CEO Characteristics and Firm Value

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Abstract

This study examines the effects of CEO characteristics on firm value. The samples are non-financial firms listed on the Stock Exchange of Thailand during the period 2001-2005. We move beyond the classic agency theory by classifying CEO characteristics into three groups: biography, networks, and incentives. Our CEO characteristics were developed based on the upper-echelon, resource dependence, and agency theories. The results suggest that the these theories could be used to explain the impact of CEO characteristics on firm value. According to the upper-echelon perspective, CEOs, who are experienced in the business field, are knowledgeable and competent in terms of making good strategic decisions, hence increasing firm value. Based on the resource dependence theory, CEOs with the longest-established university's alumni network are more preferable to Thai firms because they can obtain better access to external resources and useful information than those without such a network. However, the agency theory suggests that old CEOs may lack incentives to serve shareholders' interests because they are entrenched and are not concerned about their future career. Consequently, these CEOs could be

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unfavorable to firms. These results imply that CEO biography and networks play a significant role in determining firm value. Regarding board structure as a control variable, to increase firm value, firms should not have too large a board size and should allow CEOs to have concentrated leadership power by combining the titles of the chairman and CEO.

***Keywords**: CEO Characteristics, Firm Value, Upper-echelon Perspective, Agency Theory, Resource Dependence Theory*

คุณลักษณะผู้บริหารสูงสุดและมูลค่ากิจการ

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บทคัดย่อ

งานวิจัยนี้ตรวจสอบผลกระทบของคุณลักษณะผู้บริหารสูงสุดที่มีต่อมูลค่ากิจการ หน่วยตัวอย่างของการศึกษา ได้แก่ บริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย (ที่ไม่รวมธนาคารและบริษัทเงินทุน) ในระหว่างปี 2544 และ 2548 ผู้วิจัยได้ทำการศึกษาเพิ่มเติมจากทฤษฎีตัวแทน (Agency Theory) ที่ใช้กันแพร่หลาย โดยการแบ่งประเภทของคุณลักษณะผู้บริหารสูงสุดออกเป็น 3 กลุ่ม คือ ประวัติส่วนตัว (Biography) เครือข่าย (Network) และแรงจูงใจ (Incentive) คุณลักษณะผู้บริหารสูงสุดของงานวิจัยนี้ได้รับการพัฒนาบนพื้นฐานของทฤษฎีภาวะผู้นำระดับสูง (Upper Echelons) ทฤษฎีการพึ่งพาทรัพยากร (Resource Dependence Theory) และทฤษฎีตัวแทน ผลการศึกษาเสนอแนะว่า ทฤษฎีเหล่านี้สามารถใช้อธิบายผลกระทบของคุณลักษณะผู้บริหารสูงสุดที่มีต่อมูลค่ากิจการ กล่าวคือ ตามแนวคิด Upper Echelons ผู้บริหารสูงสุดที่มีประสบการณ์ทางธุรกิจจะมีความรู้และความสามารถในการตัดสินใจเชิงกลยุทธ์ได้เป็นอย่างดี อันทำให้มูลค่ากิจการเพิ่มขึ้น ในส่วนทฤษฎีการพึ่งพาทรัพยากรนั้น ผู้บริหารสูงสุดที่มีเครือข่ายศิษย์เก่าของมหาวิทยาลัยที่เก่าแก่ที่สุดส่งผลดีแก่กิจการ เนื่องจากสามารถเข้าถึงทรัพยากรภายนอกและข้อมูลที่มีประโยชน์ได้ดีกว่าผู้บริหารที่ไม่มีเครือข่ายดังกล่าว อย่างไรก็ตาม ทฤษฎีตัวแทนเสนอแนะว่า ผู้บริหารสูงสุดที่มีอายุมากอาจขาดแรงจูงใจในการสนองตอบผลประโยชน์ของผู้ถือหุ้น ซึ่งเป็นไปได้ว่า ผู้บริหารเหล่านี้มีความมั่นคงในตำแหน่งมากเกินไป (Entrenched) และไม่ใส่ใจเกี่ยวกับอนาคตในการทำงาน ดังนั้น

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การมีผู้บริหารสูงสุดที่มีอายุมากจึงทำให้มูลค่ากิจการลดลง ผลการศึกษาทั้งหมดนี้แสดงให้เห็นว่า ประวัติส่วนตัวและเครือข่ายของผู้บริหารสูงสุดมีบทบาทสำคัญในการกำหนดมูลค่ากิจการ ในส่วนปัจจัยด้านโครงสร้างคณะกรรมการที่เป็นตัวแปรควบคุม ผลการศึกษาชี้ว่าในการเพิ่มมูลค่ากิจการ บริษัทไม่ควรมีจำนวนกรรมการมากเกินไป และควรให้ผู้บริหารสูงสุดมีความเป็นผู้นำอย่างเต็มที่ด้วยการให้ผู้บริหารสูงสุดดำรงตำแหน่งประธานคณะกรรมการบริษัทด้วย

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Introduction

As the world becomes more competitive, and neighboring countries begin to cooperate in establishing larger and more cohesive economic communities, many questions arise concerning investments in emerging economies and in the aspects of corporate governance and regulation that influence, among other things, market entry strategies. The characteristics of managers are one of the key criteria that investors are concerned about during their investing decision processes. As the agents of shareholders, the main objective of managers is to maximize shareholders' wealth. The success or failure of firms is also dependent on the capabilities and competency of managers in directing firms to compete in the market.

