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CEO Characteristics and Corporate Financing in Thailand

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Abstract

Previous financial crises have cast some doubt about the risk-taking behaviors of top executives. This study investigates the impact of CEO characteristics on corporate financing behaviors after the 1997 Asian financial crisis. Sample firms are non-financial listed firms on the Stock Exchange of Thailand between 2001 and 2005. We use the Ordinary Least Square (OLS) method on pooled cross-section and time-series data controlling for year and industry effects. CEO characteristics are classified into three groups—biography, network and incentives—based on the upper echelons, resource dependence and agency theories, respectively. According to the upper echelons theory, the education of CEOs has an impact on strategic choices. The result shows that CEOs with postgraduate education choose a higher level of financial leverage. Based on the resource dependence theory, networks ease difficulties to access to external resources. We find that politically connected CEOs can finance higher debt, compared to non-connected CEOs. Our findings also support the agency theory. We find that family CEOs use more debt possibly to maintain their voting power. Overall, our research shows that CEO characteristics affect financing decisions. From lenders' point of views, some attributes of CEOs may reflect better repayment abilities of firms, thus encouraging lenders to provide higher loans. Our study also suggests that to thoroughly investigate the significance of CEOs in shaping corporate strategies, wide aspects of CEO attributes should be considered.

Keywords: Chief Executive Officers (CEOs), CEO characteristics, financing

JEL Classification Codes: G32, G34, M10

1. Introduction

The 1997 Asian financial crisis and the 2008 US crisis have raised questions about aggressive behaviors of top executives (Tarraf, 2011) and the effectiveness of corporate governance systems (Mitton, 2002). Strategic decisions made by chief executive officers (CEOs) could lead to a success or a failure for a company. Several theories discuss the significance of managers in shaping corporate strategies, which in turn have an impact on firm performance. The upper-echelons perspectives argue that important characteristics of upper management are described into two categories, namely observable and psychological characteristics. Such characteristics could indicate risk-taking behaviors of managers and are likely to affect strategic choices and firm performance (Hambrick and Mason, 1984). The resource dependence theory describes benefits of networks in obtaining external resources (Pfeffer and Salancik, 1978). Connections of key corporate personnel could bring useful information for investment opportunities and provide better access to external funds. The agency theory contends that managerial incentives are one of several corporate governance mechanisms that can be used to align the interests of shareholders and managers (Jensen and Meckling, 1976). The interest alignment would encourage managers to select strategies that maximize shareholders' wealth.

Based on the theories described above, we construct a comprehensive set of CEO characteristics, which are classified into three aspects, i.e., biography, network and incentives. CEO biography includes gender, age, education, international perspectives and expertise. CEO network is identified by political connections. CEO incentives are measured by tenure, ownership and family membership. We examine the impact of those observable CEO characteristics on corporate financing behaviors.

In this study, the sample firms are non-financial and listed firms on the Stock Exchange of Thailand (SET) between 2001 and 2005. Several important aspects make Thai firms worth investigation. Thai firms might have chosen their CEOs in response to public attention of good governance practices after the Asian crisis, for example, expertise, education and social networks of CEOs. In addition, a majority of Thai-listed firms are family owned and are commonly managed by the family members (Wiwattanakantang, 1999; Khanthavit et al., 2004). It is likely that the CEO appointment of firms in economies where ownership structure is concentrated and family controlled firms are commonly found is different from CEO appointment in developed countries. Dominant large family shareholders might take control to some degree in managing the CEO appointment procedures. It has been argued that such practices might have led to poor corporate governance because of an insufficient check and balance mechanisms of boards of directors.

This study contributes to the literature on CEO characteristics and financial policies in several aspects. First, a comprehensive set of CEO characteristics and its impact on a firm's financial behaviors are examined to broaden the literature in economics, finance and organizational theories. We confirm arguments proposed by the upper echelons theory

(Hambrick and Mason, 1984), the resource dependence theory (Pfeffer and Salancik, 1978) and the agency theory (Jensen and Meckling, 1976). Second, we study CEO characteristics of firms in an emerging economy where shareholdings are concentrated, which could be different from shareholding characteristics in developed economies. So far, there has been little evidence about the significance of CEO characteristics in emerging countries. Third, family-owned firms are commonly found around the world. Controlling families are likely to influence the selection of CEOs. We examine the impact of family CEOs on firms' financial policies.

