

The Impact of CEO Characteristics and Blockholder on Capital Structure Decisions

Dr. Le Thuy Dung

Faculty of Finance,
NgheAn University of Economics,
Vietnam

Dr. Nguyen Xuan Tho

Faculty of Business Administration,
Greenwich Vietnam, FPT University,
Da Nang, Vietnam.

MSc. Ngo Thi Thuong Huyen

Faculty of Accounting,
NgheAn University of Economics,
Vietnam

Corresponding Author:
Thonx5@fe.edu.vn

Abstract

This research analyzes the impact of chief executive officers' characteristics (CEO characteristics) and blockholder on capital structure decisions, based on a sample of 100 listed construction and real estate companies in Vietnam from 2015 to 2021. By using OLS regression, we found that the characteristics of the CEO and blockholder have a direct impact on capital structure decisions. Indeed, the empirical results indicate tenure, education degree, the duality of the CEO, and blockholder ownership are positive effects on leverage degree. The study findings provide more evidence in regard to the important role of the CEO and large shareholders, as well as give some remarkable recommendations for stakeholders in terms of making related decisions.

Keywords: CEO, Blockholder, Capital structure, Construction & Real estate, Stakeholder.

Introduction

The capital structure decision is considered one of the most important financial decisions in the field of corporate finance, influencing shareholder value as well as the company's future growth potential. A firm's optimal capital structure involves a trade-off between tax costs, bankruptcy costs, and agency costs (Jensen & Meckling, 1976; Yinusa et al., 2017). However, the fact that firms decide to use high financial leverage can reduce the firm's value, increasing the possibility of bankruptcy (Shleifer & Vishny, 1997; Gunarathna, 2016). In fact, the capital structure is fluctuated, adjusted, and influenced by many different factors such as company specificity, corporate governance, macro factors, etc (Frank & Goyal, 2009; Öztekin, 2015; Zhou et al, 2019; Nguyen et al., 2022). The CEO characteristics are one of the factors chosen by many scholars, and the role and CEO power have directly influenced the financial decisions of the company (Alqatamine, 2018; Naseem et al., 2019; Zhou et al, 2019). In addition, blockholders have a significant impact on board decisions, including decisions on debt structure and maturity to resolve conflicts of interest between the stakeholders (Pan & Tan, 2019).

In 2020, in Vietnam, the real estate industry contributed 4.42% of GDP,

the construction industry increased by 6.76% in added value, over 70% of the total loans of businesses in this field (Real Estate – Construction Industry Report, 2021). The Vietnam construction and real estate market is considered to have development prospects in the next time. Related studies in Vietnam mainly considering the impact of financial characteristics on capital structure (Phuong, 2014; Thuan & Thuy, 2020), the evidence on CEO and blockholder is incomplete. Therefore, analyzing and providing new evidence on the influence of CEO characteristics and blockholder on capital structure decisions is expected to contribute to promoting the development of construction and real estate companies in Vietnam is really necessary.

Literature Review

The capital structure decision is related to the decision on the proportion of debt and equity in the total capital structure of the company. Capital structure decision-making is one of the fundamental decisions faced by the managers of companies, which will affect the company's profitability and market value that company owners receive in the future. The company can sponsor its operations entirely with equity, or use a combination of liabilities and equity. Capital structure decisions between companies are not the same, depending on the decisions of the managers as well as the business strategy of that company. In which, the decision of debt ratio in capital structure is often mentioned in studies on capital structure decisions.

Numerous studies provide empirical evidence that the CEO holding the position of chairman of the board of directors (BOD) increases the level of debt utilization (Nazir et al., 2012; Naseem et al., 2019). Consistent with the analytic view that the dual role of the CEO concentrates power on the CEO, increasing the agency problem and thus they can directly intervene in financial decisions in the company, including capital structure. In addition, empirical evidence from some other studies found a tendency to use higher debt in companies where the CEO has high qualifications and work experience, and the CEO power is low (Chao et al., 2017). Rupinder & Balwinder (2020) examines the link between CEO characteristics and debt ratio in listed non-financial firms in the Nifty 500 index, and finds the leverage

level utilization is higher in companies where the CEO has the characteristics of long tenure, young CEO age, and low CEO ownership.

