CHAPTER I

INTRODUCTION

1.1 Background and Problem Review

The chief executive officer (CEO) is generally regarded as the most powerful organizational member. This title has unique characteristics that are different from other top management team members. It includes corporate influence (e.g., tenure, functional background), domestic influence (e.g., education, marital status), and self-concept (e.g., management style) (Norburn,1989).

CEOs can have a substantial impact on firm performance by adapting their organizations' missions, strategies, structures and cultures to their companies' environments. They make material strategic choices that can influence firm performance. These strategic choices include "not only the establishment of structural forms but also the manipulation of environmental features and the choice of relevant performance standards." (Child, 1972:2). 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. First, Carlos Ghosn nicknamed "Le Cost Killer". He joined Nissan as a Chief Operating Officer in June 1999 to bring the Japanese carmaker back from the seven years of losses. After becoming President in June 2000, he pledged to return Nissan to profit within a year or step down. He broke the traditional business models such as Japanese labor unions and the Nissan "keiretsu" (a corporate family of suppliers and customers built around a complex web of cross-ownerships) by closing plants, laying off workers, and cutting ties with suppliers that did not meet his standards. Finally, he reduced the debt from $13 billion to $10 billion and turnaround the company from a $5.6 billion loss in year 2000 to $2.5 billion record profit in year 2001. Next is Lee Raymond from Exxon Mobil. He was promoted to Chairman and CEO in year 1994. He set new standards of capital and cost efficiency such as transforming natural gas into liquid form and acquisition of Mobil in 1999 which generating $4.6 billion in annual cost saving. Finally, he made $4.29 billion US record quarterly profit in the third quarter of year 2000.

This paper discusses about how the CEO's characteristics will affect firm performance in Thailand. 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. The sample contains data on all listed firms from eight industries; Agro & Food, Consumer Products, Financials, Industrials, Property & Construction, Resources, Services and Technology in the Stock Exchange of Thailand between years 1999 -2004 excluding the firms having a change of CEO in that year and using OLS regression to test the hypotheses.

1.2 Statement of Problem / Research Question

Do CEO's characteristics affect the firm performance of listed firms in Thailand?

1.3 Objective of the Study

Investigate the relationship between CEO's characteristics and firm performance of listed firms in Thailand

1.4 Scope of the Study

The sample contains data on all listed firms from eight industries; Agro & Food, Consumer Products, Financials, Industrials, Property & Construction, Resources, Services and Technology in the Stock Exchange of Thailand between years 1999 -2004 excluding the firms having a change of CEO in that year.

1.5 Contribution

This study provides empirical evidence about relationship between CEO's characteristics and firm performance in Thailand. It can help the firm for better understanding about the importance of its CEO and improve the efficiency of its management structure which leads to better firm performance. It also provides an additional tool for the board of directors when choosing a new CEO. Moreover, it can help the investor for better understanding about firm's management structure.

1.6 Organization of the Study

The remaining of this paper is organized as following. Chapter 2 discusses the literature reviews, the theoretical background of the study. It reviews how the CEO's characteristics affect firm performance. Chapter 3 describes the data source and methodology. It discusses the CEO's characteristics measurement, firm performance measurement and hypotheses testing. Chapter 4 shows the results of both descriptive statistics and regression analysis. Finally, summary and recommendations are provided in the Chapter 5.