Our results show CEO characteristics of Thai firms. Considering CEO biography, females are not commonly appointed as CEOs. Only around 10% of Thai CEOs are female. The average age of CEOs is 55 years old. Around 40% and 38% of CEOs hold the highest degree of a master and bachelor, respectively, while about 13% and 9% of CEOs have a below bachelor and a doctoral degree, respectively. Only 4% of CEOs have expertise in finance, accounting or economics. In addition, more than a half of CEOs have studied overseas. Regarding CEO network, politically-connected CEOs are found in about 9% of firms. Concerning CEO incentives, we find that the average tenure of Thai CEOs is almost 7 years. The average shareholdings of CEOs are roughly 7%. Not surprisingly, around 45% of firms have CEOs, who are members of controlling families.

The focus of this study is to examine the impact of CEO characteristics on corporate financing behaviors. Our regression model shows that educational levels, political connections, and family membership of CEOs appear to have a significant impact. Specifically, CEOs with a postgraduate degree use more debt. This result may suggest that these CEOs are more confident and risk-taking, and thus choose a higher level of financial leverage. CEO networks also positively affect a leverage ratio. It is possible that CEOs use their political connections to acquire better access to external sources of funds. In addition, the presence of family CEOs is positively related with financial leverage. This finding may imply that family CEOs adopt a higher debt ratio to maintain the controlling power of their families in the firms. We also show the effect of board structure on a firm's financing strategy. However, only CEO duality significantly influences financing behaviors. When the titles of CEO and chairman are combined, CEOs become more entrenched and may use lower debt level to reduce firm risks or to avoid monitoring by creditors.

Our empirical results imply that CEOs with higher educational levels could be more aggressive and prefer higher borrowing, leading to a lower cost of capital. Nevertheless, their risk-taking behavior towards financing policies might increase financial risk. To obtain better access to external funds, CEOs with political connections should be more preferable to Thai firms. In addition, family CEOs appear to adopt riskier financing policies potentially to protect their control power. Costs of the higher financial risk, however, would be shared among all shareholders. Therefore, minority shareholders should be aware of this behavior when they choose to invest in a family firm. From lenders' perspectives, CEOs with higher levels of education should have better abilities to manage firms. CEOs with political connections could be

perceived as ones who can easily obtain external fund. Also, family CEOs have incentives and interests to sustain their family business. Such CEO characteristics would reflect higher repayment abilities of firms, thus lenders would be more willing to provide higher loans.

The study is structured as follows. Section 2 provides literature review on the significance of CEO characteristics on financing behaviors of firms. Section 3 discusses the details of data and methodology used in this study. Section 4 shows the empirical findings of this study. The last section concludes the study and provides suggestions for future research.

2. Literature review

Background characteristics of CEOs are significant for management appointment processes and have an impact on business strategies (Hambrick and Mason, 1984). Detailed studies about CEO characteristics and their impact on corporate strategies are needed to provide additional evidence to an aggregate analysis of boards of directors (Jensen and Zajac, 2004). In this study, we propose to investigate the impact of CEO characteristics on a firm's financing strategies.

2.1 CEO biography

Based on the upper echelons theory, observable attributes of top management affect corporate strategic choices. Our research proposes to examine the effect of the following characteristics of CEOs on a firm's key financial policies.

2.1.1 Gender

Considering the gender of CEOs, cognitive psychology and management research suggests that women and men are different, for example, in leadership styles, effectiveness, communicative skills, conservatism, aggressiveness, risk aversion, and decision-making (Byrnes et al., 1999; Eagly and Johnson, 1990; Eagly and Steffen, 1986). A report by Catalyst (2004) documents that the group of Fortune 500 firms with the highest representation of females on their top management shows higher financial performance than the group of firms with the lowest female representation. Francoeur et al. (2008) also document that having women executives generates positive abnormal stock returns for firms operating in complex environments. Peni and Vähämaa (2010) find that female CFOs are more conservative when implementing earnings management activities.

Previous studies also show that women are more risk averse (Byrnes et al., 1999; Jianakoplos and Bernasek, 1998) and less overconfident (Barber and Odean, 2001; Lundeberg et al., 1994) than men. These differences in attitudes between women and men could lead to differences in financing decisions made by female and male CEOs. Specifically, female CEOs may choose to use less debt in the firm's capital structure, compared with male CEOs.

