



## Firm Performance of Thai CEOs in the SET100: Foreign or Locally Educated?

Veerisa Chotiyaputta<sup>1\*</sup> and Yong Yoon<sup>2</sup>

<sup>1</sup> International College, Panyapiwat Institute of Management, 85/1 Cheangwattana Road, Bang Talad, Parkkred, Nonthaburi 11120, Thailand

<sup>2</sup> Faculty of Economics, Chulalongkorn University, 254 Phayathai Road, Pathumwan, Bangkok 10330, Thailand

---

### ABSTRACT

**Objective** – This paper investigates firm performance effected by foreign-educated or locally educated CEOs in the SET100 listed firms of Thailand.

**Methodology/Technique** – By examining the resumes of 198 CEOs of Thailand's 100 largest Thai listed companies over the past 16 years (2000-2015), this paper compares the effects on the means and variance of the CEO succession by presenting four cases: when (1) locally-educated Thai CEO is replaced by a foreign-educated Thai CEO, (2) foreign-educated Thai CEO is replaced by a locally-educated Thai CEO, (3) locally-educated Thai CEO is replaced by another locally-educated Thai CEO, and (4) foreign-educated Thai CEO is replaced by another foreign-educated Thai CEO.

**Findings** – It was found that the appointment of foreign-educated CEOs in the SET100 is associated with improved firm performance with respect to the mean-variance approach if (s)he replaces a locally-educated CEO. However, firm's performance deteriorated if a foreign-educated CEO replaces another foreign-educated CEO. Moreover, replacing a foreign-educated CEO with a locally-educated CEO also resulted in improved firm performance.

**Novelty** – Findings suggest that switching to foreign-educated CEOs from locally-educated CEOs, and vice-versa, can help improve firm performance, thereby indicating the merit of some kind of 'disruption' effect as relates to CEO replacement.

**Type of Paper:** Empirical

**Keywords:** Performance of Foreign-Educated CEOs; CEO Succession; Mean-Variance Approach; Thailand SET.

**JEL Classification:** I21, M10.

---

### 1. Introduction

Thai CEOs educated abroad have begun to take up important business leadership positions in major Thai companies. There are several reasons and implications for this trend. Looking at the characteristics of CEOs, Bertrand and Schoar (2003), Malmendier and Tate (2009) and Kaplan et al. (2012) argued that the characteristics of CEOs may correlate with firm performance. In particular, CEOs' knowledge and expertise tend to enable them to make superior organizational decisions (Li, et. al., 2014). Likewise, their networks also help to bring in critical resources which can offset external uncertainties (EI-Khatib et al., 2015). This paper

---

\* Paper Info: Received: September 7, 2016

Accepted: December 6, 2016

\* Corresponding author:

E-mail: [veerisacho@pim.ac.th](mailto:veerisacho@pim.ac.th)

Affiliation: International College, Panyapiwat Institute of Management, Thailand

aims to understand if foreign-educated CEOs are really different in terms of delivering better firm performance. Cragun et. al. (2016), reviews 227 articles published after 1994 examining the causes, process, replacement, and consequences of CEO succession. This paper also examines the consequences of CEO succession on firm stock market performance. More specifically, this paper compares the means and variance of pre-succession CEOs and their successors. Some studies find that CEOs' educational experience from prestigious universities (Chevalier and Ellison, 1999), CEOs' ability (Falato et. al., 2015; Demerjian et. al., 2012) and their reputation (Jian and Lee, 2011) seem to matter positively. Other studies (Aron & Matthew, 2006) found evidence which suggests otherwise. Theoretically there could be a down-side to foreign-education, like candidates missing out on opportunities to accumulate local business and social resources such as political connections and local network ties (Allen et al., 2005; Faccio, 2006; Correia, 2014; El-Khatib, et. al., 2015). Be as it may, firm performance could go either way: a foreign-educated CEO may or may not add value to firms as a result of his/her foreign education. In this paper, the impact of foreign-educated Thai CEOs appointed among the SET100 companies in Thailand over the past 16 years (2000-2015) on stock market performance is examined.

