RELATIONSHIP BETWEEN CEO CHARACTERISTICS, OWNERSHIP CONCENTRATION AND SPEED OF ADJUSTMENT ON LEVERAGE IN SELECTED ASIAN COUNTRIES

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By

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Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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RELATIONSHIP BETWEEN CEO CHARACTERISTICS, OWNERSHIP CONCENTRATION AND SPEED OF ADJUSTMENT ON LEVERAGE IN SELECTED ASIAN COUNTRIES

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Awareness of recapitalisation transaction costs in capital structure decisions has led to the introduction of dynamic capital structure. Since then, academicians have investigated the average speed of adjustment towards target leverage and their findings revealed that the speed varied across firms, industries, countries, and years. Hence, they analysed the determinants of the heterogeneous speeds. Nevertheless, the true nature of the determinants is yet to be revealed. To fill the research gap, this study examined the determinants of the speed of adjustment towards target leverage from the upper echelons perspective.

Firstly, this study estimated the average speed of adjustment. Next, the impact of chief executive officers' (CEOs') characteristics on the speed of adjustment towards target leverage was investigated, followed by the effect of ownership concentration on the speed of adjustment towards target leverage. Finally, this study analysed the moderating effect of ownership concentration on the relationship between CEOs' characteristics and speed of adjustment towards target leverage.

To conduct the analysis, the two-step System Generalised Method of Moments (SYS-GMM) was employed, with samples from ASIAN countries, specifically ASEAN (Malaysia, Singapore, Indonesia, and Thailand) from

2007 to 2017. For pooled full sample, this study affirmed that ASEAN firms were under-adjusted towards the target leverage. Furthermore, this study revealed that CEOs' education level improved the speed of adjustment while their age and experience impaired it. In addition, this study exposed the efficient monitoring tasks of large shareholders on the speed of adjustment, whereby they exerted their influence over older and more experienced CEOs in adjusting more quickly towards the target leverage.

Based on the cross-country analysis, this research revealed a heterogeneous average speed of adjustment across the countries. Moreover, this study discovered the importance of CEOs in defining the speed of adjustment decisions for each country. Not only that, this research also unveiled the role of large shareholders in solving (Malaysian and Singaporean firms) or exacerbating (Indonesian and Thai firms) CEOs' entrenchment behaviour in adjusting towards the target leverage. Furthermore, large shareholders were revealed to exercise their voting rights based on the amount of readjustment transaction costs.

One of the implications of the findings is the financial markets can provide more financing choices to ASEAN countries for the improvement of under-adjusted financing behaviour. Besides that, CEOs shall acquire more knowledge and skills that reduce the risk aversion behaviour towards the speed of adjustment. For the benefit of shareholders' wealth, large shareholders may have to exercise their voting rights to enforce decisions that maximise the return from their investment.

This study contributes to the capital structure in several ways. It serves as a platform to explicitly communicate the determinants of the Dynamic Capital Structure (Speed of Adjustment towards target leverage) based on the Upper Echelons Theory (UET) (CEOs' Age, Education, and Experience) and Agency Theory (AT) (Ownership Concentration). Additionally, the findings have added to the literature on the role of managerial competency (individualism) within collectivist culture in making the firm decisions.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

HUBUNGAN DIANTARA CIRI-CIRI KETUA PEGAWAI EKSEKUTIF (CEO), PEMUSATAN PEMILIKAN, DAN KELAJUAN PELARASAN STRUKTUR MODAL DI NEGARA ASIAN TERPILIH

Oleh

CHUA MEI SHAN

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Struktur Modal Dinamik telah diperkenalkan selepas kesedaran mengenai kos transaksi permodalan, dimana struktur modal semasa adalah berbeza dengan struktur modal sasaran. Semenjak itu, ahli akademik mula mengkaji faktor-faktor yang menyumbang kepada perbezaan tersebut dan ianya adalah bergantung kepada kelajuan pelarasan. Ahli akademik telah membukitkan yang bahawa kelajuan pelarasan struktur modal adalah berbeza mengikut firma, industri, negara, serta tahun. Perbezaan tersebut telah mendorong ahli akademik untuk meneruskan kajian ke peringkat yang lebih mendalam iaitu menganalisa faktor-faktor penentu di sebalik kadar kelajuan tersebut. Berdasarkan kajian-kajian yang telah dijalankan, penentu sebenar untuk kelajuan pelarasan masih belum di kenal pasti. Oleh itu, tesis ini adalah mengisi jurang kajian dengan mengkaji faktor "upper echelons" sebagai penentu kepada kelajuan pelarasan struktur tersebut.

Pertama, tesis ini telah menganggar kelajuan purata pelarasan struktur modal. Kedua, ia mengkaji impak ketua pegawai eksekutif (CEOs) terhadap kelajuan pelarasan struktur modal. Ketiga, ia menyiasat impak pemusatan pemilikan (OC) terhadap kelajuan pelarasan tersebut. Akhirnya, tesis ini menganalisa kesan penyederhanaan pemusatan pemilikan di antara hubungan ciri-ciri CEOs dan kelajuan pelarasan struktur modal.