2.1.2 Age

Age has been found to play an important part in a manager's strategic actions, which in turn affect firm performance (Hambrick and Mason, 1984). Older managers also have higher tendencies to seek more information, to evaluate information accurately, and to take longer to make decisions, while young managers have greater abilities to integrate information in making decisions and with confidence in decisions (Taylor, 1975). On the other hand, older managers tend to be more psychologically committed to the company (Stevens et al., 1978). In addition, for older managers, financial and career securities are more important; hence they may avoid risky actions that could interrupt their securities (Carlsson and Karlsson, 1970). Accordingly, older managers are inclined to be more conservative than younger managers. In terms of making corporate decisions, Bertrand and Schoar (2003) show that managers from older generations are less aggressive than those from younger generations as they prefer a lower level of investment and adopt a lower level of financial leverage. Taken together, CEO's age could have a significant effect on corporate financing decisions. We divide CEO age in five cohorts, and we expect that younger CEOs are more aggressive, and hence they use greater debt when compared with older CEOs.

2.1.3 Education

Finkelstein and Hambrick (1996) note that CEOs with higher educational levels are more willing to take risk. CEO educational background is one of the key determinants of firm policies and is essential to management appointments (Bertrand and Schoar, 2003; Smith et al., 2006). Bertrand and Schoar (2003) document that CEOs with an MBA degree are more aggressive and are positively associated with a level of capital expenditures and debt. MBA executives tend to invest if growth opportunities are high. Smith et al. (2006) also find an increase in the proportion of CEOs with higher educational levels more than ten years. They also document that educational background is a major factor for firms to appoint a CEO. The proportion of CEOs with higher educational levels is positively associated to firm performance. In this paper, it is expected that the educational level of CEOs is associated with higher debt financing as a result of risk-taking behaviors of CEOs with higher educational levels.

2.1.4 International perspectives

Interaction with people from different countries is found to be a fundamental activity of business globalization. CEOs with international experience are important human resources for firms, and their international experience leads to higher firm performance (Daily et al., 2000). Herrmann and Datta (2002) also shows that international perspectives of CEOs have a positive impact on foreign market entry decision. International experience provides the CEOs with wider views, confidence and abilities to estimate risks and returns of investments. These personal factors provide CEOs with knowledge and confidence to understand how to do businesses in diverse environmental settings. Thus, it is expected that CEOs with international perspectives are

more risk-tolerant to financial exposure. Firms with internationally experienced CEOs may have higher corporate borrowing.

2.1.5 Financial expertise

CEO functional background has an influence on personal characteristics and behaviors. Knowledge CEOs have gained from work experience affects the way they choose and implement strategies (Gunz and Jalland, 1996). Previous work expertise of CEOs demonstrates CEO risk-taking behavior and shows that CEOs with finance expertise are more likely to pursue diversification activities, than non-finance CEOs (Jensen and Zajac, 2004; Malmendier and Tate, 2008; Palmer and Barber, 2001). In addition, Malmendier and Tate (2005) find that the investment of CEOs with finance educational background and employment is less sensitive to internal cash flow, indicating that they are more risky in making a financing decision. As a result, we hypothesize that the presence of CEOs with financial expertise will lead to higher debt financing of firms.

2.2 CEO Networks

According to the resource dependence theory, social networks are found to be significant in obtaining information about investment opportunities and for business expansion (Palmer and Barber, 2001; Siegel, 2007). This study focuses on political connections, which are commonly found and are positively related to firm performance (Agrawal and Knoeber, 2001; Kim and Lim, 2010). The experience of retired bureaucrats is considerably useful in some industries, and firms that deal with the government generally appoint ex-bureaucrats as their directors (Agrawal and Knoeber, 2001; Miwa and Ramseyer, 2005). In addition, political connections could also influence government-owned banks to lend to firms that have a politician on their boards of directors (Khwaja and Mian, 2005). Therefore, it is likely that politically-connected CEOs are confident in the information obtained in their network; therefore, they are willing to take higher risk and to choose aggressive financing policies.

2.3 CEO incentives

The agency theory argues that managerial incentives could be used for interest alignment between managers and shareholders, hence influencing strategic decision making of managers. Our research measures managerial incentives using CEO tenure, ownership and membership of controlling families.