Several theories discuss the significance of managers in relation to firm value. The upper-echelon perspective categorizes important characteristics of top management into observable and psychological characteristics. These characteristics are associated with firm value (Hambrick, 2007; Hambrick & Mason, 1984). The resource dependence theory describes the value of networks and connections brought by management to obtain external resources and access to useful information, which are beneficial to firms (Pfeffer & Salancik, 1978). The agency theory argues that managerial incentives are a key corporate governance mechanism, which aligns the interests of shareholders and managers (Jensen & Meckling, 1976). The interest alignment would reduce agency problems because it encourages managers to pursue value-added strategies.

Based on the upper-echelon, resource dependence, and agency theories, we developed a set of CEO characteristics of Thai-listed firms, which are categorized into biography, networks, and incentives. CEO biography comprises gender, age, educational levels, business expertise, and international perspectives. CEO networks are identified according to political connections and alumni network. CEO incentives are measured by tenure, ownership, and family membership. We then investigated the impact of these CEO characteristics on firm value.

Our samples are non-financial firms listed on the Stock Exchange of Thailand (SET) during the period 2001-2005. There are several reasons that make Thai firms worth being investigated. First, corporate collapses and accounting scandal of firms during the 1997 Asian financial crisis, of which Thailand has been perceived as the origin, have raised questions about the decisions made by top managers and CEO competency and qualifications. Thai firms might have appointed their CEOs in response to public attention to good governance practices following the crisis. Second, many Thai-listed firms are controlled by families where the CEOs are commonly family members (Bertrand, Johnson, Samphantharak, & Schoar, 2008; Connelly, Limpaphayom, & Nagarajan, 2012; Khanthavit, Polsiri, & Wiwattanakantang, 2004; Wiwattanakantang, 2001). It is likely that the CEO appointment of firms in this economy is different from that in developed countries, where ownership structure is dispersed and family control is not common. For example, controlling families might intervene in the CEO appointment procedures. This practice could lead to poor corporate governance because there might be a lack of effective check and balance mechanisms of boards of directors.

This research provides several contributions to the literature on CEO characteristics and firm value. First, we studied the CEO characteristics of firms in an emerging economy with a concentrated ownership structure, which could be different from those in developed economies with dispersed ownership. Until now, there has been little evidence on the influence of CEO characteristics in emerging economies. Second, a comprehensive set of CEO characteristics was developed and the effects of CEO characteristics on firm value were examined to extend the literature on economic, finance, and organizational theories. We considered other two theories in addition to the agency theory commonly cited in corporate governance literature. More precisely, we examined the impact of CEO characteristics on firm value based on the upper-echelon theory (Hambrick & Mason, 1984), the resource dependence theory (Pfeffer & Salancik, 1978), and the agency theory (Jensen & Meckling, 1976). Third, our research provides implications for corporate governance guidelines in the aspect of CEO characteristics. The knowledge and expertise of CEOs reflect the ability to manage firms, leading to higher competitive advantages. Thus, policy makers should be concerned about how to develop professionalism among the top management of companies. Fourth, networks are considered to be a key institutional characteristic in emerging economies (Bunkanwanicha & Wiwattanakantang, 2009; Espenlaub, Khurshed, & Sitthipongpanich, 2012; Peng, Au, & Wang, 2001;

Siegel, 2007). The network of CEOs is valuable for firms in terms of obtaining external resources and useful information. In countries with weak law enforcement, networks also overcome market failures and help strengthen the trust and reliability of CEOs and their firms.

Our results show the CEO characteristics of Thai firms. Considering CEO biography, we found that only about 10% of Thai firms are run by female CEOs. Around 27% and 45% of CEOs are older than 60 years and hold the highest degree at a master degree level or above, respectively. A majority of Thai CEOs (approximately 80%) have expertise in the business area. In addition, almost two-thirds of CEOs have studied overseas. Regarding CEO networks, about 9% of CEOs are politically-connected and almost 20% of them are connected through the alumni network of the longest-established university in Thailand, Chulalongkorn University. Concerning CEO incentives, we found that the CEOs in our sample have been appointed, on average, for almost seven years. They also hold an average of 7% shareholdings. The presence of family CEOs is commonly found in Thailand. Almost half of the CEOs are members of family-controlling shareholders.

The results of the regression analysis show that CEO biography and network play an important role in determining firm value. We found that CEOs, who are older than 60 years, adversely affect firm value, while CEOs with business expertise increase firm value. The alumni network of CEOs is positively associated with firm value. We also found significant effects of the board structure on firm value. Specifically, larger boards lead to lower value, while CEO duality increases firm value.

This research suggests that the upper-echelon, resource dependence, and agency theories could be used to explain the effect of CEOs characteristics on firm value. Based on the upper-echelon perspective, CEOs that are experienced in the business field are knowledgeable and competent in terms of making good strategic decisions, hence increasing firm value. According to the resource dependence theory, CEOs that belong to an alumni network are more preferable to Thai firms because they obtain better access to external resources and information. However, the agency theory suggests that old CEOs may lack incentives to serve shareholders' interests because they are entrenched and are not concerned about their future career. As a result, old CEOs could be unfavorable to firms.

