

## Leadership Under Pressure: CEO Traits, Geopolitical Risk, and Corporate Financial Strategy in ASEAN

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### ABSTRACT

This study investigates the effects of geopolitical and political risks on banks' financial policies, specifically capital structure and cash holdings, with CEO characteristics as a moderating factor. While prior research has largely examined these policies in isolation, few studies analyze them simultaneously in emerging markets, particularly Indonesia and Malaysia. By employing panel data from 2014 to 2024, geopolitical risk is captured via the GPR Index, political risk via the Political Risk Score, and financial policies are proxied by leverage and cash holdings, whereas CEO attributes are hand-collected from annual reports. The study tests the moderating role of executive characteristics using panel regression with interaction terms. The results reveal pronounced cross-country differences: in Indonesia, geopolitical risk decreases both leverage and cash holdings, reflecting a defensive strategy, while political risk increases them, suggesting opportunistic behavior. In Malaysia, the effect of geopolitical risk on leverage dissipates when CEO traits are accounted for, highlighting the influence of leadership discipline, and political risk affects cash holdings only under CEO moderation. These findings underscore that risk responses are context-dependent and shaped by executive attributes, enriching the literature on trade-off theory, risk management, and upper echelon perspectives. By linking geopolitical and political risks to both leverage and cash policies while emphasizing CEO moderation, this study contributes novel insights into corporate finance decision-making under uncertainty and demonstrates that similar external shocks can generate divergent outcomes across institutional contexts.

**Keywords:** Geopolitical risk, Political risk, CEO traits, Emerging market

### INTRODUCTION

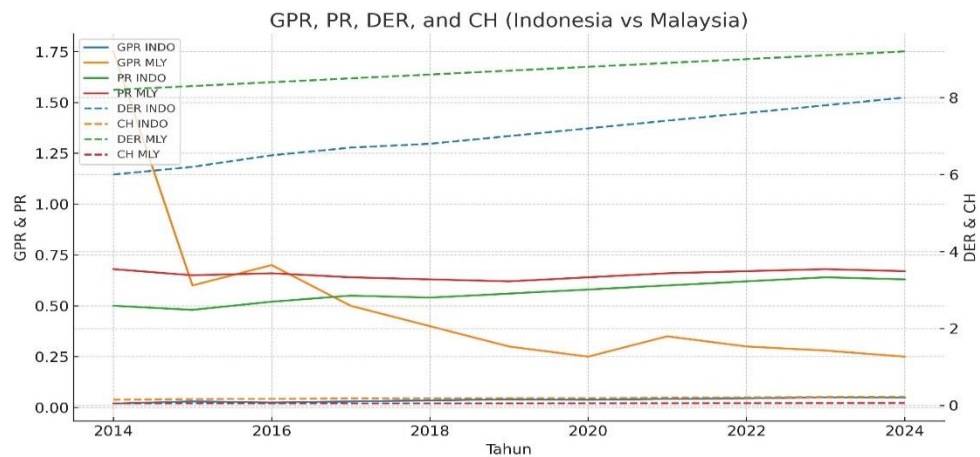
Global uncertainty is no longer theoretical; it is real and far-reaching. The COVID-19 pandemic, the Russia-Ukraine conflict and tensions in the Middle East have shaken the world's financial markets, requiring banks to rapidly adjust funding strategies and capital structures. Amidst this turmoil, banks in Southeast Asia face the critical dilemma of how to balance liquidity needs, insolvency risk, and investor pressure? Based on trade-off theory (Kraus & Litzenger, 1973; Rahim et al., 2019), banks must balance the tax benefits of debt with the risk of bankruptcy in order to achieve an optimal capital structure, a task that has become increasingly complex amid high geopolitical and political uncertainty. Recent events have shown a mixed response from banks.

Several studies have found that banks tend to lower leverage when uncertainty increases (Khoo & Cheung, 2021; Makololo & Seetharam, 2020; Dinçergök & Eruygur, 2024), while other studies report increasing debt as a flexibility strategy rather than issuing shares (Adil et al., 2025; Vega-Gutiérrez et al., 2024). This discrepancy indicates that there is no consensus, especially in developing countries, creating an urgent need for empirical research in Southeast Asia. The Indonesian context emphasizes the urgency of this issue. OJK data (2024) shows an increase in consumer loan NPLs from 1.64% to 1.80%, signaling the need for banks to be prudent in maintaining loan portfolio stability. Slowing growth in third-party funds tightens liquidity, prompting banks to increase cash holding as a risk aversion strategy (Zhao & Niu, 2023). This finding is in line with precautionary motive theory, although some studies suggest uncertainty can reduce cash due to investor scrutiny and agency risk (Javadi et al., 2021; Tran, 2023). The main external factors fueling this dynamic are geopolitical and political risks. Spike in Geopolitical Risk Index (International Money Fund, 2023) and escalation of tensions between countries affect credit lines, cost of funds, and investor confidence (Yaghoubi, 2024; Adel & Naili, 2024). Meanwhile, Malaysia shows a relatively strong banking structure but faces different challenges. Banking data for 2014-2024 shows an average Loan to Deposit Ratio (LDR) of 85% with some periods exceeding 92-96%, reflecting liquidity pressures when loan expansion is faster than fund raising. At the same time, the Net Interest Margin (NIM) of around 2% indicates that interest margins are thin, so profit space is limited. But despite this, the Capital Adequacy Ratio (CAR) averaging 17.4% emphasizes the strength of Malaysian banking capital. The combination of high LDR, thin margins, and strong capital indicates the tendency of Malaysian banks to enlarge their cash buffers in case of regional and global volatility. This finding is consistent with the literature highlighting how banks in the ASEAN region increase liquidity reserves in response to external risks (Alqahtani & Mayes, 2018; Ibrahim et al., 2019).