## 2. Methods

### 2.1 Data description and summary

A total of 198 biographies of CEOs appointed between 2000 and 2015 by Thai firms listed in the SET100<sup>1</sup> was selected. These biographies came from the typical short CEO biographies which contain the CEO's information on name, age, gender, educational background and work experience<sup>2</sup>. These were then collected and analysed. In total, 69.2% of the CEOs appointed by the SET100 firms during the period under study were foreign-educated CEOs (i.e. as having some formal education abroad). Only 30% of the CEOs had some work experience abroad before taking a CEO position in the SET100 Thai companies.<sup>3</sup> The sectorial composition of the SET100 companies being examined include six in technology, five in services, six in industrials, six in resources, 31 in property and construction, 13 in financials and six in agro and food services sectors.<sup>4</sup>

The period starting January 2000 and ending December 2015 was covered and it consisted of 12,327 CEO-months data points of which, foreign-educated CEOs occupied 9,103 months (74% of period under study). In the samples covered, the average tenure was noted to be 62 months with a standard deviation of 59 months (minimum tenure was 2 months and maximum was 192 months, corresponding to those CEOs that were not replaced during the period of study). A total of 56 companies had only a single CEO over the period of study while for those companies that experienced CEO succession, there was an average of about two changes and a maximum of seven successions in a single firm.

### 2.2 Methodology

This paper adopted the mean-variance approach to measure the CEO's performance by comparing the stock market performances of two adjacent CEO's that is, out-going CEO and his/her replacement. Three measures of stock market performances were considered namely (1) raw returns, (2) excess returns above the return on the SET100 index and (3) sectorial excess returns (i.e. firm's return above the return on the respective sectorial index).<sup>5</sup> More specifically, when using the raw monthly returns of the SET100 listed firms as reported by the

<sup>1</sup> One company and 7 CEOs were not included in the final sample because of unavailable information.

<sup>2</sup> All CEOs were male, which means that our sample is not representative of CEOs in Thai companies in general. Our sample excludes CEOs with no disclosed biography, foreign CEOs and interim CEOs in office for less than 180 days.

<sup>3</sup> The results presented in the following section remain unchanged and robust even after the sample was reconstructed by removing CEOs with foreign experience.

<sup>4</sup> SPCG Public Co. Ltd. (STEEL Intertech before 2011) is now classified under resources but was industrial before 2011.

<sup>5</sup> For (2) arithmetic means are used. For (3) consistent sectorial index is available only for series starting from 2004-present period, hence analysis is done only for 10 years.

Stock Exchange of Thailand, the monthly geometric mean returns for a CEO was calculated by formula (1) as well as its variance.

$$\bar{r}_{Geo,i} = \left( \prod_{t=1}^T r_{t,i} \right)^{1/T} \quad (1)$$

where  $\bar{r}_{Geo,i}$  is the geometric mean and  $r_{t,i}$  is the monthly return for CEO  $i$  from month  $t = 1$  to terminal month  $T$ . For “excess” returns of each CEO,  $\tilde{r}_{t,i} = r_{t,i} - r_{SET}$ , where  $r_{SET}$  is the monthly return calculated from the SET100 index. Here, the arithmetic mean rather than the geometric mean and its variance were considered. Similarly, for excess returns vis-à-vis sectoral indices, the arithmetic mean and its variance were computed.

Four distinct cases were considered:

*Case 1 (0-1):* Locally-educated Thai CEO is replaced by foreign-educated Thai CEO

*Case 2 (1-0):* Foreign-educated Thai CEO is replaced by locally-educated Thai CEO

*Case 3 (0-0):* Locally-educated Thai CEO is replaced by another locally-educated Thai CEO

*Case 4 (1-1):* Foreign-educated Thai CEO is replaced by foreign-educated Thai CEO

The classical difference-in-means t-test with degree of freedom  $(n_i - 1) + (n_j - 1)$  was employed, where  $n_i$  and  $n_j$  represent the months worked by CEO  $i$  and  $j$  respectively (pre-succession CEO and his/her successor) so as to determine whether the mean performance differs. The quality of variance F-test with degrees of freedom  $\nu_1$  and  $\nu_2$  corresponding to CEO with higher and lower variance respectively was also employed so as to determine whether there were any differences in variances (or risk).