Untuk mencapai objektif-objektif tesis ini, Negara ASIAN secara khususnya Negara ASEAN (Malaysia, Singapura, Indonesia, dan Thailand) telah digunakan sebagai sampel kajian. Dengan menggunakan kaedah "two-step System Generalised Method of Moments"dari tempoh 2007 hingga 2017, keputusan keseluruhan sampel menunjukkan firma-firma ASEAN tidak berada di struktur modal sasaran. Seterusnya, kajian ini mendapati yang bahawa hanya tahap pendidikan CEOs merupakan penentu yang meningkatkan kelajuan pelarasan tetapi umur dan pengalaman yang dimiliki oleh CEOs menyebabkan kelajuan pelarasan ke arah struktur modal sasaran berkurang. Selain itu, tesis ini juga mendedahkan yang bahawa pemegang saham besar mampu memainkan peranan penting sebagai pemantau untuk mengawasi tingkah laku CEOs yang lebih berumur dan berpengalaman luas supaya menyelaraskan struktur modal sebenar ke struktur modal sasaran dengan kadar yang lebih laju.

Seterusnya, tesis ini menjalnakan kajian untuk negara masing-masing. Keputusan menunjukkan yang bahawa kadar kelajuan pelarasan adalah berbeza di setiap Negara. Sehubungan dengan itu, kajian ini membuktikan yang kelajuan pelarasan struktur modal adalah ditentukan oleh CEOs. Tambahan pula, tesis ini memaparkan kepentingan pemegang saham besar sebagai pemantau untuk mengurangkan konflik diantara CEOs dan pemegang saham di Malaysia dan Singapura, dimana mereka mengurangkan sikap CEOs yang mengutamakan kepentingan diri sendiri ke sikap yang lebih mengutamakan kepentingan pemegang saham semasa membuat keputusan untuk menyelaraskan struktur modal. Namun begitu, keputusan tersebut adalah disebaliknya untuk Negara Indonesia dan Thailand.

Implikasi kajian ini adalah seperti berikut: 'capital market' harus menyediakan lebih banyak pilihan pembiayaan kepada firma-firma ASEAN supaya boleh meningkatkan kelajuan pelarasan struktur modal. Selain itu, CEOs haruslah memperoleh lebih banyak pengetahuan dan kemahiran untuk mengurangkan perilaku keengganan menyelaras struktur modal dengan kadar yang lebih laju. Bagi faedah kekayaan kesemua pemegang saham, pemegang saham besar harus menguatkuasakan hak mengundi supaya keputusan yang dibuat adalah memaksimumkan pulangan pelaburan mereka.

Tesis ini menyumbang kepada pembelajaran struktur modal dalam beberapa cara. Ia berfungsi sebagai platform untuk menjelaskan penentu kelajuan pelarasan struktur modal dengan menggunakan "Upper Echelons Theory"

(UET) dan "Agency Theory" (AT). Di samping itu, penemuan kajian ini telah menambahkan ilmu dalam sastera penyelarasan struktur modal tentang peranan kecekapan pengurusan dalam budaya kolektivist.

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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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LIST OF ABBREVIATIONS

%	Percentage
<	Less than
>	More than
ACCA	Associations of Chartered Certified Accountants
ADB	Asian Development Bank
AFC	Asian Financial Crisis
AFR	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
AT	Agency Theory
CEOs	Chief Executive Officers
CFA	Chartered Financial Analyst
GDP	Gross Domestic Product
IDX	Indonesia Stock Exchange
IMF	International Monetary Fund
KLSE	Kuala Lumpur Stock Exchange
LTD	Book value long-term debt ratio
MM	Modigliani and Miller
GROWTH	Firms' growth
NDTS	Non-debt tax shield
OC	Ownership concentration
OLS	Ordinary Least Squares Estimator
POT	Pecking Order Theory
PROF	Firms' profitability
SET	Stock Exchange of Thailand

SGX	Singapore Exchange
SIZE	Firms' size
SOA	Speed of Adjustment
STD	Book value short-term debt ratio
SYS-GMM	System Generalised Method of Moments
TANG	Asset tangibility
TD	Book value total debt ratio
TOT	Trade-off Theory
UET	Upper Echelons Theory
UK	United Kingdom
USA	The United States

CHAPTER 1

INTRODUCTION

1.1 Background of Study

The relaxation of two basic assumptions, which are no bankruptcy costs and no corporate taxes from the Modigliani and Miller's (1958) Irrelevance Theory led to the introduction of static trade-off capital structure theory (Kraus and Litzenberger, 1973). The theory emphasises the importance of balance off between the present value of interest tax shield and the present value of financial distress in which it refers to optimal capital structure or leverage, a phenomenon that maximises firm value.

However, this theory received criticism from Kane, Marcus and McDonald (1984) stating that bankruptcy cost alone may not fully explain the capital structure behaviours; instead, other factors such as moral hazard could be the reason for the firms to be unable to adjust the capital structure before outstanding due. Build upon their model, Fischer, Heinkel and Zechner (1989) incorporated the transaction costs due to recapitalisation costs into the static trade-off theory and introduced the dynamic trade-off capital structure theory. Similar to the static trade-off theory, it also highlights the existence of optimal leverage (also known as target leverage), but the firms may be unable to adjust towards the desired or target leverage instantaneously as a result from transaction costs. Such situation causes the firms to distance away from the optimal capital structure. For the reason that suboptimal leverage means a loss of firm value (Mukherjee and Wang, 2013), Liao, Mukherjee, and Wang (2015) suggested that any deviation should be removed quickly.