Previous research shows geopolitical and political risks can lower leverage, increase borrowing costs, influence investment policy, and shift cash holdings (Lee & Wang, 2021; Phan et al., 2022; Nguyen & Thuy, 2023). More specifically, recent literature highlights how firm-level political risk impacts the dynamics of capital structure, Wu et al., (2023) found that higher political risk can slow down the pace of corporate leverage adjustment due to increased adjustment costs stemming from information asymmetry or agency conflicts. This impact is weaker during periods of monetary policy contraction and is more pronounced for under-leveraged than over-leveraged firms. In addition, firms with high political risk exposure tend to be more selective in capital market activities, suggesting more cautious strategy adaptation. This is also supported by the findings of Becker et al., (2024) which shows that firm-level political risk actually encourages the acceleration of leverage adjustment, especially in small and under-leveraged firms, while large firms can reduce the impact through lobbying efforts. Meanwhile, Althehli & Nobanee, (2024) highlight that political risks manifest themselves through policy changes, regulatory interventions, trade disputes, and geopolitical tensions, which can significantly affect a firm's operational performance and profitability. Effective political risk management strategies, such as political risk insurance, diversification, stakeholder engagement, and data-driven risk assessment, are crucial to mitigate the negative impact on funding decisions and capital structure. Thus, empirical evidence suggests that political risk affects not only the choice of leverage and debt structure, but also the speed and flexibility of firms in adjusting capital, emphasizing the importance of considering the heterogeneity of political risk exposure in capital structure dynamics.

Global literature emphasizes the complex impact of economic uncertainty and geopolitical risks Bilgili et al., (2022) used a Markov regime-switching model to analyze exchange rate pass-through in Turkey, he found that geopolitical risk and economic uncertainty affect the consumer price index through different non-linear mechanisms in each regime. Aydin et al., (2022) examined the EPU and stock prices in BRIC countries, finding an asymmetric causal effect between the positive and negative components of the EPU on the stock market, emphasizing that market reactions to uncertainty are contextual. Ozcelebi, (2021) shows that GEPUs and long-term bond yields have an asymmetric impact on global oil prices, demonstrating how global economic uncertainty can affect financial variables through non-linear pathways. The findings confirm that geopolitical risk and economic policy uncertainty drive strategic changes in funding management, capital structure, and cash holding, with significant policy implications for bank regulators and management.

The phenomenon of geopolitical and political uncertainty in Southeast Asia is reflected in the dynamics of Geopolitical Risk (GPR) and Political Risk (PR) in Indonesia and Malaysia during 2013-2024. This is illustrated in Figure 1:



**Figure 1** Data DER, CH, Geopolitical and Political Risk Indonesia and Malaysia  
 Source: Data processed by myself

The figure above explains that Malaysia's GPR shows sharp fluctuations, especially in 2014 when it jumped above 1.7, while Indonesia's GPR is relatively stable, although it has increased slightly since 2022. Indonesia and Malaysia's PR is relatively stable, but Malaysia's PR is slightly higher, signaling stronger political pressure. This difference in risk intensity has direct implications for banks' strategies in managing capital structure and cash holding. Executive characteristics are also an important moderating factor. CEOs who are older, highly educated, or female tend to be more conservative and risk averse (Datta et al., 2019; Yaghoubi, 2024b; Le et al., 2025), while opportunistic executives remain aggressive risk takers. This suggests that executive profiles can influence the direction of banks' strategic decisions in the face of geopolitical and political uncertainty.

From the figure above, it can also be seen that Malaysia tends to have higher leverage (DER) than Indonesia, in line with the Trade-Off Theory that emphasizes the utilization of tax shield from debt despite reducing liquidity flexibility. In contrast, Indonesia shows a higher cash holding (CH) trend compared to Malaysia, reflecting a prudent strategy in maintaining liquidity buffers. From the perspective of Geopolitical Risk Theory, the relatively high GPR fluctuation in Malaysia is not offset by cash holding, but rather encourages an increase in leverage. Meanwhile, Indonesia with a more stable GPR chose to maintain a greater level of cash to deal with uncertainty and maintain liquidity. This reflects that geopolitical uncertainty affects the balance between leverage and liquidity in banks' capital strategies in different ways between the two countries. Based on the above, although the global literature has highlighted geopolitical risk and economic uncertainty, studies that specifically examine how geopolitical and political uncertainty affect capital structure and cash holding, as well as how executive characteristics act as moderating variables, are still rare in the context of Indonesia and Malaysia. This gap is the main contribution of this study. Thus, this study presents a new contribution by integrating geopolitical risk and political risk simultaneously, and assessing how executive characteristics moderate the effect of these risks on the capital structure and cash holding of banks. This study focuses on the banking sector in Indonesia and Malaysia, providing cross-country insights rarely found in previous literature, while offering practical implications for risk management strategies and banking policies in emerging market. This study aims to examine the impact of geopolitical and political uncertainty on capital structure and cash holding, with executive characteristics as moderating variables, in the banking industry in Indonesia and Malaysia. This study is structured where Section 1 presents the relationship between geopolitical and political uncertainty with capital structure and cash holding, while providing information on geopolitical and political risks in Indonesia and Malaysia. Section 2 reviews previous literature that examines the impact of economic uncertainty and political risk on firms' funding decisions and cash behavior. Section 3 describes the dataset, variables, and empirical model used in this study. Section 4 presents the empirical findings from the data analysis, and Section 5 presents the conclusions and policy implications for the banking sector in Southeast Asia.

## LITERATUR REVIEW

There are many studies that examine the effect of geopolitical uncertainty and political risk on firms' financial decisions, including leverage, cash holdings, and financial flexibility (Makololo & Seetharam, 2020; Lu et al., 2023; Zhao & Niu, 2023; Wu et al., 2023; Gyimah et al., 2022). While the impact of geopolitical and political risks on financial policy has been analyzed in many studies, research assessing both risks simultaneously has only begun to

emerge in the last decade, as global volatility and regional political uncertainty have increased (Vega-Gutiérrez et al., 2024). Makololo & Seetharam, (2020) and Lu et al., (2023) can be considered as turning points in this literature, by showing that geopolitical uncertainty drives firms to reduce leverage to avoid excessive financial risk, while Vega-Gutiérrez et al., (2024) found that under certain conditions, firms increase leverage to finance expansion, emphasizing the role of managerial strategy and market conditions as mediating factors.

