardless of the operating philosophy, that is, the FCO being a Sunni or Shia schism. Based on the observed results it is speculated that MBACEO are well equipped to lead complex organizations compare to their non-MBA counter parts. Overall, the results remain consistent with varying degrees of statistical significance.

## 7 | SUMMARY AND CONCLUSION

This study has sought to provide evidence on the impact of Chief executive officer's (CEO) educational background on corporate strategy. In essence, the study test how differences in CEOs educational background, that is, MBA vis-à-vis non-MBA CEOs determine their strategic choices pertaining to a particular corporate strategy. This study is believed to be distinctive in actually assessing the extent to which business graduate, that is, MBA degree holder CEOs sway the scope of third-sector organizations.

A unique handpicked dataset is used to test the research hypotheses. Consistent with the theorizing, the

study finds that MBACEOs' are more likely to espouse strategies that promote financial inclusion relative to non-MBA CEOs. The analysis further suggest that CEO's structural positons within the organization such as founder status, internal appointment CEO and role duality incentivizes the impact of MBACEO on financial inclusion.

This study provides several incremental contributions. In particular, the empirical evidence that CEOs' demographic traits and organizational positions respond differently to corporate strategies, fuels the ongoing debate over which particular characters of the CEOs are important for corporate strategies and outcomes (Bertrand & Schoar, 2003; Muller-Kahle & Schiehl, 2013; Wang et al., 2016). Notably, no study to date, to author's knowledge, has examined the impact of CEO's educational background on corporate strategies pertaining to financial inclusion in the context of FCOs. Thus, this study enriches upper echelons theory by bringing evidence from an important yet neglected sector of the economy. Second, the results add to the premise of upper echelons perspective (Hambrick & Mason, 1984, p. 193), which contends that organizations are a reflection of their top executives, and that organizational outcomes and strategic choices are determined by their managers'

**TABLE 5** The impact of FCO's operating philosophy on financial inclusion

	All FCOs	Sunni FCOs	Shia FCOs
CEOMBA	0.0140***	0.0141***	0.0172**
CEO-founder	0.0270***	0.0281***	0.00889*
Internal-CEO	0.00634***	0.0160***	-0.0154***
CEO-tenure	-0.0240***	-0.00924	-0.0564***
Board-size	0.0152***	0.0255***	-0.00724
Board-diverse	-0.00151	0.000178	0.000870
CEO-duality	0.0715***	0.0609***	0.0812***
FCO-size	-0.0154***	-0.0126***	-0.0167***
FCO-age	-0.00546***	-0.00475***	-0.00637***
GDP-growth	-0.000518	0.000183	-0.000582
GDP-PC	0.00187	0.00145	0.00234
FCO fixed effects	+	+	+
Year effects	+	+	+
Constant	0.385***	0.309***	0.526***
R <sup>2</sup>	0.532	0.518	0.698
# Obs.	981	589	392

Note: See Table 1 for variables' definitions. Robust t-statistics in parentheses.

\*\*\*  $p < .01$ ,

\*\*  $p < .05$ ,

\*  $p < .1$ .

demographic traits such as education. The study empirically test and corroborate these propositions, explaining the disparity between MBA and non-MBA CEOs in their strategic preferences pertaining to a specific corporate strategy. The results confirm the theoretical argument that individual differences among CEOs will be most salient when they lead complexed and ambiguous organizations as is the case for FCOs, studied in this research.

Additionally, the study add to the debate on the role of FCOs in promoting socio-economic justice in the society (Clarke, 2007; Harris, Halfpenny, & Rochester, 2003) as well as on the corporate governance issues facing this sector (see Buse et al., 2016; Hyndman & McDonnell, 2009; Parker, 2007; Steane & Christie, 2001, among others). Notably, the results for the board attributes suggest which board characteristics matter in delivering the objectives of religious charities. To conclude, this study makes significant contributions to various literature streams. It is thus believed that the findings observed in this study have broad economic and policy implications, which extend beyond the third-sector organizations and FCOs.

Despite the noted contributions, the study opens up several avenues for future research. For instance, future research may extend this study by following the newly enrolled unbaked to analyse the extent to which these

financially excluded individuals make use—that is, opting for particular financial products and/or services at disposal—of formal financial services once integrated into the formal financial system. A related area for potential research is to replicate this study with primary data—qualitative in nature—to gauge the perceptions of charity organizations that help and support the unbanked enter the formal financial services system. Relatedly, it would be equally interesting to analyse the impact of funds redistribution strategies on charity's income.

## ENDNOTES

<sup>1</sup> See, for example: finance and economics (Bennedsen, Pérez-González, & Wolfenzon, 2020; Bertrand & Schoar, 2003; Datta & Rajagopalan, 1998; Kaplan, Klebanov, & Sorensen, 2012), corporate governance (Bertrand, 2009; He, 2008; Nguyen, Hagendorff, & Eshraghi, 2015), leadership and management (Muller-Kahle & Schiehl, 2013;), strategic management (Belenzon, Shamshur, & Zarutskie, 2019; Bertrand & Schoar, 2003; Finkelstein, Cannella, Hambrick, & Cannella, 2009; Lewis, Walls, & Dowell, 2014), and psychology and ethics (Miller & Xu, 2019; Tang, Qian, Chen, & Shen, 2015; Wang, Holmes Jr, Oh, & Zhu, 2016), among others.

<sup>2</sup> The importance of this sector is as such that “it is broadly associated with major economic roles of the public authorities: with the allocation of resources through production of quasi-public goods and services; with the redistributive function through the provision, free or almost free of charge, of a wide range of services to

deprived people via the voluntary contributions (in money or through voluntary work) which many associations can mobilise; and finally, with the regulation of economic life when, for example, associations or social co-operatives are the usual partners of public authorities in the task of helping poorly qualified unemployed people, who are at risk of permanent exclusion..." (Defourny, 2001, p. 1).

<sup>3</sup> For robustness test, the study employed the system Generalized Method of Moments (GMM) estimator, which produced similar results. Consistency in results across models strengthen the interpretations of this study.

## DATA AVAILABILITY STATEMENT

Data available on request due to privacy/ethical restrictions. The data that support the findings of this study might be made available upon request from the corresponding author. However, the data are not publicly available due to privacy or ethical restrictions.

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