The Impact of CFO Behavioral Characteristics and Personality Traits On The Cost Of Capital[1]

Dr. Sara Wahid Raafat Bassiouny

Lecturer at the finance and accounting department
College of Management and Technology
Arab Academy for Science, Technology, and Maritime Transport
Alexandria – Egypt
sarawahid@aast.edu

ABSTRACT

This paper aims to identify the CFO characteristics and explore the influence of such characteristics on the cost of capital. To reach the research objectives, a questionnaire is distributed to the CFOs of the non-financial firms listed on the Egyptian stock exchange. Moreover, secondary data is gathered to get any needed data for the financial decision. The results of the regression report that three factors significantly impact the cost of capital which are CFO gender, optimism, and extraversion trait. The findings reveal the importance of including other determinants in the corporate models than the traditional determinants and this supports the behavioral finance theory. This paper contributes to the literature by exploring CFO characteristics that are not fully studied in a corporate finance context, especially in a developing market.

Keywords: *Behavioral factors, Personality traits, CFO, Cost of capital, Egypt.*

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1. INTRODUCTION

Finance theory has been evolving in several blocks as standard finance is no longer filling the gap between theory and practice, subsequently, the focus of this paper is to study finance from a behavioral point of view by focusing on behavioral finance in corporations. Prior literature refers to the shift from standard finance to behavioral finance, and Statman (2020) in a recent issue explains the first and second generations of behavioral finance. Early 1980s was the start of the first behavioral finance generation which described individuals as irrational as they are led by their cognitive and emotional errors, further, individuals were described as normal in the second generation of behavioral finance.

Despite the existing literature in the context of behavioral finance, some cavities exist, such as: (1) the behavior phenomena in corporations is still under investigation and not fully developed as compared to behavioral finance in financial markets which is well established in the literature; (2) prior research is enormously focused on individual investors, consumers, and CEOs (chief executive officers), while the focus on CFOs (chief financial officers) is not as much; (3) the most tackled behavioral managerial characteristics are overconfidence and optimism, and less attention is given to other behavioral characteristics; (4) prior research is condensed by several financial decisions and mainly the capital structure decision, while research on the cost of capital decision from a behavioral corporate perspective is still developing; (5) prior studies are mainly applied on developed countries and less work exist on developing countries in the context of this study.

Upon such, this paper aims to fill these gaps by studying the influence of multiple CFO behavioral and non-behavioral characteristics on the cost of capital in the Egyptian market. Thus, the dependent variable is the cost of capital, while the independent variables are grouped into three categories: (1) behavioral variables (optimism, overconfidence, illusion of control, loss aversion, herding and anchoring); (2) personality traits (extraversion, conscientiousness, agreeableness, emotional stability, and openness); (3) the managerial demographics (age, gender, education and marital status).

Consequently, four research questions follow: (1) What is the impact of CFO demographics on the firm´s cost of capital?; (2) Are behavioral characteristics identified among Egyptian CFOs?; (3) Are the CFO´s behavioral characteristics impacting the firm´s cost of capital?; (4) Are the CFO´s personality traits impacting the firm´s cost of capital?

Baker and Nofsinger (2010), argue that studying behavioral finance in the context of corporations is more important as the assumed effect of arbitrageurs does not exist in corporations as corporate decisions are controlled by one or few managers which leads their biases to significantly impact the decisions, without being corrected.

This paper argues that the traditional model for the cost of capital might not be complete since it does not incorporate any behavioral factor. Thus, if behavioral factors in terms of decision making are identified, this is prime evidence that the classical model (WACC) might not be the complete or exact estimate and therefore, we need a more precise WACC or a more precise estimate for the cost of capital, that will be able to capture the identified behavioral factors.

The cost of capital decision is crucial where mistakes are extremely costly and thus, to make a decision that is in the best interest of those who are involved, the firm should accept projects with a positive net present value to ensure that the return is higher than the cost of the investment, to be able to maximize the shareholders' value. Moreover, the cost of capital is at the core of the capital structure decision because the firm must raise funds from different sources in a way that optimizes risk and cost factors.