Political risk also has a significant influence on financial policy. Cross-country studies show that firms typically lower leverage to avoid the risk of bankruptcy due to expropriation, discriminatory taxation, or regulatory uncertainty, but in some circumstances, leverage is increased to offset the negative effects of government policies (Kesternich & Schnitzer, 2010; King et al., 2021). Firm-level research reveals that specific exposure to political risk significantly affects leverage adjustment (Gyimah et al., 2022; Wu et al., 2023). Wu et al., (2023) found that a one standard deviation increase in firm-level political risk decreases optimal leverage by 1.58%, signaling a managerial precautionary response in external financing decisions.

Regarding cash holdings, studies show heterogeneous responses to geopolitical uncertainty and political risk. Geopolitical uncertainty affects global economic stability, leading to increased caution in business decision-making. In the banking context, this encourages banks to increase liquidity reserves and reduce exposure to risky sectors. The Precautionary Motive theory explains that under uncertain conditions, financial entities will choose to hold liquid assets and delay expansion. Fassas (2020) found that banks prefer safe instruments when facing geopolitical risks, reflecting increased risk aversion. Zhao & Niu (2023) also reported that high economic uncertainty is positively associated with cash holdings in China, while Feng et al., (2022) added that companies, especially non-State Owned Enterprises, tend to increase cash holdings when uncertainty is high. Similar findings were expressed by Legesse et al., (2023) and Jumah et al., (2023), which shows that companies keep more cash as a form of prudence to deal with financing difficulties or low investment opportunities. Didin-Sonmez et al., (2024) confirmed that this phenomenon also occurs in developing countries such as Brazil, Chile, Greece, India, South Korea, Mexico and Pakistan. On the other hand, not all uncertainty leads to an increase in cash holdings. In countries with efficient capital markets and strong investor monitoring, uncertainty can actually reduce the level of cash holdings. Javadi et al., (2021) show that in 19 non-US countries, increased uncertainty negatively affects cash holdings, because investor scrutiny encourages managers to reduce cash to avoid negative perceptions related to the use of funds. Tran (2023) adds that excess cash under conditions of high uncertainty can trigger investor concerns of overinvestment or misuse of management funds. Guizani et al., (2023) also found that in Saudi Arabia, high uncertainty decreases the firm's cash holdings.

In capital structure decisions, conservative executives tend to avoid increasing debt when global conditions are unstable, while more aggressive or opportunistic executives may maintain high leverage to finance expansion. CEO characteristics such as age, education, experience, and gender may influence risk perception, tolerance for uncertainty, and risk mitigation strategies in financing decisions (Yaghoubi, 2024b; De Silva & Banda, 2022; Chakraborty & Mahakud, 2023; Le et al., 2025; Barman & Mahakud, 2024; Jammoussi, 2025). CEOs who are older, highly educated, or female tend to make more conservative financial decisions, increasing caution in the face of geopolitical uncertainty and external risks. In the context of banks, CEO characteristics can strengthen or weaken an institution's response to geopolitical and political uncertainty, both in capital structure and cash holdings. CEOs with a conservative profile encourage a decrease in leverage and an increase in cash reserves as a precautionary motive, while more aggressive CEOs may maintain high leverage or limit cash accumulation to capitalize on expansion opportunities (Jammoussi, 2025; Inezeh et al., 2025). Domestic studies in Indonesia and Malaysia add important empirical evidence. Bank leverage tends to decrease as external risk increases, while cash holdings response varies based on management practices and internal governance (Khoo & Cheung, 2021). This emphasizes the heterogeneity of the effects of geopolitical uncertainty and political risk across countries, periods and institutional contexts.

Supporting this argument, Farooq & Pashayev, (2023) shows that political uncertainty arising during election periods encourages firms to increase cash holdings as a conservative step to anticipate policy risk. This finding reinforces that political and geopolitical risks influence corporate financial behavior through a precautionary motive. In addition, another study from Guat-Khim & Lian-Kee (2024) demonstrates that CEO characteristics moderate the relationship between external factors and corporate financial policies. Following this logic, the present study argues that CEO traits can moderate the influence of geopolitical and political risks on corporate financial policies, as leadership style, decision-making power, and individual risk tolerance shape the firm's financial response. This understanding emphasizes the importance of assessing CEO characteristics in relation to external pressures, suggesting that firms led by adaptable and resilient leaders may navigate risks more effectively. Consequently, integrating a nuanced evaluation of leadership traits into corporate governance frameworks could enhance strategic responses to fluctuating geopolitical landscapes.

As seen from the literature, there is a significant relationship between geopolitical uncertainty, political risk and corporate finance decisions. However, previous studies rarely integrate both risks simultaneously, while

assessing the role of executive characteristics as moderators. This study presents a novel contribution by analyzing how geopolitical uncertainty and political risk simultaneously affect banks' capital structure and cash holdings, with executive characteristics as moderating variables. The focus on the banking sector in Indonesia and Malaysia provides cross-country insights rarely found in previous literature and offers practical implications for risk management strategies as well as banking policies in emerging economies.

**RESEARCH METHODOGY**

**Data**

This research is a quantitative study with panel data, where the data in this study comes from the annual report data of banks listed on the Indonesia Stock Exchange and Bursa Malaysia from 2014-2024. Geopolitical risk data comes from geopolitical risk index data and political risk data comes from political risk score data. This research is an empirical study, where this research makes observations by analyzing data and proving hypotheses on the problems studied. This study aims to empirically examine the effect of independent variables (geopolitical risk and political risk) on the dependent variable (capital structure and cash holding) by using moderation of CEO characteristics.