This research paper is outlined as follows. First, hypothesis development regarding the significance of CEO characteristics on firm value is provided. Then, the details of the data and methodology are described. Next, the empirical findings are discussed. Finally, the conclusion and recommendations are presented.

Hypotheses: CEO Characteristics and Firm Value

CEO characteristics are significant when firms select their management. Hambrick & Mason (1984) suggest that CEO characteristics have an impact on business strategies and firm value. In this section, we develop three sets of hypotheses. First, CEO biography consists of five hypotheses of gender, age, educational level, business expertise, and international perspectives. Second, CEO networks consist of two hypotheses regarding political connections and alumni networks. Third, CEO incentives consist of three hypotheses concerning tenure, ownership, and family membership.

CEO Biography

Gender

The upper-echelon perspective argues that the biography (i.e., demographic characteristics) of top executives, such as gender, age, education, and functional background, is a significant factor that determines organizational outcomes, including corporate strategies and performance (Barker & Mueller, 2000; Hambrick & Mason, 1984). This is because these attributes can serve as good proxies for the cognitive orientation, knowledge base, and ability to process the information of top executives. In addition, the experience, values and personalities of top management have a great influence on how they interpret a situation and, consequently, on the strategic choices made by them (Hambrick, 2007).

Regarding the gender of top management, previous studies have pointed out that women and men are different, for example, in leadership styles, effectiveness, decision-making, communicative skills, aggressiveness, and risk averseness (Byrnes, Miller, & Schafer, 1999; Eagly & Karau, 1991; Eagly, Karau, & Makhijani, 1995; Hyde, 1984; Jianakoplos & Bernasek, 1998; Johnson & Powell, 1994). Fondas & Sassalos (2000) suggest that women bring different points of view and ideas to discussions and hence enhance decision-making. Eagly & Johnson (1990) argue that under contemporary business conditions, the female leadership styles are more effective. Cox, Lobel, & McLeod (1991) and Adams & Ferreira (2009) argue that gender diversity represents differences in the perspectives that persons bring to their work situations or environment.

Empirical evidence on the effect of female top managers on corporate performance has been provided in the literature. Catalyst (2004) has reported for example that the group of Fortune 500 firms with the highest proportion of female top executives shows higher financial performance than the group of firms with the lowest proportion. Likewise, Francoeur, Labelle, & Sinclair-Desgagné (2008) have shown that for firms operating in complex environments, having female managers is associated with positive abnormal stock returns. Dezsö & Ross (2012) found that women involvement in top management is related to better performance of firms of which strategy focuses on innovation. In this paper, we hypothesize that female CEOs could lead to higher firm value. Therefore:

Hypothesis 1 Female CEOs are positively associated with firm value.

Age

Based on the upper-echelon perspective, the age of the top executives plays an important role in managerial strategic actions, which in turn influence firm performance (Hambrick & Mason, 1984). As a CEO gets older, his or her intellectual capabilities are enhanced as a result of the knowledge, experience, and skills gained from the position. Older managers tend to seek more information and evaluate information accurately, while young managers seem to be more able to integrate information when making decisions and are more confident in their decisions (Taylor, 1975). In addition, older managers are likely to be more psychologically committed to the company than younger ones (Stevens, Beyer, & Trice, 1978). Moreover, older managers may avoid risky actions because financial and career securities are important to them (Carlsson & Karlsson, 1970). On the other hand, young managers tend to pursue risky strategies, such as unrelated diversification, product innovation, and debt financing. Accordingly, firms with young managers could show higher growth and variability in profitability when compared to firms with older managers (Hambrick & Mason, 1984).

Considering how CEO age affects firm performance and value, older CEOs have better understanding of the firm and the industry than younger CEOs because of their greater experience. Also, with their greater experience, older CEOs tend to be more effective when engaging in a strategic decision process. Consequently, the presence of old CEOs should enhance firm performance and value. Consistent with this view, Bertrand & Schoar (2003) have demonstrated that age of managers are positively associated with higher accounting profitability.

However, the agency theory suggests that managerial incentives may decrease when managers approach retirement. For old CEOs, concerns about their career that motivate them to serve shareholders' interests become less important (Gibbons & Murphy, 1992). As a result, agency problems are more severe in firms with managers close to retirement. Hence, the presence of older managers is associated with lower firm value (Antia, Pantzalis, & Park, 2010). Nonetheless, Cornett, Marcus, Saunders, & Tehranian (2002) found that CEO age was not significant in relation to operating performance. In this paper, we expected that the presence of old CEOs would enhance firm value because they can make effective decisions as a result of their long experience. Therefore:

Hypothesis 2 Old CEOs are positively associated with firm value.