### 3. Results

This section summarizes the results of the empirical analysis.

#### 3.1 Comparison of means

Table 1 shows whether the mean returns of a CEO succession increases, decreases or remains unchanged as compared to his/her predecessor who were classified according to the four cases mentioned above. In other words, whether a locally-educated Thai CEO was replaced by a foreign-educated Thai CEO (0-1) or whether a foreign-educated CEO was replaced by a locally-educated CEO (1-0) or whether a locally-educated CEO was replaced by another locally-educated CEO (0-0) or whether a foreign-educated CEO was replaced by another foreign-educated CEO (1-1), the results drawn depict some differences.

Table 1. Comparison of mean performance following a change in CEO.

SwitchType <sup>1</sup>	No. of Companies	No. of Switches	Event before vs. after	Raw returns (t-stat)	Excess returns (t-stat)	Sectorial excess returns <sup>2</sup> (t-stat)
0-1	13	14	Rise	7.64***	5.62***	11.28***
1-0	13	14	Rise	9.67***	13.02***	15.01***

0-0	8	11	Fall	-0.04	-7.45***	-5.52***
1-1	31	60	Fall	-18.34***	-22.5***	-8.24***

Note: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . Geometric mean for “raw returns”, Arithmetic mean for excess returns.

1) “0” denotes locally-educated and “1” foreign-educated; hence 0 – 1 means previous CEO was locally-educated and replaced by foreign-educated CEO.

2) Sectoral excess returns are computed from 2004-2015 therefore, entries in columns 2 and 3 do not correspond to entries in column 7.

As can be seen from Table 1, at the 1% statistically significant level, replacing a locally-educated Thai CEO with a foreign-educated Thai CEO (i.e. 0-1) resulted in improved performance<sup>6</sup>. However, replacing a locally-educated CEO with a locally-educated CEO (i.e. 0-0) generally resulted in poorer performance (although this is not statistically significant when using raw returns<sup>7</sup>). Further, firm performance dropped when a foreign-educated CEO was replaced by another foreign-educated CEO (i.e. 1-1) but firm performance improved when foreign-educated CEO was replaced by a locally-educated CEO (i.e. 1-0). It was also noted that firm performance also improved when a locally-educated CEO replaced a foreign-educated CEO (i.e. 0-1). Surprisingly, these findings show that firm mean-performance improves if a switch is made from locally-educated Thai CEO to foreign-educated Thai CEO, and vice-versa.

### 3.2 Comparison of variance

Table 2 summarizes the empirical results comparing the variance of the monthly returns of a CEO and his/her successor which are classified according to the four cases of interest mentioned above.

Table 2. Comparison of performance variance following a change in CEO.

Switch Type <sup>1</sup>	Raw returns	Excess returns	Sectorial excess returns <sup>2</sup>
0-1	Drop (1.08**)	Drop (1.31**)	Rise (1.14)
1-0	Drop (3.59***)	Drop (3.81***)	Rise (1.23***)
0-0	Drop (1.81***)	Drop (1.70***)	Drop (1.30***)
1-1	Drop (1.42***)	Drop (1.34***)	Drop (1.08***)

Note: (F-stat) in parenthesis; \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

1) “0” denotes locally-educated and “1” foreign-educated; hence 0 – 1 means previous CEO was locally-educated and replaced by foreign-educated CEO.

In general, replacing a CEO, whether having foreign-education or locally educated, is associated with a reduced variance in the performance measure. Although sectorial excess returns tends to rise when a switch is made from a foreign-educated CEO to a locally-educated CEO, and vice-versa, it is not statistically significant

<sup>6</sup> When using the arithmetic mean instead of the geometric mean for raw returns, positive returns are also associated with 0-1 switch but was found to be statistically insignificant.

<sup>7</sup> This is statistically significant at the 1% level if arithmetic instead of the geometric mean is used for raw returns.

for the latter case. Overall, whether it was the intention of the board or not, the reduction in variance or risk associated with CEO succession suggests a “stabilization” effect of CEO succession in the SET 100 firms.