**Sample**

The sample in this study was carried out using purposive sampling technique, as for the criteria in selecting this sample are as follows:

1. Consistent banking companies listed on the Indonesia Stock Exchange and Bursa Malaysia during the period 2014-2024.
2. Companies that do not experience losses during the observation period
3. Companies that did not conduct mergers and acquisitions during the observation period.
4. Banking companies that present complete financial reports according to the data needed in this study

**Regression Model**

Data analysis in this study is panel data regression which is a combination of cross section and time series. The regression model is as follows:

$$DER = \beta_0 + \beta_1GPRI + \beta_2PR + \beta_3TB + \beta_4FS + \beta_5FA + \beta_7ROA + \beta_8RnD + \beta_9NIM + eit \quad (i)$$

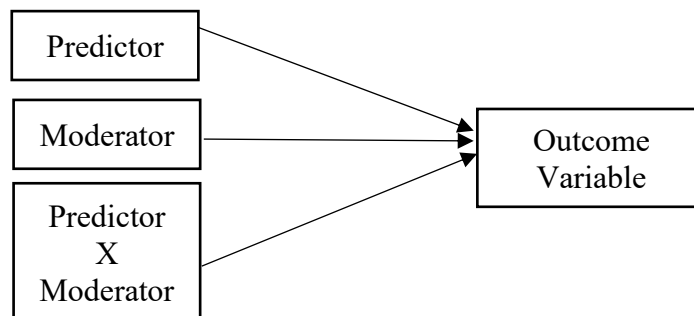
$$DER = \beta_0 + (\beta_1GPRI * ExpCEO) + (\beta_2PR * ExpCEO) + (\beta_3GPRI * AgeCEO) + (\beta_4PR * AgeCEO) + \beta_5TB + \beta_6FS + \beta_7FA + \beta_8ROA + \beta_9RnD + \beta_9NIM + eit \quad (ii)$$

$$CH = \beta_0 + \beta_1GPRI + \beta_2PR + \beta_3TB + \beta_4FS + \beta_5FA + \beta_7ROA + \beta_8RnD + \beta_9NIM + eit \quad (iii)$$

$$CH = \beta_0 + (\beta_1GPRI * ExpCEO) + (\beta_2PR * ExpCEO) + (\beta_3GPRI * AgeCEO) + (\beta_4PR * AgeCEO) + \beta_5TB + \beta_6FS + \beta_7FA + \beta_8ROA + \beta_9RnD + \beta_9NIM + eit \quad (iv)$$

For the moderation model based on the explanation Baron & Kenny (1986), moderation type as follows:

**Figure 2**  
Moderator Model



Based on the model of Baron & Kenny (1986) above, it is explained that the moderation hypothesis is only proven if Path c (interaction) is significant. Direct effects of IV (Path a) or M (Path b) may also exist, but are not the core of moderation.

## RESULTS AND DISCUSSION

### Statistic Deskriptif

Table 1 presents the descriptive statistics of the main research variables. On average, banks in Indonesia exhibit a lower debt-to-equity ratio (DER) (6.18) compared to banks in Malaysia (8.79). Conversely, Indonesian banks have a higher level of cash relative to total assets (CH = 0.156) compared to Malaysian banks (CH = 0.053). This indicates that banks in Indonesia tend to rely more on liquidity as a risk buffer, while banks in Malaysia rely more on leverage. The level of geopolitical risk (GPR) is relatively similar in both countries (0.049 in Indonesia and 0.045 in Malaysia). However, political risk (PR) shows a significant difference, with Malaysia having an average of 0.598, much higher than Indonesia (0.005).

In terms of executive characteristics, bank CEOs in Indonesia have an average age of 58.37 years and 29.30 years of professional experience, while CEOs in Malaysia are relatively younger (55.23 years) and CEO tenure is also slightly lower (26.90 years). At the firm level, banks in Indonesia are larger (FirmSize = 20.94 vs. 19.25), older (FirmAge = 55.44 vs. 50.25), more profitable (ROA = 0.0186 vs. 0.0120), and allocate more resources to R&D (1.137 vs. 1.018) than banks in Malaysia. In addition, the asset structure shows a stark difference, where banks in Indonesia have a higher average tangibility (0.030) compared to Malaysia (0.003), signaling a more dominant portion of tangible assets in Indonesia. In terms of operating profitability, the net interest margin (NIM) in Indonesia (0.051) is also significantly higher than Malaysia (0.021), albeit with greater variation, reflecting the potential volatility of performance across banks. It can be seen that this difference reflects the structural and institutional heterogeneity between the two markets, potentially affecting the dynamics of capital structure and risk management strategies in response to geopolitical uncertainty.

**Tabel 1.** Descriptive Statistic

	Countries	Variable	Obs	Mean	Std.dev	Min	Max
	Indonesia	DER	198	6.185	2.707	0.332	16.07
		CH	198	0.156	0.063	0.053	0.391
		GPR	198	0.049	0.027	0.023	0.106
		PR	198	0.005	0.159	0	0.574
		TenCEO	198	29.30	9.326	4	49
		AgeCEO	198	58.37	5.920	43	77
		Tangibility	198	0.030	0.021	0.000	0.112
		FirmSize	198	20.94	3.681	16.040	30.43
		FirmAge	198	55.44	28.64	16	129
		ROA	198	0.018	0.011	0.000	0.072
		RnD	198	1.137	0.464	1	7.064
		NIM	198	0.051	0.051	-0.233	0.006
		Malaysia	DER	88	8.799	1.187	6.215
	CH		88	0.053	0.024	0.000	0.135
	GPR		88	0.045	0.033	0.019	0.144
	PR		88	0.598	0.190	0	0.681
	TenCEO		88	26.90	5.796	12	37
	AgeCEO		88	55.23	9.259	41	82
	Tangibility		88	0.003	0.002	0.000	0.016
	FirmSize		88	19.25	0.008	17.68	20.79
	FirmAge		88	50.25	27.56	13	119
	ROA		88	0.012	0.004	0.000	0.020
	RnD		88	1.018	0.016	1	1.059
	NIM		88	0.021	0.003	0.013	0.033