Education

The upper-echelon theory suggests that the educational background of top management can reflect their knowledge base and intellectual competencies (Hambrick & Mason, 1984). Educational level is associated with open mindedness, tolerance of change, and the ability to evaluate choices (Herrmann & Datta, 2002). Top management with higher educational levels possess greater cognitive complexity, enabling them to learn and accept new ideas (Hitt & Tyler, 1991). Higher-educated managers also seem to be more capable of processing and analyzing information; thus the educational levels of top executives are positively associated with attitudes towards new products and innovation (Bantel & Jackson, 1989; Papadakis & Bourantas, 1998). Accordingly, the CEO's educational background is considered a key factor that determines corporate policies and is important for management appointments (Bertrand & Schoar, 2003; Smith, Smith & Verner, 2006). Smith, Smith & Verner (2006) have shown that the proportion of top managers with higher educational levels has increased over ten years. They also found that education background is a major factor for firms to appoint top management. The fraction of more highly-educated CEOs was found to be positively associated with firm performance. In this paper, it is expected that abilities of CEOs with higher educational levels are valuable for firms. Therefore:

Hypothesis 3 CEOs with higher educational (postgraduate) levels are positively associated with firm value.

Business Expertise

Functional background has a significant impact on a person's characteristics and behaviors. The upper-echelon theory explains that the functional background of CEOs provides the skills to deal with a competitive and dynamic environment (Hambrick & Mason, 1984). The knowledge that managers gain from work experience influences the way they choose strategies and implement them (Gunz & Jalland, 1996). Investors perceive and value the professional qualifications of board members. Yermack (2006) showed that the expertise of directors affects firm value. The business knowledge and experience of directors are useful to firms—stock markets favorably react to the appointments of outside board members that have financial or business knowledge and experience. Additionally, directors' expertise and work experience are positively related to firm performance (Korac-Kakabadse, Kakabadse, & Kouzmin, 2001; Murphy & McIntyre, 2007; Pearce & Zahra, 1991). Bertrand & Schoar (2003) also argue that CEOs with business knowledge from an MBA degree are more aggressive and are positively associated with corporate performance. Accordingly, we hypothesize that the presence of CEOs with business expertise will lead to higher firm value. Therefore:

Hypothesis 4 CEOs with business expertise are positively associated with firm value.

International Perspectives

Managers with an international degree are often perceived as intellectually capable, open minded, and proficient in foreign languages, according to the upper-echelon perspective. Daily, Certo, & Dalton (2000) documented that CEOs with international exposure are important human capital for firms and that their international perspectives could improve firm performance. Norburn (1986) also showed that international experience and the linguistic ability of directors have a positive impact on industry-average performance. In addition, Herrmann & Datta (2002) found that the international perspectives of CEOs are positively associated with foreign market entry decisions. The international exposure of CEOs helps broaden their views and boosts their confidence and ability to estimate risks and returns on investments. This personal attribute equips CEOs with the knowledge and ability to understand how to do businesses in diverse environmental settings. It was expected that CEOs with international perspectives will lead to higher firm value. Therefore:

Hypothesis 5 Internationally-experienced CEOs are positively associated with firm value.

CEO Networks

Political Connections

Based on the resource dependence theory, the connections and networks of managers could help firms obtain external resources, access to useful information, and find financial or strategic partners. They also have an influence on how firms shape their strategies (Geletkanycz & Hambrick, 1997). Among all types of external ties, political connections are commonly found and have a significant impact on firm performance (Agrawal & Knoeber, 2001; Kim & Lim, 2010). The experience and connections of retired bureaucrats are useful for firms that deal with the government (Agrawal & Knoeber, 2001; Miwa & Ramseyer, 2005). In addition, investors perceive the existence of political connections as a major mechanism of firms and firms that are connected to key politicians in the country are considered valuable (Fisman, 2001). Johnson & Mitton (2003) also documented that the stock returns of firms in which the officers or major shareholders have a close relationship with key government officials significantly increase in response to the existence of political connections and vice versa. Their findings are consistent with those of Bunkanwanicha & Wiwattanakantang (2009), who also demonstrated the benefits of political connections in the aspect of law amendment, government concession fee cuts, and tax exemptions. As a result, we hypothesized that the presence of political connections is beneficial to firms. Therefore:

Hypothesis 6 Politically-connected CEOs are positively associated with firm value.

Alumni Networks

According to the resource-based view, efficient utilization of corporate resources is essential in creating a sustainable competitive advantage (Barney, 1991). Such resources include all types of tangible and intangible assets. Managers that have networks with the company's stakeholders and external ties often obtain new resources and different knowledge and information that can be useful during strategic decision-making processes. Prior research has documented that social networks also play an important role in business expansion. Considering alumni networks, the benefits include sharing valuable information, such as job and investment opportunities, and reducing financial transactions (Butler & Gurun, 2012). Cohen, Frazzini, & Malloy (2008) found that fund managers with extensive educational networks perform better than those without such networks. Palmer & Barber (2001) showed that having well-connected executives increases the likelihood of corporate acquisition success. When CEOs are members of elite graduate business schools or privileged social clubs, they are expected to pursue acquisition activities. Moreover, Siegel (2007) documents the positive effect of the CEO's or chairman's alumni network on forming cross-border alliances. In addition, Kauer, Prinzessin zu Waldeck, & Schaffer (2007) have shown that the networking abilities of management team members improve agenda setting and generate strategic alternatives. Accordingly, it was expected that the alumni network of CEOs is valuable and leads to higher firm value. Therefore:

Hypothesis 7 CEOs with an alumni network are positively associated with firm value.

CEO incentives

Tenure

Based on the agency theory, CEO tenure provides managerial incentives to maximize firm value. It is possible that longer tenure can help CEOs develop a higher reputation, leading to greater commitment to the firm. Nevertheless, CEOs that stay at a job for a very long time might be too secure in their job (Yermack, 2004). Hence, having longer-tenured CEOs can lead to poorer firm performance (Kaplan & Minton, 1994).