Recent research by Pan & Tan (2019), and Bui (2022) shows that through their supervisory power, blockholders are also related to the leverage ratio in the company. Bui (2022) argues that the ownership of blockholders is inversely related to the debt ratio in the target companies. When researching about Vietnam, Thuan & Thuy (2020) test the correlation between corporate governance and capital structure of 479 companies listed on Vietnam's stock market, period 2008- 2018. The authors used the GMM regression method to solve the research problem. New findings from the study showed that CEO duality and CEO gender do not affect the capital structure. This study has not mentioned the supervisory mechanism of blockholders, and only measures capital structure through debt ratio. Based on existing empirical evidence, we test whether the CEO characteristics and blockholder affect the capital structure decision of listed companies in the construction and real estate sectors in Vietnam or not? Based on the above arguments, we propose the following research hypotheses:

H1: There exists a significant connection between CEO characteristics and firm's capital structure decision.

H2: There is a negative effect of Blockholder on firm's capital structure decision.

Data and Methodology

Data

In this study, we will focus on analyzing listed construction and real estate companies in Vietnam. We collect data from Stoxplus and Fiiipro databases. Some indicators are determined on the basis of calculations with collected data. In this research, we exclude firms that have no data on CEOs and blockholders. The final research sample consisted of 707 observations of 101 companies, period 2015-2021.

Research Methodology

We use the OLS regression method to investigate the influence of CEO characteristics and blockholder on capital

structure decisions. The proposed research model is as follows:

$$LEV_{it} = \beta_0 + \beta_1 CEODUAL_{it} + \beta_2 CEOOWN_{it} + \beta_3 CEOTENURE_{it} + \beta_4 CEOEDU_{it} + \beta_5 BLOCKHOLDING_{it} + \beta_6 CONTROLS_{it}$$

In there:

- Dependent variable (LEV): Measured through the ratio of total debt to total assets.

- The independent variable includes:

+ CEO characteristics (measured through variables CEODUAL, CEOOWN, CEOEDU, CEOTENURE). CEODUAL is a binary variable, taking the value of 1 if the CEO is concurrently the chairperson of the board of directors, zero otherwise. CEOOWN reflects the ratio of number of shares owned by the CEO in the firm. CEOEDU is a binary variable; if the CEO has a master's and/or PhD degree, the value of 1, and zero otherwise. CEOTENURE reflects the number of years in the executive position of CEOs in the examined company.

+ BLOCKHOLDING: The percentage of shares held by blockholder in the company.

- Control variable:

In this study, we control for the company's financial characteristics, through the variable net sales growth rate

(GR) is determined by (the net sales of the t period minus the net sales of the t -1 period) to the net sales of t-1 period). Return on assets (ROA) is determined by net income/ total assets. Asset structure (AS) is measured by the ratio of total short-term assets to total assets). The P/B ratio is measured by market price per share/ book value per share.

Research results

Characteristics of executives, blockholder

Table 4.1 describes variables and provides summary statistics. The results show that in Vietnam, the listed companies in the construction and real estate industries have the average ownership rate of blockholders of companies is 47.4%, the highest ownership rate is 82.9%, the ownership rate is highest at 82.9%, the lowest ownership rate is 10%. The average debt ratio of these companies is 60.1%, the highest debt ratio is 86.7%. The average ownership rate of CEOs is 3.94%. The average CEO tenure is 5.174. The average revenue growth rate reached 22.33% during the study period. Regarding the level of short-term asset investment, the ratio of market value to book value averaged 69.5% and 84.8%, respectively. In these companies, the average rate of investment in short-term assets is 69.5%.

Table 4.1: Descriptive statistics of research variables

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	mean	sd	min	max
CEODUAL	707	0.170	0.376	0	1
CEOTENURE	697	5.174	3.972	1	14
CEOOWN	685	0.0394	0.0655	0	0.237
CEOEDU	707	0.748	0.434	0	1
BLOCKHOLDING	686	0.474	0.208	0.100	0.829
PB	695	0.848	0.716	0	2.640
AS	693	0.695	0.224	0.214	0.956
GR	685	22.33	61.40	-54.54	196.4
ROA	707	0.034	0.050	-0.037	0.257
LEV	706	0.601	0.208	0.146	0.867

