CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The chief executive officer (CEO) is generally regarded as the most powerful organizational member. CEOs can have an impact on firm performance by adapting their organizations' missions, strategies, structures and cultures to their companies' environments. Moreover, CEO is the key person within the firm that creates, perceives and pursues opportunities, and become the leader that drives the differences in organizational performance. He can also be critical change agents, by developing a vision and strategy, establishing a sense of urgency, forming a "guiding coalition" to help the firm, creates a short-term wins to build momentum, and institutionalizing new approaches. There are examples of CEOs who make a major change in the firms such as Carlos Ghosn from Nissan Motor and Lee Raymond from Exxon Mobil. In Thailand, it has had a best CEO of the year award announced by the Stock Exchange of Thailand since several years ago.

This paper investigates the relationship between CEO's characteristics and firm performance of the listed companies in Thailand for better understanding about the importance of CEO, improving the efficiency of management structure and providing an additional tool for the board of directors when choosing a new CEO.

The sample contains 1,248 observations from listed firms in the Stock Exchange of Thailand on eight industries; Agro & Food, Consumer Products, Financials, Industrials, Property & Construction, Resources, Services and Technology between years 1999 -2004 excluding the firms having a change of CEO in that year. All CEO's characteristics are collected from form 56-1. The others data are collected from

Datastream and Setsmart. CEO's characteristics are divided into seven attributes; relationship with founding families, having other insider on board, concentration of titles (Chairman and CEO), business related educational background, age, ownership and tenure. This study uses yearly stock return, industry adjusted return on assets and industry adjusted Tobin's Q as proxies for firm performance. All hypotheses are tested by running OLS regression of firm performance on CEO's characteristics plus control variables; financials industry dummy, leverage, firm size, firm age, CAPEX/Sales, board independence and block shareholders.

This study provides several findings about the relationship between CEO's characteristics and firm performance. Firstly founder related CEO has a negative effect on industry adjusted Tobin's Q. This result implies that founding families focus on their own interest rather than shareholders' wealth. Second, combined titles between CEO and Chairman have a positive effect on industry adjusted Tobin's Q. This result shows that CEO who holds both titles is more beneficial to the firm.

Third, CEO's ownership has a positive effect on yearly stock return and industry adjusted Tobin's Q. This outcome finds that insider ownership provides an incentive for CEO to perform better and also finds that insider ownership has an invert U-shaped relationship with industry adjusted return on assets and industry adjusted Tobin's Q. Although a small number of shares is an effective tool to boost the firm performance, large number of shares makes him becoming entrenched in his job and he may indulge in non-value maximizing activities without being disciplined by shareholders. Finally, age, business related educational background and tenure do not affect firm performance. This result explains that the degrees and working experiences cannot be enough to enhance his skills and abilities to make a difference in business competitions.

Moreover, this paper examines the same relationship in different environment by dividing the sample into two sub samples; years 1999-2001 and years 2002-2004 and run the previous OLS regression in each period. This study finds that most characteristics affect the firm performance in the first period. However, their effects are disappeared in the second period except CEO's ownership which boosts its effect over time due to increased number of outsider CEO. Next, the invert U-shaped relationship between insider ownership and firm performance is stronger in the second period due to enhancing ownership effect. Furthermore, age and having other insider on board still do not affect firm performance in both periods. Lastly, business related educational background effect is inconclusive and need further research to find it out.

5.2 Limitation

The limitations of this paper are related to data sources. First, this study based on disclosed data from form 56-1. Next, it does not include the founder descendant CEO who has the different last name from firm's founders.

Moreover, survival bias may be occurred because the data is collected from listed firms on eight industries between years 1999-2004. These firms have a financial status strong enough to survive from crisis in 1997.

5.3 Recommendation

This study has examined the relationship between CEO's characteristics and firm performance. However, there are additional factors that should be considered for future research. First, it might be extended to other characteristics such as compensations or previous jobs experiences and other key persons of the firm such as Chairman or other executives.

Next, the effect of CEO's characteristics and firm performance in the case of Thailand and other developing countries such as Korea and Malaysia should be taken into comparison. Finally, adding of new control variables such as firm risk or liquidity ratio may provide new findings about this relationship.