The upper-echelon perspective asserts that when a manager has been with a firm for a long period, he or she is likely to establish high abilities and skills. It is perceived that CEOs with longer tenure have experienced a more extended learning process and are more able to take charge of decision making processes. Consequently, CEO tenure is positively associated with firm performance (Hambrick, 1991). However, CEOs with longer tenure are more likely to conform to the common practices of the industry, hindering the creation of competitive advantages (Finkelstein & Hambrick, 1990). They might also make strategic decision using out-of-date assumptions (Schwenk, 1993). In this study, we hypothesized that the length of CEO tenure would increase incentives and allow CEOs to gain a deeper understanding of firms in order to generate better strategic choices. Therefore:

Hypothesis 8 CEO tenure is positively associated with firm value.

Ownership

The agency theory states that the interests of a CEO will become more aligned with those of shareholders when he or she holds a higher fraction of corporate ownership (Jensen & Meckling, 1976). Also, managerial stock and option holdings have a significant impact on a firm's investment and financing decisions; thus ownership held by a manager plays an important part in reducing agency problems (Agrawal & Mandelker, 1987). In addition, firms in which managers own higher shareholdings display smaller investment-to-cash flow sensitivity, suggesting that higher ownership reduces agency problems (Malmendier & Tate, 2005). Previous empirical research shows that managerial ownership is positively related to firm performance (Chung & Pruitt, 1996; Morck, Nakamura, & Shivdasani, 2000; Palia & Lichtenberg, 1999).

However, when managers have greater control rights, they will be more insulated from governance mechanisms (Fama & Jensen, 1983; Morck, Shleifer, & Vishny, 1988; Shleifer & Vishny, 1997; Stulz, 1988). At a high level of managerial ownership, managers will become entrenched and agency problems will occur. These managers are likely to pursue their own objectives at the price of other shareholders (DeAngelo & DeAngelo, 1985). Hence, the managerial entrenchment could lead to lower firm performance. In this study, it was expected that CEO ownership would align interests between shareholders and managers. Therefore:

Hypothesis 9 CEO ownership is positively associated with firm value.

Family Membership

A CEO that is a member of the firm's controlling family can greatly influence corporate strategies and have a significant impact on firm performance/value. Controlling families normally have long investment horizons, and thus they are willing to invest in optimal long-term projects (Stein, 1989). Consistent with this view, since family CEOs anticipate transferring the business to their descendants, they tend to have long-term objectives and take actions that are in the firm's interests (James, 1999). The active participation of family shareholders in corporate actions can be a credible control of managerial behaviors (DeAngelo & DeAngelo, 1985; Fama & Jensen, 1983). The family reputation and interactions among the family members also effectively restrain managerial self-dealings (Denis & Denis, 1994; Holderness & Sheehan, 1988). Morck, Shleifer, & Vishny (1988) and Anderson & Reeb (2003) report a positive association between firm performance and the presence of founding family CEOs. Villalonga & Amit (2006) found that family ownership is valuable when the founder is the CEO or the chairman that has a professional CEO.

Nevertheless, with their considerable voting power, family CEOs are more likely and able to take actions that benefit themselves to the disadvantage of other stakeholders. It is also generally perceived that family shareholders tend to appoint a family manager that might be less qualified or capable, relative to a professional manager. In addition, a family shareholder is typically not monitored by other shareholders because a family shareholder is often a company's single large shareholder (La Porta, Lopez-De-Silanes, & Shleifer, 1999). Claessens, Djankov, Fan, & Lang (2002) have indicated that, when compared with firms controlled by widely-held companies or institutional investors, the managers of firms controlled by families have greater potential to expropriate corporate assets for their personal (or family) interests.

In addition, as a result of inefficiency in the labor and capital markets, family CEOs may fill the institutional gaps to overcome market failures (Khanna & Yafeh, 2007; Lee, Peng, & Lee, 2008). With weak institutional systems, access to external resources is often through informal networks and personal connections (Peng, 2003). Family CEOs may have better access to unique resources through the family's extensive networks, which professional managers may not have. In this study, we hypothesized that family CEOs have higher incentives to maximize shareholders' wealth and wider networks to benefit firms. Therefore:

Hypothesis 10 Family CEOs are positively associated with firm value.

Data and Methodology

This section begins with the discussion of our sample and the data sources. Then, the variables, i.e., the CEO characteristics and control variables, are illustrated. Finally, the regression model, which is used to investigate the impact of CEO characteristics on firm value, is described.

Sample

Our sample includes non-financial listed firms during the period 2001-2005. This sample period reflects the CEO characteristics and qualifications in response to the 1997 financial crisis. The distribution of sample firms is shown in Appendix 1.

The information used to construct a set of CEO characteristics is publicly available, and is provided in a 56-1 form submitted to the SET in order to disclose relevant information of the company to the public. In addition, the data on board structure and other firm characteristics are obtained from the SETSMART database, which contains company information on Thai firms listed on the SET. All financial data were winsorized at 1% and 99%.