The studies of dynamic capital structure are divided into two phases. In the first phase, researchers such as Flannery and Rangan (2006) as well as Getzmann, Lang and Spremann (2015) looked into only the average speed of adjustment (hereafter, SOA) that can be directly obtained from the dynamic capital structure model. As time evolves, the researchers found that the average speed of adjustment is heterogenous, which can differ from firms, time, industry as well as country setting. The heterogenous level of the average SOA led the dynamic capital structure studies to further investigate the factors that cause the differences of the SOA where the dynamic capital structure model is developed into the speed of adjustment model in identifying the determinant of the SOA (Haron, Ibrahim, Nor, and Ibrahim, 2013b), which would be the second phase.

To a large extent, the researchers looked into the observable factors such as firm characteristics, macroeconomic variables and conditional setting as the determinants for the SOA. For example, Fitzgerald and Ryan (2018) found that firm size, growth opportunities, and dividend policy are the matters for the SOA while Buvanendra, Sridharan and Thiyagarajan (2018) showed that profitability, non-debt tax shield, firm size and growth contributed some of the SOA heterogeneous decisions. In the macroeconomic setting, Amjed and Shah (2016) pointed out the role of inflation and interest rate in influencing the SOA. The conditional setting studies placed a condition of the experimental and control group as the factors to identify the SOA determinants. For instance, Faulkender, Flannery, Watson, and Smith (2012) reported different SOA for firms with cash flow realisations and firms without cash flow realisations, whereas Zeitun, Temimi and Mimouni (2017) observed the impact of the pre-financial crisis and post-financial crisis on firms' SOA decisions.

In Asia, specifically the ASEAN, the dynamic capital structure study is considered an area that is yet to be fully explored. Past studies like those by Jantarakolica and Sakayachiwakit (2015) studied the capital structure decisions for ASEAN-5 (Malaysia, Singapore, Indonesia, Thailand and the Philippines) merely based on the static trade-off model (without the SOA), whereas Nor, Haron, Ibrahim, Ibrahim and Alias (2011) as well as M'ng, Rahman and Sannacy (2017) considered the dynamic nature of leverage by including the adjustment costs in the capital structure decisions model for Malaysia, Singapore, and Thailand. In the meantime, researchers such as Haron et al. (2013b) (Malaysia), Haron, Ibrahim, Nor, and Ibrahim (2013a) (Thailand) and Soekarno, Kitri, and Utomo (2015) (Indonesia) took deeper steps by studying the speed of adjustment determinants, but only from a single country perspective. With these little amounts of empirical evidence, a question was created on how the ASEAN made capital structure decisions in a dynamic way. Conversely, the first contribution of this study is to examine the adjustment costs and speed of adjustment from ASEAN.

Although previous researchers have made an effort to study the determinant of SOA (commonly based on observable factors), Fitzgerald and Ryan (2018) stated that the true nature of the adjustment has yet to be revealed. This fashioned an issue of whether or not unobservable factors are linked to the SOA decisions. In a related study using corporate governance mechanism as a medium, Liao et al. (2015) accentuated the role of manager (also known as the agents and commonly refer to the Chief Executive Officers (CEOs)) as the determinant of SOA, but how they react to the SOA is depending on the quality of corporate governance, which signifies that a CEO has a role in determining the SOA, but has been indirectly emphasised.

From the strategic management theory (Upper Echelons Theory), the CEOs have been theoretically proven to have a direct influence in various disciplines (Hambrick, 2007; Hambrick and Mason, 1984). For example, Wang, Holmes, Oh, and Zhu's (2016) meta-analytic study indicated that the CEOs could be matter to strategic decisions like acquisition, divestiture, financial leverage, and product innovation, which ultimately influence firms future performance. Commonly, the CEO characteristics like age, education, and working experience have become the center for the researchers to study the CEOs' influence on firms' strategic decisions and performance. These characteristics are used to represent the skills, intellectual knowledge, and experience possessed by CEOs that would determine their ability and competency in managing firm operations.

From the ASEAN evidence, the researchers have established the direct linkage between CEO characteristics and capital structure, but have little incentive to extend the static trade-off model to the speed of adjustment model. The study conducted by Lee and Yeo (2010) (Asia – including Malaysia, Singapore, Indonesia, Thailand and the Philippines), Ting, Azizan, and Kweh (2015) (Malaysia) as well as Sitthipongpanich and Polsiri (2012) (Thailand) only studied the relationship between CEOs and capital structure decision based on the static trade-off model, whereas in a recent study by Matemilola, Bany-Ariffin, Azman-Saini and Nassir (2017) (Malaysia) has been given more effort by including the adjustment costs in the model, but still not to the extent of speed of adjustment model.