**Tabel 1**

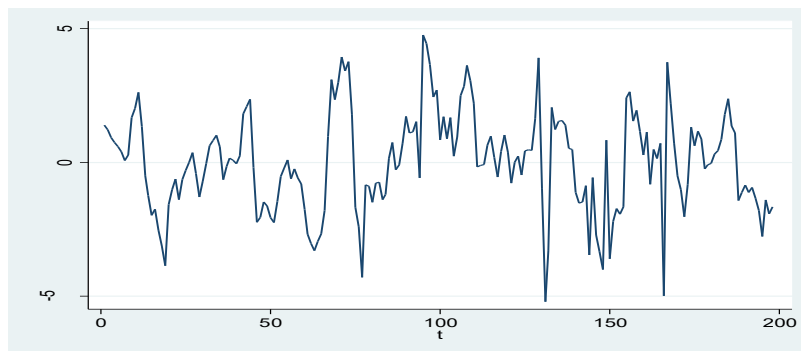
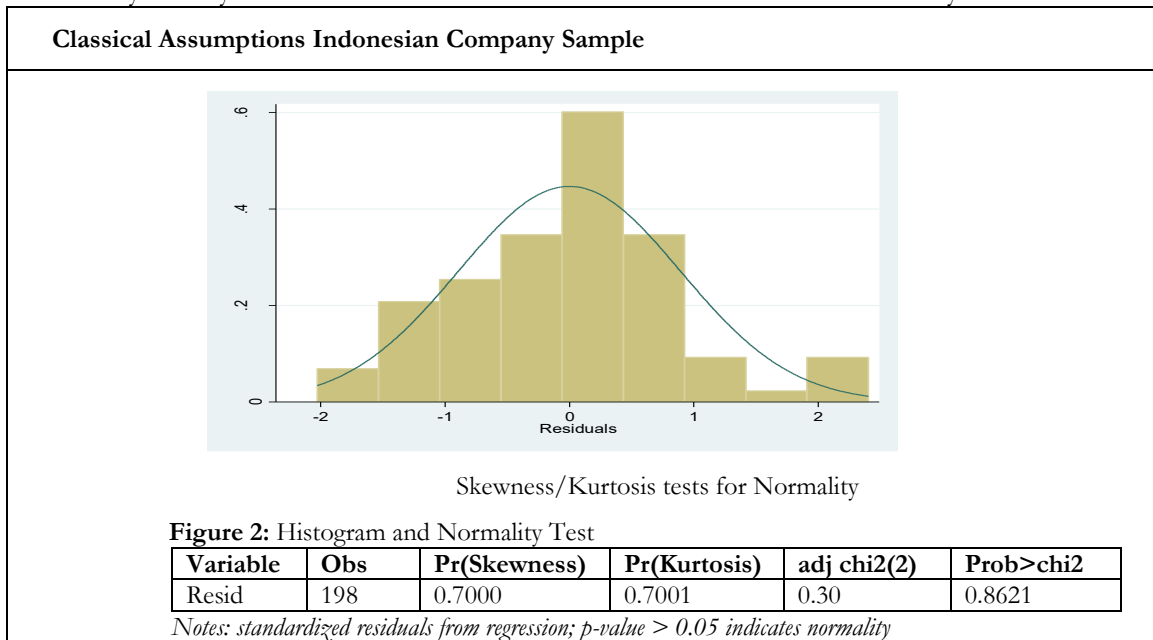
Deskriptif Statistik

**Notes:** DER (*debt to equity ratio*), CH (*cash holding*), GPR (*geopolitical risk*), PR (*political risk*), TenCEO (*CEO tenure*), ROA (*return on asset*), RnD (*research and development*), NIM (*net interest margin*).

**Correlation Analysis**

Figure 2 is a classic assumption test that refers to Baltagi (2005) for a sample of Indonesian companies, where the histogram shows a normal distribution supported by the skewness (0.7000) and kurtosis (0.7001) values which are within the tolerance range, and also proven by a probability value of 0.8621 which exceeds the 5% significance threshold, which means that the residuals in this model are normally distributed. Figure 3 illustrates the residual plot for model stability, where in this case it is illustrated that the fluctuations are relatively stable without striking systematic patterns, meaning that there is no strong autocorrelation or no extreme heteroscedasticity visually (Wooldridge, 2010). Table 2 is a correlation matrix for multicollinearity that refers to Greene (2008) which shows that the correlation coefficient values are relatively small and are all well below the 0.80 threshold. The correlation between GPR and DER is -0.1095, indicating a weak negative relationship, while the correlation between PR and DER is 0.0917, indicating a weak positive relationship. Meanwhile, the correlation between GPR and PR is only -0.0083, close to zero so there is almost no linear relationship. Thus, it can be concluded that this research model does not contain multicollinearity problems so that all independent variables are suitable for use in regression. Table 3 is the correlation matrix for the model with the dependent variable Cash Holding, where between the variables shows that cash holding has a negative correlation with geopolitical uncertainty of -0.2031 and a positive correlation with PR of 0.2147. Meanwhile, the relationship between GPR and PR is only -0.0083, close to zero, which means there is almost no linear relationship. Thus, these results indicate that there is no multicollinearity problem in the model as all correlation values are well below the 0.80 threshold.

Figure 4 is a classical assumption test for a sample of Malaysian companies, where based on the histogram it can be seen that the model is normally distributed supported by the skewness (0.2034) and kurtosis (0.2267) values which are within the tolerance range, and also proven by the probability value of 0.2041 which exceeds the 5% significance threshold. Figure 5 can also be seen that there is no strong autocorrelation or no extreme heteroscedasticity visually. Table 4 and Table 5 also show that there is no multicollinearity in the model.

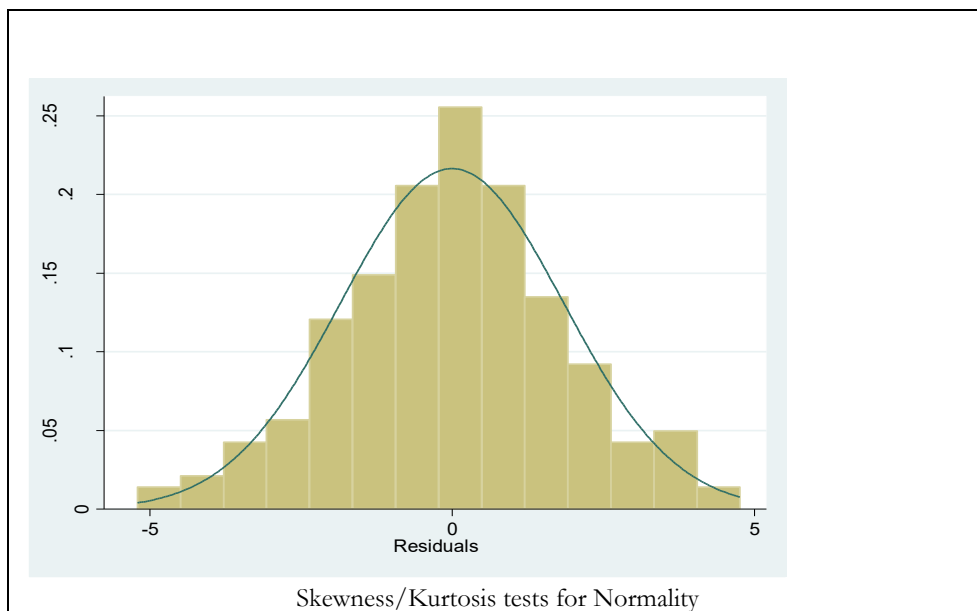


**Figure 3: Residual Plot**

*Notes: Residuals fluctuate around zero with no apparent pattern, suggesting homokedasticity*