#### 4. Discussion

This paper studies the CEO succession of the SET 100 firms over the period of 2000-2015 (16 years), with respect to the CEOs’ educational background and the impact they made on firm stock market performance. The paper found that the appointment of a foreign-educated Thai CEOs is associated with improved firm performance if he/she was replaced by a locally-educated Thai CEO. However, firm performance tends to deteriorates if a foreign-educated Thai CEO replaces another foreign-educated Thai CEO. In both cases, variance tends to decrease, reflecting some stabilizing effect of replacing a CEO. This suggests some value-added effect of foreign education on firm performance. This study also found that replacing a foreign-educated CEO with a locally-educated CEO was associated with improved firm performance. The results were robust even when controlling for foreign experience. However, it was noted that the scope of this paper was limited to the empirical investigation of performance only. It did not consider other important aspects of the CEO succession such as the decision to replace a CEO, the processes including criteria (other than education such as timing, strategy, other environmental contexts, etc.), legal issues, compensation, and so on. Be as it may, some twenty years ago, Kesner and Sebora (1994) noted that CEO succession is an essential element in organizational sustainability. The findings of this study provide additional support to suggest that “disruption” with regards to switching the education type of CEO succession can have beneficial effects on firm performance.

#### Acknowledgements

The authors would like to acknowledge the assistance of Harit Posanakul, Prim Vatanotai, Nantawit Pongthong, and Qiong Wu (Heather) for making this research and paper possible. The authors would also like to express their gratitude to participants in the ADBI-Chulalongkorn Joint Workshop on Fiscal Policy, Financial Inclusion, Macroeconomics, and Health Economics hosted by the Asian Development Bank Institute on 14 January 2016 in Tokyo, Japan for their invaluable comments.

#### References

- Allen, F., Qian, J., & Qian, M. (2005). Law, finance, and economic growth in China. *Journal of Financial Economics*, 77(1), 57-116.
- Aron, G. A., & Morrey, M. R. (2006). Manager education and mutual fund performance. *Journal of Empirical Finance*, 13(2), 145-182.
- Bertrand, M., & Schoar, A. (2003). Managing with style: the effect of managers on firm policies. *Quarterly Journal of Economics*, 118 (4), 1169-1208.
- Chevalier, J., & Ellison, G. (1999). Are some mutual fund managers better than others? Cross-sectional patterns in behaviour and performance. *Journal of Finance*, 54(3), 875-899.
- Correia, M. M. (2014). Political connections and SEC enforcement. *Journal of Accounting and Economics*, 57(2), 241-262.
- Cragun, O. R., Nyberg, A. J., & Wright, P. M. (2016). CEO succession: what we know and where to go? *Journal of Organizational Effectiveness: People and Performance*, 3(3), 222-264.
- Demerjian, P., Lev, B., & McVay, S. (2012). Quantifying managerial ability: a new measure and validity tests. *Management Science*, 58(7), 1229-1248.
- El-Khatib, R., Fogel, K., & Jandik, T. (2015). CEO network centrality and merger performance. *Journal of Financial Economics*, 116(2), 349-382.
- Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96(1), 369-386.
- Falato, A., Li, D., & Milbourn, T. T. (2015). To each according to his ability? CEO pay and the market for CEOs. *Management Science*, forthcoming.

- Jian, M., & Lee, K. W. (2011). Does CEO reputation matter for capital investments? *Journal of Corporate Finance*, 17(4), 929-946.
- Kaplan, S. N., Klebanov, M. M., & Sorensen, M. (2012). Which CEO characteristics and abilities matter? *Journal of Finance*, 67 (3), 971-1005
- Kesner, I. F., & Sebor, T. C. (1994), Executive succession: past, present & future. *Journal of Management*, 20 (2), 327-373.
- Li, F., Minnis, M., Nagar, V., & Rajan, M. (2014). Knowledge, compensation, and firm value: an empirical analysis of firm communication. *Journal of Accounting and Economics*, 58 (1), 96-116.
- Malmendier, U., & Tate, G. (2009). Superstar CEOs. *Quarterly Journal of Economics* 124 (4), 1593-1638.