Given this little knowledge regarding the direct influence of CEOs and capital structure decisions from dynamic perspective, this study was motivated to investigate the relationship of CEOs characteristics and speed of adjustment towards target leverage. It is important to study the implications from CEOs perspective because the CEOs are the key persons who made the firms' strategic decisions and ultimately determine the success or failure of the firms (Sitthipongpanich and Polsiri, 2012; Matemilola et al., 2017). Hence, the second contribution of this study is in examining the direct influence of CEO characteristics and SOA.

A similar issue is presented regarding ownership concentration as a corporate governance variable. Majority of the ASEAN firms are operating under a concentrated ownership structure. Under this ownership structure, the large shareholder often has a voting power to influence the management to protect their shareholders' interest. Hence, firms with higher agency cost often benefited from the controlling effect of the large shareholder that reduces agency conflict. The corporate governance variable is commonly used as the moderating variable in the board characteristics-firm

performance and CEOs ability-firm performance (end product of the firms); however, it is hard to find a study that used ownership concentration as the moderating variable in observing the relationship between CEOs characteristics and capital structure decisions (a medium that determines firm performance), specifically the speed of adjustment towards target leverage. Studying from this perspective is the third contribution of this study. Meanwhile, the final contribution examines the sole effect of ownership concentration on the SOA towards target leverage as it has been deemed as quality governance in a weak market for corporate control and high ownership concentration like ASEAN.

1.1.1 Background of ASEAN

This section provides the business environment of ASEAN and an overview of the selected variables used in this study.

1) The ASEAN market has distinctive features compared to western countries. The literature revealed that the ASEAN capital market is underdeveloped than the advanced western countries, especially the capital market from emerging countries. The role of the capital market is to facilitate the allocation of capital for productive use; nevertheless, in an underdeveloped capital market environment, the capital market may not be as efficient as the well-functioning capital market in mobilising the formation of capital (Amjed, 2016). The underdeveloped capital market may raise the adjustment costs and slow down the adjustment towards target capital structure (Ahmad and Etudaiye-Muhtar, 2017). Besides, Getzmann et al. (2015) showed higher adjustment costs for Asia (including Malaysia, Singapore, Indonesia and Thailand) compared to Europe and USA. Likewise, Ahmad and Etudaiye-Muhtar (2017) added that different financial market development may impact the financial decision in different ways, which would make it hard to generalise the empirical results generated from the western countries to ASEAN.
2) The most distinctive feature of ASEAN to western countries is ownership structure. Most of ASEAN firms are closely held and controlled by families and government. In this environment, the degree of asymmetric information is high, thus increasing the costs of capital (Haron, 2014a). This is likely to induce the difficulty to borrow at the external market as borrowing externally requires transparency of the firms' information (Farooq, 2015; Rajan and Zingales, 1995). As such, this study suggests that the difficulty to borrow externally may influence the SOA in a different way compared to that of western countries.

3) The market for corporate control for ASEAN is weak where the hostile takeover is rare (Lee and Yeo, 2010). Weak external governance mechanism to discipline the incumbent management of debt becomes more important to act as a controlling tool to control CEO entrenchment behaviour (Berglöf, 1990). This feature signifies the significance to study capital structure decision from ASEAN perspective.
4) ASEAN firms are operating under a collectivist culture (Antonczyk and Salzmann, 2014) where group participants are more prevalent in making firms decision. In this culture, CEO decision making may be partly influenced by other top management decisions. This may create a challenge in assessing the individualism effect in the firm decision; however, Matemilola et al. (2017) argued that the CEO is the one who would make the decision of firm capital structure.

All these features provide ASEAN as a suitable environment to study the relationship between CEO characteristics and speed of adjustment towards target leverage decisions. However, in this study, the sample only came from four ASEAN countries namely Malaysia, Singapore, Indonesia and Thailand due to the unavailability of CEOs' characteristics and large shareholder information from other ASEAN countries to generate a balanced panel data. Although Singapore may differ in regard to a developed capital market compared to Malaysia, Indonesia and Thailand, it was chosen as a sample because of its similarity with the other three countries regarding concentrated ownership structure and collectivist culture that are likely to influence the capital structure decision in similar a manner.

In addition, the increase of debt usage in ASEAN from the year 2007 to 2017 made the importance for the researchers to investigate the determinants of capital structure from ASEAN countries. This is because debt does not only supply the capital to the firms, but also act as a disciplinary mechanism to discipline the managers. The following paragraphs illustrate the total debt, long-term debt, short-term debt used in this study based on selected countries in total. Figure 1 shows the total debt level of the four ASEAN countries from 2007 to 2017. Despite a little reduction in 2015, the debt level of ASEAN firms followed an increasing trend throughout the years, which signified an increasing use of debt as a funding resource. This could be due to the increasing development of the capital market after the Asian Financial Crisis 1997, which in return, has a better allocation of debt resources in the market. The total debt in ASEAN countries was significantly represented by the amount of long-term debt, whereas short-term debt was accounted for 14% of the total debt (source: data stream and author's own calculation).