Source: Authors' Analysis

Table 4.2: Correlation matrix

Variables	(1)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) LEV	1.000									
	(0.000)									
(3) CEODUAL	-0.077	1.000								
	(0.041)									
(4) CEOOWN	-0.024	0.604	1.000							
	(0.533)	(0.000)								
(5) CEOEDU	0.207	-0.120	-0.128	1.000						
	(0.000)	(0.001)	(0.001)							
(6) CEOTENURE	0.136	0.394	0.402	-0.142	1.000					
	(0.000)	(0.000)	(0.000)	(0.000)						
(7) BLOCKHOLDING	0.147	-0.068	-0.034	0.081	-0.105	1.000				
	(0.000)	(0.076)	(0.373)	(0.035)	(0.006)					
(8) PB	-0.037	-0.128	-0.084	-0.034	-0.129	-0.052	1.000			
	(0.329)	(0.001)	(0.028)	(0.375)	(0.001)	(0.173)				
(9) GR	-0.071	0.067	0.027	-0.078	-0.043	-0.061	0.045	1.000		
	(0.062)	(0.080)	(0.487)	(0.042)	(0.257)	(0.114)	(0.236)			
(10) ROA	-0.285	0.069	-0.016	-0.120	0.033	-0.028	0.224	0.184	1.000	
	(0.000)	(0.068)	(0.685)	(0.001)	(0.382)	(0.468)	(0.000)	(0.000)		
(11) AS	0.285	0.033	0.073	-0.065	0.052	0.191	-0.033	-0.026	-0.116	1.000
	(0.000)	(0.380)	(0.055)	(0.090)	(0.171)	(0.000)	(0.390)	(0.505)	(0.002)	

(Source: Authors' Analysis)

In table 4.2, the correlation matrix reflects the relationship between variables used in our research. Accordingly, BLOCKHOLDING, CEOTENURE, CEOEDU, AS have positively correlated, while ROA has a negative and statistically significant at the level of 1%. CEODUAL and GR have an adverse with the debt ratio, and is statistically significant at 5%, 10%, respectively. In table 4.2, the correlation coefficients between the variables are less than 0.8, so the problem of multicollinearity between the variables used in the research is not too serious (Gujarati, 2003). According to Table 4.2, the Pearson

correlation coefficients between the independent variables are less than 0.8, which mitigates concerns about multicollinearity in this study.

The influence of executives and blockholders on capital structure decisions

Table 4.3 reports OLS regression results. Models 2 and 3 respectively examine the influence of CEO characteristics and larger shareholders on capital structure decisions. Model 1 simultaneously tests the effects of independent variables on dependent variables.

Table 4.3. Characteristics of CEO, blockholders and capital structure decisions

VARIABLES	MODEL 1	MODEL 2	MODEL 3
CEOTENURE	0.0108***	0.0104***	
	(0.00185)	(0.00187)	
CEOOWN	-0.113	-0.116	
	(0.141)	(0.143)	
CEOEDU	0.103***	0.104***	
	(0.0171)	(0.0171)	
CEODUAL	-0.0586**	-0.0590**	
	(0.0248)	(0.0252)	

VARIABLES	MODEL 1	MODEL 2	MODEL 3
BLOCKHOLDING	0.107*** (0.0343)		0.0975*** (0.0365)
PB	0.0142 (0.00955)	0.0140 (0.00965)	0.0119 (0.0101)
AS	0.220*** (0.0330)	0.239*** (0.0338)	0.207*** (0.0354)
GR	0.0001 (0.0001)	0.0001 (0.0001)	0.0001 (0.0001)
ROA	-0.0004*** (0.00005)	-0.0004*** (0.00005)	-0.0004*** (0.00005)
Constant	0.377*** (0.0398)	0.418*** (0.0375)	0.522*** (0.0361)
Observations	667	674	675
R-squared	0.280	0.266	0.194

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

(Source:Authors' Analysis)

The regression results in column 1 show that the coefficient of variable CEODUAL is negative and statistically significant at 5%, reflecting that the CEO concurrently serving as the chairman of the Board of Directors reduces the level of debt use. The coefficients of variables CEOTENURE, CEOEDU, BLOCKHOLDING are positive at the 1% statistical significance level. The implication is that the debt ratio in companies is higher when the CEO tenure is larger, and the educational qualification level of the CEO is higher. It seems that the CEO tenure, the wider the network of these CEOs, they can take advantage of mobilizing loans to save the cost of capital, supporting the view of Rupinder & Balwinder (2020). While, the higher the level of expertise the education qualification level, the greater the risk tolerance of these CEOs and the higher the ability to access external finance. Empirical evidence also shows that the BLOCKHOLDING coefficient is 0.107, positive and statistically significant at 1%, reflecting the higher the ownership of major shareholders, the greater the debt ratio. This result does not support prior research (Bui, 2022). The higher the ownership ratio, the larger the supervisory role of the major shareholders, increasing the efficiency of the Board of Directors, thereby increasing the company's reputation, increasing the ability to access outside loans.