2.3.1. Tenure

CEO tenure is considered as one incentive provided to managers in reducing agency problems. A CEO who has been with a company for a long time is likely to demonstrate high abilities and proficiency (Hermalin and Weisbach, 1991). CEOs with longer tenure are perceived as those who have experienced a longer learning process, have better abilities to take control

over decision making processes and have higher commitment. Thus, CEO tenure positively affects the company's performance (Hambrick, 1991). However, longer-tenured CEOs might be perceived as entrenched managers (Yermack, 2004), thus leading to poorer firm performance (Kaplan and Minton, 1994). Hambrick and Mason (1984) also propose that the relationship between CEO tenure and investment spending in new products and unrelated diversification is negative because of limited knowledge of CEOs in responding to changing environment. Accordingly, the length of CEO tenure could affect CEO confidence and risk preference. However, we hypothesize that the length of CEO tenure will positively affect financing policies of firms.

2.3.2. Ownership

The agency theory argues that when managers hold a significant fraction of a firm's shares, the interests of these managers will become more aligned with those of outside shareholders (Jensen and Meckling, 1976). Agrawal and Mandelker (1987) show that stocks and options held by managers affect corporate investment and financing decisions and conclude that managerial shareholdings play a significant role in reducing agency problems. However, managers with high control rights may become insulated from both internal and external governance mechanisms (Morck et al., 1988; Stulz, 1988; Fama and Jensen, 1983). DeAngelo and DeAngelo (1985) argue that a high level of managerial ownership will entrench management and create agency problems. Managers with substantial voting power are likely to take actions advantageous to themselves at the expense of outside shareholders.

Considering financing decisions, Fama (1980) contends that managerial entrenchment could lead to less use of debt than is optimal because entrenched managers may desire to reduce firm risk in order to protect their underdiversified human capital. Friend and Hasbrouck (1988) also hypothesize that because managers have invested a large proportion of their wealth in the firm in terms of shareholdings and firm-specific human capital, they have higher incentives than average shareholders to maintain low use of debt in the capital structure. In addition, entrenched managers may try to avoid performance pressures from generating sufficient cash flows to service debt obligation (Jensen, 1986). Friend and Lang (1988) and Fosberg (2004) empirically show that managerial ownership is negatively related to leverage.

Alternatively, in order to boost entrenchment, managers may take on excessive leverage to raise their voting power so that they are able to finance investment beyond the optimal level and decrease the chance of takeover attempts (Stulz, 1988; Harris and Raviv, 1988). It is also possible that entrenched CEOs could be more aggressive and hence prefer high financial leverage. Mehran (1992) and Berger, Ofek, and Yermack (1997) report that managers' voting power is positively associated with leverage levels. We hypothesize that the CEO ownership will positively affect financing policies of firms.

2.3.3 Family membership

Existing studies show that CEOs who are members of controlling families of the firms have significant impact on corporate strategies and performance and firm value. Stein (1989) argues that shareholders who have longer investment horizons, such as controlling families, are willing to invest in optimal long-term projects, rather than short-term projects that mainly aim to enhance current earnings preferred by managers. Fama and Jensen (1983) and DeAngelo and DeAngelo (1985) contend that active family participation in firm activities can provide a significant constraint on managerial behaviors.

However, because of their substantial voting rights, family CEOs have the potential and ability to pursue their own objectives at the expense of other stakeholders. For example, controlling families may select managers and directors from their unqualified or incapable family members. Moreover, a controlling family may concentrate on objectives such as firm survival, firm growth or technological innovation, rather than shareholder wealth maximization (Fama and Jensen, 1985). Also, a family is often a single large shareholder of a company, and hence is hardly monitored by small shareholders (La Porta et al., 1999). Claessens et al. (2002) argue that, in family firms, managers—who are typically members of the controlling family—have more opportunity to extract corporate assets for their own (or family) interests than their counterparts in firms controlled by widely held companies or institutional investors.

Unlike most previous studies, our study focuses on the impact of family CEOs versus professional CEOs on corporate financing behaviors. We propose that compared with professional CEOs, family CEOs should be less aggressive because they have longer investment horizons in the firms and intend to pass their business to the family members in the future. Hence, family CEOs would favor a lower level of use of debt than professional CEOs.