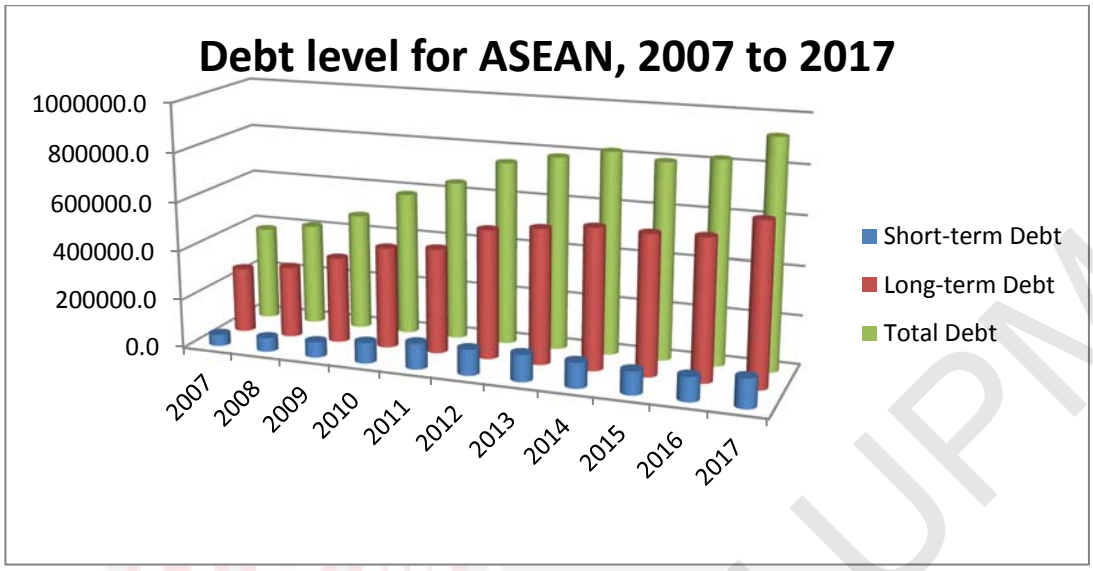

Figure 1 : Debt Level of Four ASEAN Countries (Malaysia, Singapore, Indonesia, and Thailand) from 2007 to 2017
(Source: Author's own calculation from the raw data obtained from Datastream from the year 2007 to 2017.)

What is more, the statistical result of CEOs characteristics and ownership structure background in ASEAN provides a reasonable reason for researchers to conduct this study using ASEAN countries. The statistical result of CEO age in ASEAN showed that firms are managed by CEOs as young as 30 years old and by CEOs as old as 92 years old. The oldest CEOs come from Thailand firms. The average age was 55 years old with 55% of the CEOs who were older than 55 years old, whereas 45% were younger than 55 years old (Figure 2).

In the meantime, the descriptive result of CEO education showed that ASEAN firms are not only run by CEOs with diploma and lower education level (minimum=1), but also CEOs with a doctorate degree (maximum=5). On average, ASEAN firms are led by CEOs with lower than professional qualification. (mean = 2.87). This could be due to a significant portion of the CEOs with a bachelor degree and diploma. As illustrated in Figure 3, 49% (bachelor degree plus diploma and lower) of the CEOs owned lower than average education level while 51% (professional qualification, master degree, and doctorate degree) of the CEOs owned higher than average education level.

From the CEO experience descriptive statistics, several ASEAN firms are managed by CEOs with only one year of working experience while others are managed by CEOs with as much as 84 years of total working experience.

On average (mean = 28), the ASEAN firms are managed by CEOs with 28 years of total working experience. Figure 4 displays that 53% and 47% of the firms are managed by CEOs with less than and more or equal to 28 years of total working experience, respectively.

As defined from its definition, it is expected that CEOs with a higher mean value of age, educational level and experience have more skills, competency and ability. However, descriptive statistics analysis showed that the substantial amount of CEOs' age (45%), education level (49%) and working experience (53%) were below the mean value, which in return suggests that ASEAN firms could be managed by CEOs with less ability, skills and competency. Thus, this study emphasised the importance to study the CEOs' age, education level and experience in accessing their ability in making firms' decisions.

In the four selected countries, the number of shares held by the largest shareholder are as little as 1.07% of the firms' total shares or as much as 98.15%. This shows that some ASEAN firms are widely held while others are closely held. On average, the largest shareholder held approximately 39% of the ASEAN firms' total shares, which suggests that the majority of the ASEAN firms are closely held. This study found that 190 firms (47.5%) are above the average value, while 210 (52.5%) are below (Figure 5). Furthermore, when applying the widely used 20% cut-off point to identify concentrated ownership firms, this study proved the existence of ownership concentration of ASEAN firms whereby 83% of the 400 firms are closely-held, whereas only 17% are widely held (Driffield, Mahambare and Pal, 2007; Deesomsak, Paudyal, and Pescetto, 2004; Claessens, Djankov and Lang, 2000). The drawback of too high ownership concentration is when the large shareholder uses their voting right to expropriate the minority shareholders. If the large shareholders do not execute the monitoring tasks and involved in governance using their power for their own benefits, the firm performance will be likely to deteriorate. With approximately half of the firms having higher than average ownership concentration value, the firms are exposed to higher expropriation risk; this suggests the importance to study ownership concentration from the ASEAN perspectives.