		<b>DER</b>	<b>GPR</b>	<b>PR</b>
	<b>DER</b>	1.0000		
	<b>GPR</b>	-0.1095	1.0000	
	<b>PR</b>	0.0917	-0.0083	1.0000
<b>Table 2</b> Correlation Matrix	<i>Notes: Pearson correlation coefficients; no severe multicollinearity observed</i>			

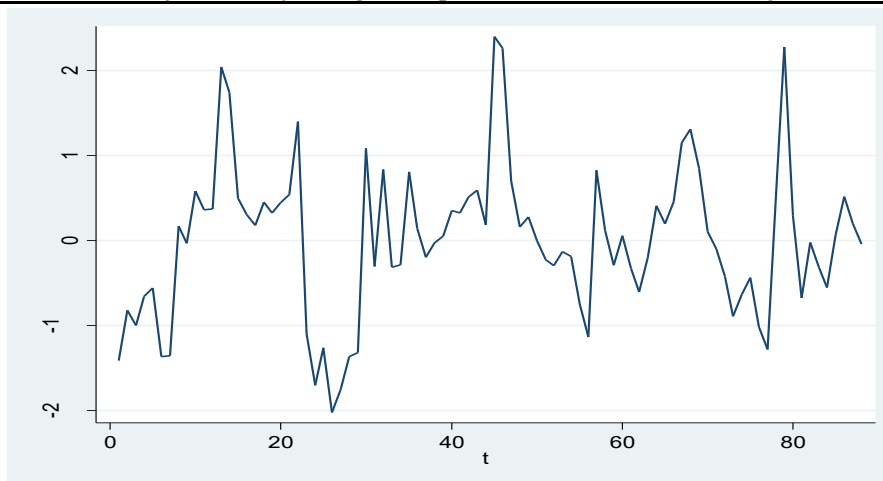
		<b>CH</b>	<b>GPR</b>	<b>PR</b>
	<b>CH</b>	1.0000		
	<b>GPR</b>	-0.2031	1.0000	
	<b>PR</b>	0.2147	-0.0083	1.0000
<b>Table 3</b> Correlation Matrix	<i>Notes: Pearson correlation coefficients; no severe multicollinearity observed</i>			



**Figure 4:** Histogram and Normality Test

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
Resid	88	0.2034	0.2267	3.18	0.2041

*Notes: standardized residuals from regression; p-value > 0.05 indicates normality*



**Figure 5:** ResidualPlot

*Notes: Residuals fluctuate around zero with no apparent pattern, suggesting homokedasticity*

		DER	GPR	PR
	DER	1.0000		
	GPR	0.2159	1.0000	
	PR	-0.0458	0.2669	1.0000
<b>Table 4</b> Correlation Matrix	<b>Notes:</b> Pearson correlation coefficients; no severe multicollinearity observed			
		CH	GPR	PR
	CH	1.0000		
	GPR	0.2945	1.0000	
	PR	0.3070	0.2669	1.0000
<b>Table 5</b> Correlation Matrix	<b>Notes:</b> Pearson correlation coefficients; no severe multicollinearity observed			

### Independent Sample t-test

Table 6 is the result of a different test analysis using an independent sample t-test showing that there is a significant difference in the average Debt to Equity Ratio (DER) between companies in Malaysia and Indonesia. The average DER of companies in Malaysia is 8.80, while the average DER of companies in Indonesia is only 6.18. The average difference between the two groups is 2.62, with a t-test value of 8.69 at degrees of freedom (df) = 284. The significance value obtained is  $p < 0.001$ , which is smaller than the 5% significance level. Thus, the null hypothesis that there is no difference in average DER between companies in Malaysia and Indonesia is rejected. This finding indicates that statistically, companies in Malaysia have a higher level of leverage compared to companies in Indonesia.

Table 7 is the result of a different test using independent sample t-test shows that there is a significant difference in average cash holding between companies in Malaysia and Indonesia. The average cash holding of companies in Malaysia is 0.053, while the average cash holding of companies in Indonesia is 0.156. The average difference between the two groups is -0.102, which means that companies in Indonesia have higher cash holding compared to companies in Malaysia. The t-test value obtained is -14.69 with degrees of freedom (df) = 284 and a significance value of  $p < 0.001$ , so the null hypothesis that there is no difference in average cash holding between the two countries is rejected. This finding indicates that statistically, companies in Indonesia tend to hold more cash compared to companies in Malaysia.

**Table 6:** Two-sample t test with equal variances

Group	Obs	Mean	Diff	t	Df	Pvalue
Malaysia	88	8.80	2.62	8.69	284	0.001
Indonesia	198	6.18				

**Table 7:** Two-sample t test with equal variances

Group	Obs	Mean	Diff	t	Df	Pvalue
Malaysia	88	0.053	-0.102	-14.89	284	0.001
Indonesia	198	0.156				

### Regression Analysis

Table 8 is the result of regression with Random Effect Model and Fixed Effect Model to see the effect of geopolitical risk and political risk on capital structure and cash holding in banking companies in Indonesia and Malaysia, and to see the moderating effect of CEO tenure and CEO age. The results provide new empirical evidence on the relationship between geopolitical uncertainty (GPR), political risk (PR), and bank financial decisions in Indonesia and Malaysia, and how executive characteristics moderate the relationship. In Indonesia, the main findings show that GPR has a significant negative effect on leverage (DER) and cash holding. This means that when global uncertainty increases, banks in Indonesia choose to reduce the use of debt while not accumulating cash. This reflects a defensive strategy that is different from the predictions of the precautionary motive in cash theory, where companies should increase liquidity when facing uncertainty. This finding is in line with (Fassas, 2020; Zhao & Niu, 2023), but in different directions. This pattern is more in line with the trade-off theory (Khoa & Thai, 2021), where external risk makes the cost of debt increase so that banks tend to lower leverage, while reducing cash due to the preference of maintaining efficient use of capital. This phenomenon is consistent with the findings of Javadi et al., (2021), Tran (2023), dan Guizani et al., (2023) which says that in markets with close supervision and investor concerns about overinvestment, increased uncertainty can encourage management to reduce cash. This result is also reinforced by the effect of control variables. Tangibility has a negative effect on