3. Data and Methodology

3.1 Sample

Sample firms are non-financial firms listed on the Stock Exchange of Thailand (SET), covering a period of 2001 – 2005. This sample period will reflect the characteristics of CEOs and their qualifications in response to the financial crisis in 1997.

The information used to define CEO characteristics is publicly available from the SET. We focus only on CEO data, which are provided in 56-1 forms. The SET requires all listed firms to submit Form 56-1, which is used to disclose relevant information of the company to the public. In addition, financial data are collected from the SETSMART database, which compiles company information of Thai firms listed on the SET. In this paper, all financial data are winsorized at 1% and 99%.

We exclude firms in the banking and financial sector because of their non-traditional financial statements. Firms with missing 56-1 forms and financial statements are also removed from the sample. In addition, observations are excluded from the sample if the firm data are in the year of rehabilitation. However, missing CEO data of several firms is manually collected from the Internet in order to increase the number of observations. The total firm-year observations are 1,356 observations.

3.2 CEO characteristics

We consider three groups of CEO characteristics: CEO biography (gender, age, educational background, international perspectives and expertise), CEO network, and CEO incentives (tenure, ownership and family membership). Gender is a dummy variable that equals to one if a CEO is male, and zero otherwise. Age is defined as (1) CEO age, and (2) dummy variables representing five age cohorts, which are less than 30 years old, 31-40 years old, 41-50 years old, 51-60 years old, and greater than 60 years old.

The educational background is defined as a dummy variable indicating the highest educational level of a CEO, which is categorized into below bachelor's, bachelor's, master's, and doctoral degrees.¹ International perspectives are defined as a dummy variable that equals to one if a CEO graduates from abroad and zero otherwise.² Regarding expertise, we use a dummy variable of financial expertise, which is defined by a dummy variable that equals to one if a CEO has experience in accounting, finance or economics, and zero otherwise.

Networks are defined using political connections. The network variable is measured as a dummy variable that is equal to 1 if a CEO is a former government, police, or military officer, and zero otherwise. Tenure is the number of years since he/she was appointed CEO. Ownership is measured as the ratio of the number of shares owned by a CEO to total shares outstanding. Finally, family membership is defined as a dummy variable that is equal to 1 if a CEO is a member of the controlling family, and zero otherwise.

3.3 Board structure and financial variables

As documented in prior research, we control for board structure and financial characteristics. Board structure variables consist of board size, which is defined as the total number of directors; board independence, which is defined as the fraction of independent directors on the board; and CEO duality, which is defined as a dummy variable that is equal to 1 if a CEO also holds the position of chairman of the board, and zero otherwise.

¹ We also include an "honorary" doctoral degree.

² If a CEO is graduated from a local institution and an institution outside Thailand, we report that he/she is in international perspectives group.

Financial control variables include firm size (measured as the natural logarithm of total assets), the ratio of net fixed assets to total assets, and the ratio of net income to total assets. To measure the financing policy, the leverage ratio defined as a ratio of long-term debt to total assets will be used.

3.4 Methodology

We provide the descriptive statistics of CEO characteristics, board structure and financial characteristics of Thai-listed firms. Then a regression analysis is used to show the effect of CEO's characteristics on corporate financing behaviors. We use Ordinary Least Square (OLS) on pooled cross-section and time-series data. The regression controls for industry effects and year effects. The impact of CEO characteristics on a firm's financing behavior will be investigated as shown in the following equation.

$$\begin{aligned} Leverage_{i,t} = & \alpha_{i,t} + \beta_1 ROA_{i,t} + \beta_2 Size_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 Male_{i,t} + \beta_5 Age_{i,t} + \beta_6 Postgrad_{i,t} \\ & + \beta_7 Inter_{i,t} + \beta_8 Fin_{i,t} + \beta_9 PolCon_{i,t} + \beta_{10} Tenure_{i,t} + \beta_{11} Own_{i,t} + \beta_{12} FM_{i,t} \\ & + \beta_{13} IneffBoardSize_{i,t} + \beta_{14} Independence_{i,t} + \beta_{15} Duality_{i,t} + \beta_{16} Ind_{i,t} + \beta_{17} Year_{i,t} + \varepsilon_{i,t} \end{aligned}$$

where $Leverage_{i,t}$ is the ratio of long-term debt to total assets, $ROA_{i,t}$ is the ratio of net income to total assets, $Size_{i,t}$ is the natural logarithm of total assets, and $Tangibility_{i,t}$ is the ratio of net property, plant and equipment to total assets.