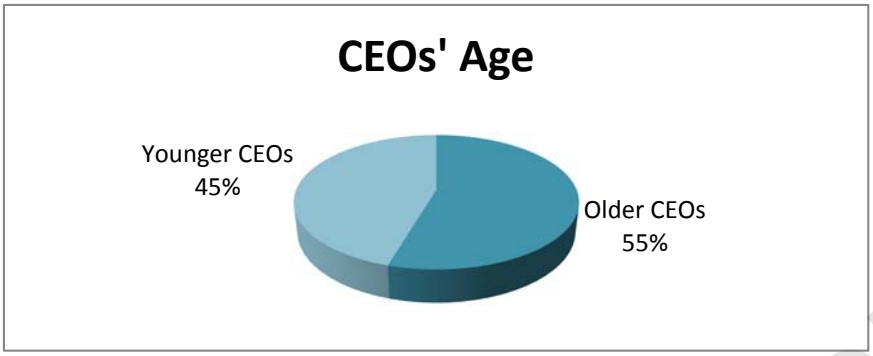

Figure 2 : Age of ASEAN firms' CEOs
(Source: Author's own calculation from the raw data of CEO age obtained from Datastream from the year 2007 to 2017.)

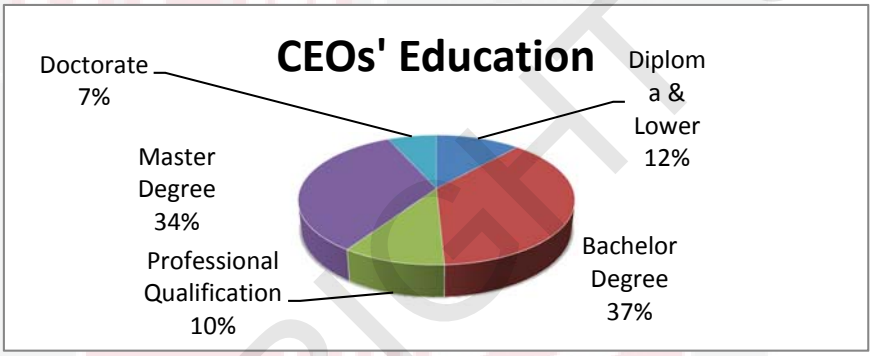

Figure 3 : Education Level of ASEAN firms' CEOs
(Source: Author's own calculation from the raw data of CEO education obtained from Datastream from the year 2007 to 2017.)

Figure 4 : Experience of ASEAN firms' CEOs
(Source: Author's own calculation from the raw data of CEO experience obtained from Datastream from the year 2007 to 2017.)

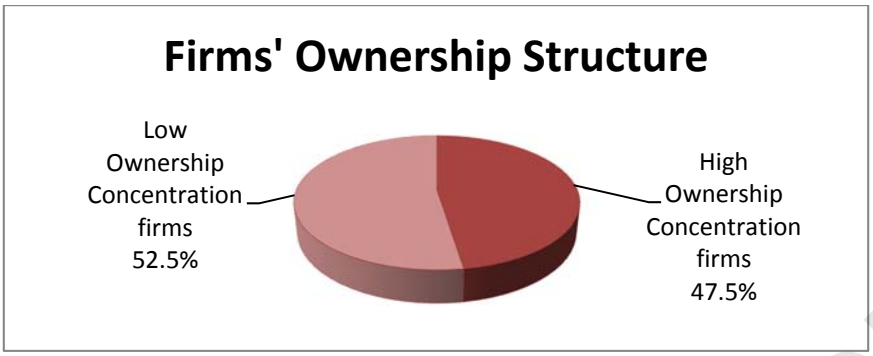

Figure 5 : Ownership Structure of ASEAN firms
(Source: Author's own calculation from the raw data of ownership concentration obtained from Datastream from the year 2007 to 2017.)

1.2 Problem Statement

The consequence of suboptimal leverage cannot maximise firm value. The adjustment of leverage to the optimal level depends on the cost of adjustment. The higher the cost, the slower the speed of adjustment towards target leverage. Amjed and Shah (2016) indicated an increase of one unit in the speed of adjustment that led to the increase of firm performance by 28.36%. In other words, the decrease of one unit in the speed of adjustment can cause the decrease of firm performance in a similar direction. This suggests the importance of the speed of adjustment towards target leverage to achieve an outstanding firm performance.

In ASEAN, until now, the speed of adjustment studies has much focused on the first stage of dynamic capital structure model, but the speed of the adjustment model in the second stage remained unexplored. Due to this circumstance, the determinant of the speed of adjustment has yet to be fully discovered.

Turning to the theoretical point, since Morellec, Nikolov and Schurhoff (2012) challenged the neoclassical view that managers are homogenous and selfless input to the production process in affecting the speed of adjustment, which emphasised the entrenchment behaviour of managers as the causes for slower adjustment, followed by Hambrick and Mason (1984) who have long recognised that managers affect the firms strategic decisions and ultimately affect the firm performance, researchers still overlooked the effect of manager characteristics on the speed of adjustment towards target leverage decisions.