Further, this paper is applied to CFOs as they are the ones responsible for the finance and accounting duties of the firm. They are responsible for financial reporting, determining how to invest corporate funds while considering the capital structure of the firm, in addition to having strategic and technical expertise (Liu et al., 2021). Thus, studying the CFO characteristics is vital.

The choice of the Egyptian market is also motivated as prior studies prove the inefficiency of the Egyptian Stock Market, which is impacted by the availability of information, (El Ansary & Attuea, 2012; Arshad et al., 2016; El Ansary & Mohssen, 2017). Thus, the lack of information is partially caused by behavioral

factors and therefore, biases are more likely to occur in developing markets leading to the importance of incorporating them in this study.

To achieve this research aim, a questionnaire is distributed to the CFOs of the non-financial firms listed on the EGX (Egyptian stock exchange), having 96 firms with CFOs constituting the final sample. The findings help identify different determinants for the cost of capital and understand common behavioral patterns of the CFOs in a developing market, Egypt.

The rest of the paper is organized as follows: Section 2 presents the literature review; Section 3 refers to the methodology; Section 4 is the data section which identifies the sample and provides the data description. Results are reported and discussed in Section 5. Finally, Section 6 concludes the paper.

2. LITERATURE REVIEW

This section presents prior theoretical and empirical work that serves the aim of this research. The behavioral finance theory is at the core of this research as it explains how decision makers can impact the financial situation of the firm by testing how the CFO's behavioral characteristics affect the cost of capital.

The idea of the existence of an efficient market no longer holds and other behavioral theories that have a psychological base, are needed to explain the roused anomalies, (Ritter, 2003). The main guiding theories that explain the functionality of the human brain as to make decisions and showing how the decision making evolved are: (1) bounded rationality theory and Keynesian theory; (2) prospect theory; (3) behavioral consistency theory; and (4) Heuristics theory. These theories fall under the umbrella of the behavioral finance theory and are presented briefly in the following paragraph.

Simon (1957) introduced the idea of bounded rationality explaining that humans are rationally bounded due to limited information, ability, and time. Based on that, human beings tend to reduce uncertainty using heuristic methods rather than formal ones to decrease complexity and to have few pieces of information to deal with. Adding up to this idea, Gordon (1992) explains the Keynesian theory that highlights the role of preferences while taking a decision. Shah (2013) explains that the reason behind the limited rationality behavior are psychological

factors that lead to the distortion of the efficient market assumptions regarding the decision maker and the prices behavior.

Further, the prospect theory is introduced by the psychologists Kahnemann and Tversky (1979) and defined as a mathematically formulated theory that is an alternative to the theory of expected utility maximization, defining utility as a change or a departure from the reference point. In addition, the behavioral consistency is the extent to which an individual exhibits a behavior in one situation that is predictable from the extent to which the individual exhibits the behavior in another situation (Cronqvist et al., 2012). In other words, it is when individuals behave consistently across situations.

Moreover, Stein (1996) and Rieskamp and Otto (2006) refer that the human mind adapts to the surrounding environment enabling it to make heuristic-based decisions that are fast and with minimum loss. Heuristics is defined as efficient cognitive processes, conscious or unconscious, that ignores part of the information to save effort and time aiming for sufficient satisfaction rather than reaching optimal utility (Gigerenzer & Gaissmaier, 2011).

Concluding this section, behavioral finance aims to provide better understandings for financial decisions made by individuals and therefore, behavioral finance theories should replace traditional theories. The coming subsections present the existing empirical work for all the factors under study which is essential to reflect the research gap.

2.1 Behavioral characteristics

This paper is concerned with six behavioral characteristics which are: optimism, overconfidence, illusion of control, loss aversion, herding and anchoring. And they are discussed next by presenting prior empirical work that link such behavioral characteristics with corporate decisions.