Firms in the banking and financial sector were excluded because of their non-traditional financial statements. Firms with missing 56-1 forms and financial statements were also removed from the sample. Moreover, we excluded observations from the sample if the firm data were in the year of rehabilitation. However, the missing CEO data of several firms were manually collected by searching the Internet to increase the number of observations. The total number of firm-year observations is 1,356.[1]

CEO Characteristics, Board Structure, and Firm Characteristics

In this study, CEO characteristics are categorized into three groups. The first group is CEO biography, including gender, age, educational levels, business expertise, and international perspectives. The second group is CEO networks, which describe the political connections and alumni networks of CEOs. The last group is CEO incentives, including tenure, ownership, and family membership. We controlled for board structure and firm characteristics. The board structure variables consist of board size, board independence, and CEO duality. Firm characteristics include leverage ratio, size, and firm age.

Methodology

We present the descriptive statistics of CEO, board structure, and firm characteristics of our sample. Regression analysis will then be applied to examine the effects of CEO characteristics on firm value as shown in the following equation.

$$\begin{aligned} Q_{i,t} = \alpha_{i,t} &+ \beta_1 Female_{i,t} + \beta_2 OldAge_{i,t} + \beta_3 Postgrad_{i,t} + \beta_4 Bus_{i,t} + \beta_5 Inter_{i,t} + \beta_6 PolCon_{i,t} + \beta_7 Alumni_{i,t} \\ &+ \beta_8 Tenure_{i,t} + \beta_9 Own_{i,t} + \beta_{10} FM_{i,t} + \beta_{11} BoardSize_{i,t} + \beta_{12} Independence_{i,t} + \beta_{13} Duality_{i,t} \\ &+ \beta_{14} Lev_{i,t} + \beta_{15} Size_{i,t} + \beta_{16} Firmage_{i,t} + \beta_{17} Ind_{i,t} + \beta_{18} Year_{i,t} + \varepsilon_{i,t} \end{aligned}$$

The dependent variable is $Q_{i,t}$, which is a proxy of Tobin's q ratio (measured by the ratio of market value of total assets to book value of total assets). CEO characteristics were classified as follows. $Female_{i,t}$ is a dummy variable that

[1] This sample is also used in Sitthipongpanich and Polsiri (2012).

equals 1 if a CEO is female, and zero otherwise. $OldAge_{i,t}$ is a dummy variable that equals 1 if a CEO is older than 60 years. $Postgrad_{i,t}$ is a dummy variable that equals 1 if a CEO obtains a master degree or above, and zero otherwise. $Bus_{i,t}$ is a dummy variable that equals 1 if a CEO has worked in an area of management, marketing, accounting, finance or economics, and zero otherwise. $Inter_{i,t}$ is a dummy variable that equals 1 if a CEO obtained a degree abroad, and zero otherwise.[2] $PolCon_{i,t}$ is a dummy variable that equals 1 if a CEO is a former government, police or military officer, and zero otherwise. $Alumni_{i,t}$ is a dummy variable that equals 1 if a CEO graduated from Chulalongkorn University.[3] $Tenure_{i,t}$ is the number of years since an individual was appointed as a CEO. $Own_{i,t}$ is measured as the percentage of ownership held by a CEO. Finally, $FM_{i,t}$ is defined as a dummy variable that equals 1 if the CEO is a family member of family-controlling shareholders, and zero otherwise.

Board structure factors are used as the control variables. $BoardSize_{i,t}$ is the number of directors on board. $Independence_{i,t}$ is measured by the fraction of independent directors on board. $Duality_{i,t}$ is a dummy variable that equals 1 if the CEO also holds the position of chairman of the board, and zero otherwise. Other control variables are firm characteristics, which include $Lev_{i,t}$ (measured by the ratio of total debt to total assets), $Size_{i,t}$ (measured by the natural logarithm of total sales), and $Firmage_{i,t}$ (the number of years since establishment).

Empirical Analyses

In this section, we discuss the results of our empirical investigation. We first describe the characteristics of CEOs. Then, we present the descriptive statistics of board structure and firm characteristics. In addition, we provide the results of the multiple regression analysis regarding the impact of CEO characteristics on firm value.

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[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.

[3] Chulalongkorn University is the most elite and longest-established university in Thailand. It was established on 26 March 1916 as the first university. Because of the long history of the university, graduates of this institution could be linked to extensive social networks and are considered as graduates from the most prestigious university.

Descriptive Statistics of CEO Characteristics

Table 1 provides the 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, female CEOs are not common. Only around 10% of the sampled firms appointed female CEOs. We found that 27% of CEOs were older than 60 years. About 45% of CEOs had a master degree or above as the highest degree. CEOs with expertise in management, marketing, accounting, finance, or economics were found in about 80% of the sample firms. In addition, the results show that 61% of CEOs studied abroad. Concerning CEO networks, about 9% and 20% of the CEOs of firms were politically-connected and were alumni of Chulalongkorn University, respectively.