CEO characteristics are classified into nine variables. $Male_{i,t}$ is a dummy variable that equals 1 if a CEO is male, and zero otherwise. $Age_{i,t}$ is a CEO's age. $Postgrad_{i,t}$ is a dummy variable that equals 1 if a CEO obtains a master degree or above, and zero otherwise. $Inter_{i,t}$ is a dummy variable that equals 1 if a CEO studied abroad, and zero otherwise. $Fin_{i,t}$ is a dummy variable that equals to 1 if a CEO worked in an area of accounting, finance or economics, and zero otherwise. $PolCon_{i,t}$ is a dummy variable that equals 1 if there is a former government, police and military officer on board, and zero otherwise. $Tenure_{i,t}$ is the number of years since an individual appointed as a CEO. $Own_{i,t}$ is measured as the ratio of the number of shares owned by a CEO to total shares outstanding. Finally, $FM_{i,t}$ is defined as a dummy variable that is equal to 1 if a CEO is a member of the controlling family, and zero otherwise.

Board structure factors are used as control variables. $IneffBoardSize_{i,t}$ is a dummy variable that equals 1 if the total number of directors on board is greater than 12 directors.³ $Independence_{i,t}$ is measured by the fraction of independent directors on the board. $Duality_{i,t}$ is a

³ Inefficient board size is defined as in Malmendier & Tate (2005).

dummy variable equal to 1 if the CEO also holds the position of chairman of the board, and zero otherwise.

4. Empirical analyses

4.1. Descriptive statistics of CEO characteristics

Table 1 provides descriptive statistics of CEO characteristics of non-financial firms listed on the SET during the period of 2001–2005. In total, there are 1,356 firm-year observations in our sample. We first consider CEO biography. Consistent with the findings of previous studies, male CEOs are much more common. To be specific, approximately 90% of sample firms appoint male CEOs. On average, CEOs are 55 years old. The youngest CEO is 28 years old, while the oldest is 92 years old. When separating CEO age into five cohorts, almost 42% of CEOs are in the range of 51-60 years old. Also, about 27% of CEOs passed the retired age of 60 years old. Younger CEOs are found less often. Only around 6% of CEOs are younger than 40 years old.

Regarding educational levels of CEOs, approximately 9%, 40% and 38% of CEOs have the highest degree of a doctoral, master's and bachelor's, respectively. CEOs with expertise in accounting, finance or economics are found in only 4% of sample firms. Furthermore, the result shows that more than 60% of CEOs have international degrees. Concerning CEO network, about 9% of firms hire politically connected CEOs who are former bureaucrats.

We then examine CEO incentives in terms of tenure, ownership and family membership. We find that, on average, CEO tenure of Thai listed firms is almost 7 years, with the maximum of 47 years. In addition, CEOs hold roughly 7% of the firms' outstanding shares. Not surprisingly for an emerging market in which family firms are common, around 45% of sample firms appoint members of the controlling families as their CEOs.

4.2. Descriptive statistics of firm characteristics

The descriptive statistics of firm characteristics are provided in Table 2. Concerning board structure, we find that, on average, there are 11 directors on a firm's board of directors with a minimum number of 5 directors and a maximum number of 25 directors. The percentage of independent directors is 32% of total directors. There are around 24% of Thai listed firms whose CEOs are also the chairman of the companies. Regarding financial characteristics, the mean value of leverage ratio, measured by long-term debt to total assets, of sample firms is 16%, approximately. The average values of total assets and sales of sample firms are 9,662 and 7,262 million baht, respectively.