The analysis results in column (1) show that this study does not provide evidence to confirm the influence of CEO ownership on the level of debt utilization. The results of the regression analysis show that the characteristics of CEO and blockholders have a strong influence on the leverage degree.

Conclusion

Based on a survey of related data set of 101 listed companies in the field of construction and real estate in Vietnam, from 2015 to 2021, the OLS regression results show the potential influence of the characteristics of CEOs and blockholders on capital structure decisions. Specifically, the debt level is higher in companies where the CEOs have a long number of years in office, have a high level of education, have high ownership of major shareholders, the CEO does not hold the position of chairperson, and vice versa. These findings support the proposed H hypothesis.

This study has provided empirical evidence that contributes to affirming the important role of CEO characteristics and major shareholders in deciding the company capital structure, contributing to perfecting the general theory of corporate governance. Therefore, investors can use these research results in the process of analyzing and selecting

investment objectives. For companies, it is possible to make decisions on selection of executives in accordance with policies and investment decisions. On that basis, company managers can make appropriate operating policies to ensure the target capital structure.

Acknowledgments:

The authors would like to thank Editor, and anonymous reviewers' valuable comments and constructive suggestions. The authors are responsible for any remaining error in this article.

References

- Alqatamin, R. M., (2018). Capital Structure and CEO's Personal Characteristics: Evidence from Jordan. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 8(2), 113–125.
- Bui, T., (2022). Corporate blockholders and financial leverage. *The Financial Review*, 57(3), 559-583.
- Chao, C. C., Hu, M., Munir, Q. & Li, T., (2017). The impact of CEO power on corporate capital structure: New evidence from dynamic panel threshold analysis. *International Review of Economics and Finance*, Vol. 51, 107-120
- Fama, E. & Jensen, M., (1983). Separation of ownership and control. *Journal of Law and Economics*, Vol. 26, 301-325.
- Frank, M.Z. & Goyal, V.K., (2009). Capital Structure Decisions: Which Factors Are Reliably Important? *Financial Management*, Vol. 38 (1), 1-37.
- Gunarathna, V., (2016). How does Financial Leverage Affect Financial Risk? An Empirical Study in Sri Lanka. *Amity Journal of Finance*, Vol. 1(1), 57-66.
- Jensen, M. C., (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review*, Vol. 76 (2), 323-329.
- Jensen, M. C. & Meckling, W. H., (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.
- Naseem, M.A., Lin, J., Rehman, R.u., Ahmad, M.I. and Ali, R. (2020). Does capital structure mediate the link between CEO characteristics and firm performance?, *Management Decision*, Vol. 58 (1), 164-181.
- Nazir, M. S., Aslam, A. & Nawaz, M. M., (2012). The Impact of CEO Duality on Capital Structure: A Case from Non-Financial Sector of Pakistan. *American Journal of Scientific Research*, Vol. 56, 5-12.
- Nguyen, A., Nguyen, T. & Hoang, P., (2022). The impact of corporate governance quality on capital structure choices: does national governance quality matter?. *Cogent Economics & Finance*, Vol. 10 (1), 1-27.
- Öztekin, O. (2015). Capital Structure Decisions around the World: Which Factors Are Reliably Important?, *Journal of Financial and Quantitative analysis*, Vol. 50 (3), 301–323.
- Pan, Z. & Tan, K. J. K., (2019). The role of blockholders in the corporate debt maturity structure. *Economics Letters*, Vol. 185, 1-3.
- Rupinder, K. & Balwinder, S., (2020). The Impact of CEOs' Characteristics on Corporate Leverage: Indian Scenario. *The Journal of Business Perspective*, 25(4), 1-11.
- Shleifer, A. & Vishny, R., (1997). A survey of corporate governance. *Journal of Finance*, Vol. 52, 737–783.
- Thuan, N. V., & Thuy, N.T.T, (2020). The impact of corporate governance on capital structure: Experimental research from listed companies in Viet Nam stockmarket. *Journal of Science (Ho Chi Minh City Open University)*, 15(2), 25-38.
- Yinusa, O.G., Odusanya, Abidemi, I., Olowofela, & Enitan, O. (2017). Trade-Off Theory of Optimal Capital Structure and Adjustment Toward Long Run Target: A dynamic Panel Approach. *Journal of Accounting and Management*, Vol. 7(2), 174-181.
- Zhou, B., Dutta, S. & Zhu, P., (2019). CEO tenure and mergers and acquisitions. *Finance Research Letters*, Vol. xxx (xxxx), 1-11.