Table 1: Descriptive Statistics of CEO Characteristics

CEO Characteristics	Mean
Biography	
Percentage of female CEOs	9.88
Percentage of CEOs that are older than 60 years	27.06
Percentage of CEOs that had obtained a master degree or above	44.69
Percentage of CEOs whose expertise is management, marketing, accounting, finance, or economics	80.90
Percentage of CEOs that have an international education	61.36
Networks	
Percentage of CEOs that are a former government, police, or military officer	9.07
Percentage of CEOs that are alumni of Chulalongkorn University	19.47
Incentives	
Length of CEO tenure	6.60
Percentage of CEO shareholdings	6.86
Percentage of CEOs that are members of the firm's controlling family	44.69

The last category of CEO characteristics is CEO incentives. The results show that the average tenure of Thai CEOs is almost seven years. We also found that the average CEO holds about 7% of total shareholding. Around 45% of the sample firms appointed their CEOs from members of the controlling families.

Descriptive Statistics of Board Structure Firm Characteristics

The descriptive statistics of board structure and firm characteristics are provided in Table 2. We found that there are, on average, about 11 directors on board. Independent directors account for approximately 32% of total directors. Around 24% of CEOs were also appointed as the chairpersons of the boards. Regarding firm characteristics, the average value of Tobin's Q ratio is 1.23. The mean value of leverage ratio, measured by total debt to total assets, is almost 25%. The average value of total assets of the sample firms is 9,662 million baht. The average age of sample firms is nearly 25 years.

Table 2: Descriptive Statistics of Board Structure and Firm Characteristics

Variables	Mean	Standard Deviation	Median	Min	Max
Board structure					
No. of directors on board	11.37	3.20	11	5	25
Percentage of independent directors	31.66	9.61	30.00	12.00	83.33
Percentage of firms with CEO duality	23.75	42.57	-	-	-
Firm characteristics					
Tobin's Q ratio	1.23	0.67	1.03	0.43	4.60
Total debt to total assets (%)	24.77	20.95	21.53	0.00	78.85
Total assets (million baht)	9,662	23,170	2,407	309	167,978
Firm age (years)	25.07	14.69	22.38	0.07	129

Regression Analysis: The Impact of CEO Characteristics on Firm Value

The results of the regression analysis regarding the impact of CEO characteristics on firm value are presented in Table 3. Considering CEO biography, the gender of CEOs is not associated with firm value. Therefore, we rejected Hypothesis 1. This result is consistent with Wolfers (2006), who showed that firms with female and male CEOs are not different in terms of stock performance. However, we found that the presence of old CEOs (i.e., CEOs that are older than 60 years) negatively affects the value of Thai firms. Hence, we rejected Hypothesis 2. This finding supports the argument by Antia, Pantzalis, & Park (2010), that as CEOs become older, the agency conflicts tend to be more severe, thus reducing firm value. It is also possible that investors perceive old CEOs as too conservative and not innovative; thus they value firms with older CEOs lower than firms with younger CEOs.

Considering the educational level of CEOs, although Bertrand & Schoar (2003) argue that a CEO's educational background (MBA degree) increases firm performance, our findings show that the postgraduate degree of CEOs does not have an impact on firm value. Thus, we rejected Hypothesis 3. However, the results show that the presence of CEOs with business expertise leads to higher firm value. Therefore, we accepted Hypothesis 4. This implies that investors are willing to invest in firms whose CEOs have knowledge and previous experience in the business area. The investors may believe that those CEOs could initiate and direct business strategies for firms (Gunz & Jalland, 1996), hence increasing firm value. The results in Table 3 also show that firm value is not associated with the fact that CEOs studied abroad, even though Herrmann & Datta (2002) documented that CEOs with wider views from their international experience would have diverse abilities and be useful for firms. Hence, we rejected Hypothesis 5.

Regarding the impact of CEO networks on firm value, we found no significant effect of the CEO's political connection on firm value. Therefore, we rejected Hypothesis 6. The results did not support the benefits of political connections, for example, that politically-connected top executives could help firms sustain their businesses in a competitive environment (Ghemawat & Khanna, 1998). Nevertheless, we found that the alumni network of CEOs was positively associated with firm value,

Table 3: The Impact of CEO Characteristics on Virm Value

	Tobin's Q Ratio	
CEO biography		
Female	0.051	
	(0.382)	
Old age	-0.084	**
	(0.037)	
Postgraduate	-0.047	
	(0.182)	
Business expertise	0.206	***
	(0.000)	
International perspective	-0.042	
	(0.291)	
CEO networks		
Political connection	-0.068	
	(0.189)	
Alumni network	0.096	*
	(0.064)	
CEO incentives		
Tenure	-0.003	
	(0.361)	
Ownership	0.000	
	(0.895)	
Family membership	-0.026	
	(0.504)	
Board structure		
Board size	-0.019	***
	(0.007)	
Independence	-0.229	
	(0.316)	
Duality	0.086	*
	(0.056)	
Firm characteristics		
Leverage	-0.214	**
	(0.013)	
Size	0.089	***
	(0.000)	
Firm age	-0.003	**
	(0.027)	
Number of observations	1,356	
Adj R-squared	0.1963	

Remark: (1) White's standard errors are adjusted for heteroskedasticity.

(2) The regression controls for industry effects and year effects.

(3) *, **, *** indicate statistical significance at 10%, 5%, 1% levels, respectively.

(4) Figures in parentheses report the p-value for two-tailed tests.

supporting the notion that friends from an elite university could help CEOs obtain useful information and external resources. Thus, we accepted Hypothesis 7. This is consistent with the findings of Siegel (2007) that having the right friends could lead to preferential favors and benefits.