Table 1 Descriptive statistics of CEO characteristics

CEO characteristics	Mean	Standard deviation	Median	Min	Max
Biography					
Gender:					
Percentage of male CEOs (%)	90.12	-	-	-	-
Age:					
Age of CEOs (years)	55.20	10.00	55	28	92
Percentage of CEOs who are					
- Younger than 30 years old (%)	0.29	-	-	-	-
- 31-40 years old (%)	5.01	-	-	-	-
- 41-50 years old (%)	25.66	-	-	-	-
- 51-60 years old (%)	41.96	-	-	-	-
- Older than 60 years old (%)	27.06	-	-	-	-
Educational levels:					
Percentage of CEOs whose the highest degree is					
- Below bachelor's (%)	13.20	-	-	-	-
- Bachelor's (%)	37.54	-	-	-	-
- Master's (%)	39.90	-	-	-	-
- Doctoral (%)	9.37	-	-	-	-
Financial expertise:					
Percentage of CEOs whose expertise is accounting, finance, or economics (%)	4.20	-	-	-	-
International perspectives:					
Percentage of CEOs who have international education (%)	61.36	-	-	-	-
Network					
Political connections:					
Percentage of CEOs who are a former government, police, or military officer (%)	9.07	-	-	-	-
Incentives					
Tenure:					
CEO tenure (years)	6.60	5.29	5.93	0.04	47.00
Ownership:					
Percentage of CEO shareholdings (%)	6.86	12.03	0.83	0.00	78.34
Family membership:					
Percentage of CEOs who are a member of the firm's controlling family (%)	44.69	-	-	-	-

Table 2 Descriptive statistics of firm characteristics

Variables	Mean	Standard deviation	Median	Min	Max
Board structure					
Size:					
No. of directors on board	11.37	3.20	11	5	25
Independence:					
Percentage of independent directors (%)	31.66	9.61	30.00	12.00	83.33
CEO duality:					
Percentage of firms with CEO duality (%)	23.75	-	-	-	-
Financial characteristics					
Long-term debt to total assets (%)	15.77	18.42	8.44	0.00	72.55
Total assets (million baht)	9,662	23,170	2,407	309	167,978
Sales (million baht)	7,262	17,806	2,210	89	129,173
Net income to total assets (%)	8.24	9.57	8.49	-32.71	32.45
Net fixed assets to total assets (%)	39.71	23.51	38.20	0.94	90.68

4.3. Regression analysis

The findings in Table 3 show the impact of CEO characteristics on a firm's financing behavior. Financial characteristics of Thai-listed firms in this study, i.e., the return on assets, firm size and tangibility, are significantly associated with the leverage ratio at the 1% level. We find that the return on assets is negatively related to the leverage ratio. Accordingly, firms with higher performance would be more likely to rely on their internal funds rather than external debt financing, supporting the pecking order theory. Our findings about the relationship between firm size and leverage ratio are consistent with the argument of Fama and Jensen (1983). They document that larger firms tend to have lower information asymmetric problem and monitoring cost; thus, they are more likely to have higher debt ratio. In addition, the results show that the tangibility ratio is a determinant of debt financing. Firms with higher collateral, e.g., net property, plant and equipment, or assets-in-place, are more likely to have leverage ratio (Myers, 1977).

Gender of CEOs appears to have no significant effects on financing behaviors. In other words, female managers are not less aggressive than male directors when making financing decisions. Graham et al. (2008), nevertheless, show that although firms with male and female managers are not different in terms of debt ratio, male managers appear to use more short-term debt than female managers. Moreover, unlike Bertrand and Schoar (2003) who document that managers from older generations use a lower level of debt, we find that age of managers is not associated with a level of debt.

The level of education of CEOs is positively related to a firm's debt financing. The coefficient of postgraduate dummy is positively related to leverage ratio at the 5% significance level. CEOs with higher educational levels seem to be more confident (Bertrand and Schoar, 2003); for example, they are more likely to borrow more than CEOs with a bachelor's degree or below. Although Herrmann and Dattta (2002) argue that CEOs with international perspectives are more confident, this characteristic of CEOs is not a determinant of debt financing of Thai listed firms. Furthermore, Malmendier and Tate (2005) argue that CEOs who have experience in the finance area are risk-taking; the results, however, show that previous experience of CEOs in accounting and finance is not related to a firm's borrowing policy.⁴

The results also show that the presence of politically-connected CEOs is positively associated to leverage ratio. Firms with politically-connected CEOs are more likely to have higher debt financing because those CEOs are connected into a broader network and could obtain preferential treatment from external resource providers (Khwaja and Mian, 2005; Faccio, 2010). From lenders' point of view, it is likely that CEOs characteristics of postgraduate education and political connections reflect abilities of CEOs to manage the firms and generate sufficient returns to pay back their borrowings.