DER and cash, suggesting that banks with high tangible assets are more cautious as they increase the risk of liquidation, consistent with the argument that banks with high tangible assets are more cautious (Titman & Wessels, 1988). Firm age drives DER but suppresses cash, which means that more mature banks have easier access to debt but are also more efficient in managing liquidity, in line with the views of Khoo & Cheung (2021) regarding the differentiation of risk management practices in Southeast Asia. ROA suppresses DER, supporting the argument that Myers, S., & Majuf (1984) that high profitability substitutes the need for external funding. Conversely, net interest margin (NIM) also has a negative effect on DER, confirming that healthy interest margins reduce reliance on leverage. Thus, Indonesia's conservative pattern is not only triggered by the GPR, but also by the fundamental structure of banks that reinforce a prudential orientation.

In the Indonesian context, this result can be attributed to prudential banking regulations that limit the accumulation of excess liquidity, hence banks' response to GPR tends to be defensive. In contrast, PR has a positive effect on DER and cash holding. This result supports the view that Kesternich & Schnitzer (2010) and King et al., (2021) that under certain conditions, companies actually increase leverage in response to policy uncertainty, especially if there are opportunities for redistribution or fiscal support. The positive effect of PR on cash holding is also in line with Wu et al., (2023) and Gyimah et al., (2022) which emphasizes that domestic political uncertainty encourages managers to increase internal buffers. In other words, Indonesian banks interpret domestic political risk not only as a threat, but also an opportunity, as shown in the study of Vega-Gutiérrez et al., (2024). The role of executive characteristics further clarifies this pattern. CEO age strengthens the effect of GPR on DER and cash, consistent with the upper echelons theory (Hambrick, 1986; Le et al., 2025) that older executives are more conservative in the face of uncertainty, thus encouraging cautious financial strategies. In contrast, the moderating effect of tenure that weakens the relationship between GPR and leverage can be read in the context of the long experience of being the CEO of a firm, which allows CEOs to be more adaptive to global risks, consistent with the findings of the previous study Chakraborty & Mahakud (2023) on the influence of managerial experience on financial decision making.

In Malaysia, the results show a different pattern from Indonesia. GPR has a positive significant effect on DER, meaning that banks tend to increase leverage when geopolitical uncertainty increases. This finding supports the argument that Vega-Gutiérrez et al., (2024) that in certain markets, companies are utilizing debt as a source of expansion financing despite rising global risks. A similar pattern is in line with Makololo & Seetharam (2020) which emphasizes the heterogeneity of firm responses to geopolitical shocks. However, after including moderating variables (CEO tenure and CEO age), the effect of GPR on DER becomes insignificant. This indicates that managerial characteristics play an important role in weakening the relationship between geopolitical uncertainty and leverage. In other words, CEO leadership can dampen debt-based expansionary impulses, so that firms no longer aggressively increase leverage amid global risks. This finding is consistent with Yaghoubi (2024b) dan De Silva & Banda (2022) which emphasizes the role of executives as buffers in financial decision-making.

The role of control variables also provides additional insights. Profitability (ROA) has a significant negative effect on DER, indicating that banks with higher profit performance tend to reduce reliance on external debt, as per the pecking order theory. In contrast, bank size (SIZE) has a significant positive effect on DER, suggesting that larger banks have easier access to the debt market as they are considered more credible. Meanwhile, NIM has a significant negative effect on DER, which means that banks with higher interest margins encourage firms to reduce leverage. Thus, the presence of ROA, SIZE, and NIM as controls shows that although GPR boosts leverage in the initial model, the effect becomes insignificant after CEO moderation is included, as internal bank factors and managerial leadership are more dominant in determining capital structure decisions.

PR in Malaysia is not significant on DER or cash, but the direction of the effect changes after interaction with executive variables. This supports the findings of Becker et al., (2024) that the response to political risk is highly dependent on institutional factors, which means that banks in Malaysia adjust leverage more cautiously when facing political uncertainty, and CEO characteristics act as a risk buffer, in contrast to the opportunistic pattern in Indonesia. For cash holding PR has a positive effect after the moderation of CEO characteristics, which indicates that it tends to increase cash as an internal reserve. Control variables such as firm size, RnD, and NIM also influence cash and DER decisions, confirming that Malaysian banks' response to political risk is highly dependent on internal structure and managerial capabilities.

Based on the above, it can be seen that a comparison of the two countries shows that domestic political risk triggers an increase in leverage and cash in Indonesia, while in Malaysia the effect is more complex and depends on CEO moderation and internal bank characteristics. This difference emphasizes the importance of institutional context and the role of leadership in determining financial strategy in the face of political uncertainty (Barman & Mahakud, 2024; Le et al., 2025). The results enrich the understanding of the interaction between trade-off theory and risk management theory in the face of geopolitical uncertainty. In Indonesia, the evidence that GPR lowers leverage and cash supports the argument that banks emphasize financial flexibility and buffering strategies over expansion when facing external shocks. In contrast, in Malaysia, the positive result of GPR on leverage before

moderation confirms the existence of opportunistic behavior in external funding decisions. Furthermore, the findings on the role of CEO age and tenure reinforce the upper echelons theory perspective that executives' personal attributes shape the perceptual framework in responding to risk (Hambrick, 1986; Minh Ha et al., 2021).

For bank management, this study confirms that risk management strategies cannot be separated from leadership factors. Banks with older CEOs tend to increase opportunistic and conservative behavior in funding decisions, while CEOs with longer tenure can display adaptability to shocks. This means that the selection and assessment of CEO performance should not only be based on financial indicators, but also pay attention to the ability to deal with political and geopolitical uncertainty. Banking practitioners can also use these findings to design more contextualized cash and leverage policies, by balancing between prudence and exploitation of opportunities.