Likewise, although most of ASEAN firms are operating under concentrated ownership structure that has been long acknowledged as a good governance mechanism to control the agency conflict, the ownership concentration relations to the speed of adjustment towards target leverage has not become the greater concern from the researchers.

As ownership concentration increases, a reverse impact may occur if large shareholders have a greater intention to fulfil their own benefits rather than the benefits of all shareholders. As there would be two-fold impact from the ownership concentration, the ownership concentration should moderate the relationship between managers' characteristics and speed of adjustment towards target leverage. Nevertheless, this ownership concentration issue has received inadequate attention from the studies on finance.

This study serves as a platform to transmit fruitful knowledge to the investors, policymakers, managers and academicians regarding the behaviour of CEOs in making firms' decision. The CEOs are important human capital for firms' future directions. However, if their competency and ability are not clearly defined, there will be implications. The first implication is that potential investors will be deprived of empirical evidence regarding the skilful CEOs that will assist their investment decisions. The second implication is that policymakers may not obtain information about CEOs' competence, ability or skill that would provide input on the ASEAN recent effort to build world-class organisations that boost the revenue growth of the region. The third implication is that CEOs will be fell short of important knowledge that may encourage them to systematically update their skills especially in a competitive business environment. The fourth implication is that academicians will not be directly accounted for vital unobservable factors such as CEOs' age, education and experience that affect the speed of adjustment decisions of ASEAN listed firms. The last implication is that ownership concentration may be ignored when making capital structure decisions in a dynamic way.

1.3 Research Objectives

The main objective of this study was to investigate the determinants of the speed of adjustment towards target leverage for ASEAN firms. To achieve the research objectives, a sample of four selected ASEAN countries from the period of 2007 to 2017 were examined. By using the two-step System Generalised Method of Moments (SYS-GMM), this study first estimated the average speed of adjustment and determinants of the target leverage. Then, the determinants of the speed of adjustment towards target leverage for ASEAN firms were investigated. Specifically, the objectives were as follows:

1) To estimate the average speed of adjustment towards target leverage for ASEAN firms.
2) To investigate the effect of CEOs' characteristics (age, education level, and working experience) on the speed of adjustment towards target leverage for ASEAN firms.
3) To investigate the effect of ownership concentration on the speed of adjustment towards target leverage for ASEAN firms.
4) To investigate the moderating effect of ownership concentration on the relationship between CEOs' characteristics (age, education level, and working experience) and speed of adjustment towards target leverage decisions for ASEAN firms.

1.4 Research Questions

Based on the research objectives, the research questions were:

1) What is the average speed of adjustment towards target leverage for ASEAN firms?
2) What is the effect of CEOs' characteristics (age, education level, and working experience) on the speed of adjustment towards target leverage for ASEAN firms?
3) What is the effect of ownership concentration on the speed of adjustment towards target leverage for ASEAN firms?
4) To what extent does ownership concentration moderate the relationship between CEOs' characteristics and speed of adjustment towards target leverage decisions for ASEAN firms?

1.5 Significance

1.5.1 Theoretical Contributions

This study has made several contributions to the capital structure literature. Firstly, this study has applied the Dynamic Capital Structure Theory to examine capital structure decision for ASEAN countries. Unlike Jantarakolica and Sakayachiwakit (2015) that investigated Malaysia, Singapore, Indonesia and Thailand firms without considering adjustment costs like those in dynamic capital structure theory, this study included the dynamic nature of leverage in providing the result of average speed of adjustment towards target leverage for ASEAN countries. Furthermore, this study used larger sample size (Malaysia, Singapore, Indonesia and Thailand) than researchers such as M'ng et al. (2017), Ting (2016) and Nejad and

Wasiuzzaman (2015) (Malaysia), Soekarno, Kitri and Utomo (2016) and Haron (2016) (Indonesia), and Haron et al. (2013a) (Thailand) that only focused on one single country to improve the generalisability of their results. What is more, this study covered updated time-frame (2007 to 2017) to provide more recent results for the SOA to explain the heterogeneous of the SOA from time to time. Moreover, majority of past empirical studies (Fitzgerald and Ryan (2018) (UK), Getzmann et al., (2015) (Asia, Europe, and USA) and Flannery and Rangan (2006) (USA)) were from the USA, UK and other Asian countries with only a little attention given to ASEAN solely. Thus, this study has provided updated knowledge regarding the average speed of adjustment towards target leverage from the ASEAN context.

Secondly, this study has investigated the direct influence of managerial impact on the speed of adjustment. Unlike Buvanendra et al. (2018), , Buvanendra, Sridharan and Thiyagarajan (2017), as well as Liao et al. (2015) that showed the impact of CEOs depending on the corporate governance, this study established a direct relationship between CEOs' age, CEOs' education, CEOs' experience and SOA. Although this study can be linked to that of Lin, Hu and Li (2018) that investigated the impact of CEO ability and SOA, this study made its contribution in regard of using more direct measures of CEOs' ability than the managerial index (Mishra, 2014). Hence, this study contributed new knowledge regarding how CEOs' age, education level, and total working experience influence the speed of adjustment for ASEAN firms. These findings have added to the dynamic capital structure literature on the role of managerial competency (the individualism) within the collectivist culture to define the speed of adjustment for ASEAN firms.