Longer CEO tenure could lead to higher control and confidence for CEOs to make a decision (Hermalin and Weisbach, 1991). However, our findings do not support the association between CEO tenure and leverage ratio. CEOs with longer tenure in Thai firms might avoid high use of debt to lower creditors' monitoring, according to Jensen (1986). Likewise, we do not find a significant relationship between CEO ownership and financial leverage, although we expect that CEO ownership would have significant effects on capital structure because it increases CEOs' incentives to maximize shareholders' wealth and CEOs' undiversified investment in the firms. Similarly, using Thai data, Wiwattanakantang (1999) documents no impact of managerial shareholdings on financial leverage. However, Wiwattanakantang (1999) shows that in family firms, managerial ownership positively affects the use of debt. We also find that family CEOs prefer more financial leverage than professional CEOs. It is possible that owner-managers use higher debt to increase their voting power (Stulz, 1988; Harris and Raviv, 1988) and to ensure that their families retain the controlling power. This result is consistent with Wiwattanakantang (1999) who shows that family-owned firms adopt a higher level of financial leverage.

Considering board structure, similar to Wiwattanakantang (1999), we find no effect of board size on financing behaviors, although prior research shows that board size significantly affects leverage ratios (Mehran, 1992; Berger et al., 1997). Board independence also has no effect on financial leverage. The result is in line with similar findings of Anderson and Reeb (2003). However, CEO duality appears to be inversely associated with the use of debt. This finding implies that when CEOs are also chairmen of the boards, they can be entrenched. As a

⁴ We also use another proxy of financial expertise of CEOs as in Malmendier and Tate (2005); however, the results remain the same.

result, they may use less debt to reduce firm risk in order to protect their undiversified human capital (Fama, 1980) or to avoid pressures from making enough cash flows to fulfill debt commitment (Jensen, 1986).

Table 3 The impact of CEO characteristics on a firm's financing behavior

This table reports the results of the pooled OLS regression. The White's standard errors are adjusted for heteroskedasticity. The regression controls for industry effects and year effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

	Leverage ratio	
ROA	-0.396	***
	(0.000)	
Size	0.041	***
	(0.000)	
Tangibility	0.209	***
	(0.000)	
Male	0.023	
	(0.143)	
Age	0.001	
	(0.173)	
Postgraduate	0.021	**
	(0.022)	
International perspectives	-0.015	
	(0.130)	
Financial expertise	-0.013	
	(0.502)	
Political connections	0.026	*
	(0.094)	
Tenure	-0.001	
	(0.555)	
Ownership	0.000	
	(0.687)	
Family CEO	0.035	***
	(0.001)	
Inefficient board size	-0.015	
	(0.242)	
Independence	0.040	
	(0.447)	
Duality	-0.022	**
	(0.033)	
Number of observations	1,356	
Adj R-squared	0.250	

5. Conclusions and Suggestions for Future Research

The descriptive statistics of CEO characteristics show that Thai firms are dominantly managed by male CEOs, accounting for 90% of sample firms. The average age of CEOs is 55 years old. About 50% of CEOs hold a master's degree or above as their highest education. We find that only 4.2% of CEOs have experience in accounting, finance or economics areas. However, more than half of the CEOs of Thai firms studied abroad. CEOs that are politically connected account for 9%. The average CEO tenure is 6.6 years, and Thai firms provide ownership incentives to their CEOs, indicated by CEO shareholdings of 7%, approximately. Consistent with previous findings that a majority of Thai firms are owned by families, almost half of the sample firms are run by CEOs who are members of controlling families.

The regression results show significant effects of CEO characteristics on financing policies, namely postgraduate education, political connections, and family membership of CEOs, supporting the upper echelons theory, the resource dependence theory, and the agency theory. The relationship between CEOs with a postgraduate degree and a leverage ratio is positively significant. CEOs who are politically connected seem to be in an extensive network and thus could help firms acquire higher external financing. Moreover, firms that are managed by family CEOs have a higher leverage ratio, compared to those with professional CEOs.

There are some limitations in this research that, nevertheless, provide future research direction. Although we apply a variety of measures of CEO characteristics, we are aware of other soft factors and psychological attributes of CEOs, which could be considered for further study. In addition, this paper examines the impact of CEO characteristics on firm strategic choices. It could not, however, indicate whether CEO characteristics are beneficial or incur some costs to firms. Therefore, the effect of CEO characteristics on firm performance and value could be further examined to measure the significance of CEO characteristics.

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