For regulators, this study emphasizes the importance of strengthening the systemic risk governance framework in the banking sector. In Indonesia, regulations that encourage banks to reduce leverage and not accumulate cash during periods of geopolitical uncertainty have the potential to reduce financial resilience, so macroprudential policies need to be geared towards keeping banks adequately liquid. In Malaysia, the tendency of banks to increase leverage in the face of GPRs suggests the need for tighter supervision of potential overexposure. Overall, these results suggest that financial policies in emerging economies should pay attention to the interaction between external risks and banks' internal leadership factors, in order to maintain financial system stability.

**Table 6.** Regression Analysis

Countries	Variable	I (REM) DER Coeffisien (Std Error)	II (REM) DER Coeffisien (Std Error)	III (FEM) CASH HOLDING Coeffisien (Std Error)	IV (FEM) CASH HOLDING Coeffisien (Std Error)
Indonesia	Cons	0.000	0.000	0.000	0.000
	GPR	-12.279 (0.000)**	-129.226 (0.000)**	0.106 (0.451)	-4.114 (0.001)**
	PR	1.561 (0.011)**	13.538 (0.001)**	-0.000 (0.972)	0.270 (0.065)*
	GPR*TenCEO		-1.513 (0.000)**		-0.016 (0.220)
	GPR*AgeCEO		2.711 (0.000)**		0.077 (0.001)**
	PR*TenCEO		0.1271 (0.018)**		0.001 (0.343)
	PR*AgeCEO		-0.262 (0.000)**		-0.005 (0.001)**
	Tangibility	-33.777 (0.000)**	-37.858 (0.000)**	-0.537 (0.075)*	-0.587 (0.063)*
	Firm Size	-0.112 (0.207)	-0.094 (0.256)	-0.006 (0.160)	-0.004 (0.246)
	Firm Age	0.022 (0.097)*	0.023 (0.093)*	-0.009 (0.000)**	-0.009 (0.000)**
	ROA	-6.455 (0.000)**	-6.538 (0.000)**	0.562 (0.219)	0.632 (0.164)
	RnD	-0.0005 (0.998)	0.027 (0.900)	-0.013 (0.070)*	-0.012 (0.081)*
	NIM	-4.786 (0.012)**	-4.436 (0.017)**	-0.030 (0.618)	-0.016 (0.784)
	Adjusted R <sup>2</sup>	0.4943	0.5062	0.024	0.025
	No. of Obs	198	198	198	198
		I (FEM) DER Coeffisien (Std Error)	II (FEM) DER Coeffisien (Std Error)	III (FEM) CASH HOLDING Coeffisien (Std Error)	IV (REM) CASH HOLDING Coeffisien (Std Error)
	Cons	0.012	0.704	0.423	0.044

	GPR	6.562 (0.055)*	3.286 (0.855)	0.069 (0.390)	0.305 (0.534)
	PR	-0.579 (0.248)	-6.908 (0.031)**	0.019 (0.110)	0.109 (0.056)*
	GPR*TenCEO		-0.690 (0.115)		0.000 (0.947)
	GPR*AgeCEO		0.340 (0.207)		-0.003 (0.642)
	PR*TenCEO		0.056 (0.391)		0.001 (0.913)
	PR*AgeCEO		0.076 (0.083)*		-0.001 (0.067)*
	Tangibility	21.070 (0.713)	23.375 (0.690)	-0.292 (0.831)	0.716 (0.540)
	Firm Size	4.605 (0.002)**	3.486 (0.017)**	-0.053 (0.117)	0.015 (0.010)**
	Firm Age	-0.271 (0.001)**	-0.293 (0.000)**	0.001 (0.502)	-0.000 (0.008)**
	ROA	-35.381 (0.260)	-34.061 (0.263)	1.359 (0.073)*	1.046 (0.222)
	RnD	-26.979 (0.033)**	-29.909 (0.019)**	0.380 (0.205)	0.596 (0.048)**
	NIM	-18.366 (0.717)	-14.257 (0.704)	0.813 (0.503)	-2.721 (0.004)**
	Adjusted R <sup>2</sup>	0.2999	0.2711	0.0036	0.3709
Malaysia	No. of Obs	88	88	88	88

**Notes:** Standard errors are in parentheses (\*10% \*\*5% \*\*\*1%)

## CONCLUSION

This study examines the effect of geopolitical risk (GPR) and political risk (PR) on the capital structure (leverage) and cash holding of banks in Indonesia and Malaysia, while assessing the moderating role of executive characteristics. The results show that the impact of global and domestic uncertainty is not uniform, but depends on the institutional context and demographic profile of top executives.

In Indonesia, GPR has a significant negative effect on leverage and cash, reflecting banks' defensive strategy of reducing debt while not accumulating liquidity when global uncertainty increases. In contrast, PR has a significant positive effect on leverage and cash, indicating the opportunistic tendency of banks to take advantage of fiscal support opportunities and internal buffers when facing domestic risks. Moderation of CEO age strengthens the effect of GPR, encouraging a conservative stance, while CEO tenure weakens the effect of GPR, indicating that managerial experience makes banks more adaptive.

Control variables such as tangibility, firm age, ROA, and NIM also prove to be relevant in explaining variations in leverage and cash in Indonesia. In Malaysia, GPR initially has a significant positive effect on leverage, indicating expansionary behavior through debt financing despite increasing global uncertainty. However, this effect becomes insignificant after being moderated by CEO characteristics, confirming the important role of leadership in dampening financial aggressiveness. PR itself has no significant effect on DER, but after moderation tends to encourage cash holding as a form of risk buffer. This is different from Indonesia, which actually increases leverage when facing PR. Control variables such as firm size, ROA, RnD, and NIM are more dominant in influencing financial decisions in Malaysia, emphasizing that internal bank factors play a major role. Overall, these differences

suggest that banks in Indonesia tend to be conservative towards global risks but opportunistic towards domestic risks, while banks in Malaysia are more expansionary initially but later adjust through executive leadership. These results strengthen the related literature on trade-off theory, risk management theory, and upper echelons theory, and confirm the importance of institutional context and managerial attributes in shaping banks' responses to geopolitical and political uncertainty.

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