Thirdly, this study also added deeper understanding on how the ownership concentration in ASEAN work as a good governance in influencing the dynamic capital structure decisions. Unlike the study by Kasbi (2009) that examined the relationship in western countries as well as that by Liao et al. (2015) and Chang, Chou and Huang (2014) that used index to quantify corporate governance, this study used the ownership concentration as the corporate governance variable that influence the speed of adjustment decisions in ASEAN countries.

Fourthly, the investigation of the ownership concentration as the moderating variable in this study made a difference from previous related studies such as those by Cui, Zhang, Guo, Hu, and Meng (2019) and Cheung, Naidu, Navissi, and Ranjeeni (2017). In their study, the moderating effect was focused on the firm performance, whereas this study stressed the importance of the firms' strategic decisions rather than the end product of the firms (firm performance). As such, this study contributes knowledge to the literature

regarding the moderating role of ownership concentration between the relationship of upper echelon characteristics and firms' strategic decisions (SOA).

Finally, unlike the past ASEAN's speed of adjustment studies that portrayed firm characteristics variables (see Haron (2014b) (Malaysia) and Haron et al. (2013a) (Thailand)) and macroeconomic factors (see Soekarno et al. (2015) (Indonesia)) as the determinant of SOA. Still within their framework, this study integrated the Upper Echelons Theory and Agency Theory (active monitoring hypothesis and expropriation effect hypothesis) in the Dynamic Capital Structure Theory to explain the speed of adjustment decision for ASEAN firms. With this integration, the results showed that besides the common determinants like firm size, deviation, and firms' growth and macroeconomic factors, CEO traits (CEO age, education and experience) and large shareholder play a significant role in defining the speed of adjustment decisions for ASEAN firms.

1.5.2 Methodological Contributions

In terms of methodological contributions, this study has extended the dynamic capital structure model that relates the CEOs' behaviour with capital structure decision (see Matemilola et al. (2017) (Malaysia)) and the static capital structure model (see Lee and Yeo (2010) (Asia – including Malaysia, Singapore, Indonesia, Thailand and The Philippines), Ting et al. (2015) (Malaysia) and Sitthipongpanich and Polsiri (2012) (Thailand)) to speed of adjustment towards target capital structure model to access the determinants of SOA towards target leverage. The extension of model created an opportunity to explain the impact of CEOs' characteristics (CEOs' behaviour) and OC as the factors that influence of the SOA towards target capital structure decision for ASEAN firms.

Furthermore, this study has contributed to the dynamic capital structure research by applying a more flexible Stata command than the default command of the SYS-GMM estimation in finding the most suitable instruments. By applying the command of "xtdpd" instead of "xtpdsys"(default setting in STATA), the produced results were more robust since all the results passed the three specification tests namely Wald test to examine the joint significance of the coefficients, second-order serial correlation test to detect autocorrelation and Sargan test to determine the validity of the instruments.

Therefore, this study has showed that extending the static trade-off model and dynamic trade-off model to the SOA model to study the CEO characteristics-SOA and ownership concentration-SOA relationship is a new angle that can be considered by future researchers when examining firms' capital structure decisions.

1.5.3 Practical Contributions

Regarding practical contributions, this study has added knowledge to the dynamic capital structure literature in the ASEAN context. Specifically, it improved the knowledge regarding efforts taken by managers in closing the deviation between actual and target leverages in ASEAN countries. With this information, firms could create hiring policies to accommodate CEO positions that suit their financial decision goals. Other than that, education and government agencies can collaborate to support the development of human capital efficiency. For example, education agencies can create more executive programmes that would help CEOs enrich their business knowledge while government agencies could provide more funding schemes to encourage the executives to further develop their education level.

In the meantime, current shareholders and potential investors could assess the worthiness of investing in any company because this research has generated insightful knowledge on how managers could carefully design the capital structure decision that maximises shareholders' wealth. The study has also created awareness to shareholders regarding how and when they can exercise their voting rights if CEOs act incongruently with shareholders' wealth maximisation objective.

1.6 Chapter Summary

This chapter described the background information and the issues that led to this study. Next, the research objectives and research questions were designed to resolve the issues. Finally, this chapter discussed the theoretical, methodological, and practical contributions of this study. The rest of this thesis is organised as follows. CHAPTER 2 presents the background of ASEAN countries and used of relevant theories based on past empirical studies. Then, the theoretical framework is constructed and hypotheses formulated. Meanwhile, CHAPTER 3 expresses the datasets and variables employed in this study. Next, dynamic models are built to reach the research objectives. In CHAPTER 4, the pooled sample findings, consisting of descriptive statistics, multicollinearity results, and regression results are reported. On the other hand, CHAPTER 5 discusses the findings for cross-country sample and makes comparative interpretation across the countries.

Finally, CHAPTER 6 summarises the findings of this study and states the implications, limitations, and recommendations for future research.

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