Concerning CEO incentives, none of the incentive variables is significant. Therefore, we rejected Hypotheses 8, 9 and 10. The length of CEO tenure was not seen to be a factor determining firm value, which is similar to the findings of Cornett, Marcus, Saunders, & Tehranian (2002), who showed that CEO tenure was not related to operating performance. We also found no evidence for the impact of CEO ownership. This finding may suggest that managerial shareholdings could not be used as incentives for Thai CEOs. In addition, the presence of family CEOs was not associated with the value of firms. This result implies that investors view family and professional CEOs indifferently, or both types of CEOs are equally capable in terms of creating value for the firms.

Board structure appeared to have a significant impact on firm value; a smaller board size leads to better firm value. This implies that large boards might adversely affect communication and coordination in Thai firms, as documented by Jensen & Zajac (1993) and Lipton & Lorsch (1992). Our findings regarding the effect of board size on firm value confirmed the results of Eisenberg, Sundgren, & Wells (1998), Mak & Kusnadi (2005), and Yermack (1996). CEO duality was positively associated with firm value. The positive effect of CEO duality on firm value suggests that CEO duality provides ambiguous leadership in formulating and implementing corporate strategies, resulting in better performance (Stoeberl & Sherony, 1985). This result supports the stewardship theory, which argues that CEO duality establishes an essential and significant unity of authority at the top level of the firm (Donaldson and Davis, 1991). However, board independence was not a significant determinant of firm value, which is in line with several previous studies (Baysinger & Butler, 1985; Bhagat & Black, 2002; Cho & Kim, 2007; Dalton, Daily, Ellstrand, & Johnson, 1998; Hermalin & Weisbach, 1991; Kiel & Nicholson, 2003; Klein, 1998; Mehran, 1995; Peng, 2004; Pi & Timme, 1993). Moreover, this finding may imply that the independent directors of Thai firms are not truly independent because they are somehow associated with the controlling shareholders. Thus these independent directors do not effectively perform their role.

Regarding the effects of firm characteristics, we found that they were significant factors determining firm value. Specifically, the relationship between firm size and firm value was positively significant. The larger firms have lower information asymmetric problems; therefore they are more valuable to investors. However, the leverage ratio was negatively related to firm value, showing that the higher financial risk of debt financing deteriorates firm value. Firm age was also negatively associated with firm value, implying that the older firms seem to have lower growth opportunity, thus leading to lower firm value.

Conclusion and Recommendations

Using the data of non-financial listed firms in Thailand, we examined how CEO characteristics affect firm value. The regression results show the significant effects of CEO biography and networks. In particular, business expertise and alumni networks of CEOs are valuable to firms. Our findings confirm that the expertise of CEOs reflects the abilities and knowledge of CEOs in managing firms. Furthermore, our results support the idea that networks are one of the key institutional characteristics in emerging markets. However, we found only the value of the alumni networks of an elite university in Thailand, not that of political connections.

The negative impact of old CEOs on firm value suggests that older age of CEOs is an unfavorable characteristic. The benefits of greater experience provided by old CEOs could be lower than the costs of fewer incentives to manage firms in the long run. In addition, we found the influence of board structure on firm value. More precisely, smaller board size is more valuable to firms, suggesting a more effective monitoring role. Finally, CEO duality appears to enhance the value of Thai-listed firms, implying that CEOs should exhibit strong and clear-cut leadership.

Our research makes both theoretical and empirical contributions to previous studies. Theoretically, our results confirm that it is necessary to consider three important theories, the upper-echelon, the resource dependence, and the agency theories, when examining the significance of CEO characteristics for firms. Empirically, we found that the business expertise of CEOs is significant for firms in today's dynamic and competitive business environment. Given the similar features of institutional frameworks among Asian countries (Globerman, Peng, & Shapiro, 2011), this result yields additional evidence for relevant authorities to widen their viewpoints about human resource development.

Furthermore, evidence about social networks is needed to reflect the organizational practices and institutional characteristics in a specific country. This study provides additional findings to previous research (Palmer & Barber, 2001; Siegel, 2007), which examined the importance of networks from elite regional high schools, colleges or universities. They showed that such social networks are significant for business expansion. Consistent with the resource dependence theory, our findings confirm that the university alumni network is valuable for firms in Thailand. Even though the results support the idea that CEOs could acquire critical resources for firms through their extensive networks, such benefits may lead to resource-sharing problems and place non-connected groups at a competitive disadvantage.

Although the older age of CEOs represents greater experience, our results do not support the benefits of having old CEOs (i.e., CEOs that are older than 60 years). For these CEOs, their concern about future career becomes less important and hence their incentives to serve shareholders' interests become smaller. Our research suggests that firms with old CEOs should design a proper managerial compensation package or prepare a management succession plan.

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Appendix 1: Distribution of Sample Firms by Year and Industry

Industry	Year					
	2001	**2002**	**2003**	**2004**	**2005**	**Total**
1) Agribusiness and Food Industry	29	34	37	36	37	173
2) Consumer Products	34	35	34	34	35	172
3) Industrials	37	36	41	45	58	217
4) Property and Construction	35	46	53	63	73	270
5) Resources	8	11	13	16	18	66
6) Services	51	60	65	74	78	328
7) Technology	20	20	27	31	32	130
Total	**214**	**242**	**270**	**299**	**331**	**1,356**