The most tackled behavioral characteristics are overconfidence and optimism which are linked in prior research to different financial decisions and few work link them with the cost of capital, examples: Meier and Esmatyar (2016) on the influence of managerial optimism on company's financing policy and cost of capital, they state that behavioral heuristics might bias the financial decisions and consequently affect the risk and the value of the firm, directly or indirectly. They

also report that firms with optimistic managers tend to have significantly lower costs of capital, although the debt ratio among the sample was found high, as this was insignificant.

Oliver and Mefteh (2010) report that overconfident managers tend to prefer debt financing, and this might increase the probability of bankruptcy and therefore high cost of capital. On the other hand, CEO overconfidence might be perceived as an effort to increase the firm value and more tendency for better disclosure and thus outsiders perceive a low business risk and information risk leading to a decrease in cost of equity capital (Hirshleifer et al., 2012; Aghazadeh et al., 2018).

Following are other behavioral characteristics that exist limitedly: Hsu and Chen (2017) test for the impact of managerial illusion of control on the sensitivity of investment cash flow by taking a sample of listed firms in Taiwan, as the company's operating risk increases, managers are more willing to invest, reflecting managerial confidence and optimism to control future outcomes.

Further, data uncertainty is the main cause behind the loss aversion phenomenon and leads managers to be more conservative and avoid any decision that might put their status quo at risk. A negative impact of this behavior is that CEOs will not try to improve the skills of their subordinates nor benefit from opportunities that could improve performance (Cettolin and Riedl, 2010). Schütte and Wichardt (2013) report that loss averse managers try to secure their position thus they provide no incentives for their subordinates to make risky decisions, which could lead to an increase of agency costs and might reduce performance. Investors are loss averse as they hate losses more than the equal amount of gain and they are more motivated to take risks, to avoid losses (Choudhary and Ahuja, 2021).

Patel et al. (1991) describe herd migration behavior stating that financial decision-makers migrate in herds and the decision to follow or leave the group depends on a cost benefit analysis, cost of not following the industry and benefit of reaching an optimal decision. Song et al. (2012), clarify that the personalities of the people affect their herd behavior, and they provided evidence that investors who herd tend to have low self-confidence. Another characteristic is anchoring which is mainly caused by uncertainty (Kübilay & Bayrakdaroglu, 2016). Dougal et al.

(2015) report that borrowers and lenders use past terms as anchors, and they base their current cost of capital on historical costs.

2.2 Personality traits

Moving to the personality traits, research linking the manager's traits to the firm's decisions is limited and not fully linked to the cost of capital decision. However, one key paper is the study of Adebambo et al. (2018) testing the relation between extraversion and cost of equity, reporting a significant positive relation explaining that extroverted CEOs tend to take risks.

Further, Daskalakis et al. (2011) state that emotionally stable managers prefer equity which might raise the overall cost of capital, and this is justified by the tendency of the emotionally stable manager to remain calm in stressful situations and unthreatened by rising challenges and this makes them risk takers, studies that go in conformity are (McCrae & Costa, 1997; Peterson et al., 2003; Nadkarni & Herrmann, 2010). Daskalakis et al. (2011) add that CEOs who are open to new experiences tend to issue new equity whenever the stock price is relatively high, and this might lead to a higher cost of capital.

2.3 CFO Demographics

This paper includes some traditional factors that are commonly used as financial decision determinants and studies on the Egyptian market have shown the importance of such determinants. This includes four managerial observable demographics (age, gender, general education level and marital status). Empirical work exists for the managerial characteristics with contradictory results, however still the link between such characteristics and the cost of capital is not fully covered. Thus, this study works on exploring new relations.

2.4 Cost of capital decision

The cost of capital can be determined using WACC (weighted average cost of capital) which is a mix between the cost of debt and the cost of equity. Thus, it is the average rate of return that the firm pays to its lenders. The cost of debt is the interest rate paid by the firm to the lenders and it is considered a cheaper source of finance than equity due to the tax advantage of the debt, however it is riskier due to the payment obligation, while the cost of equity is more expensive,

however a main advantage is that repayments are not obligatory (Amardeep, 2013 ; Alihodzic & Eric, 2013).

One of the main arguments of this study is that the cost of capital used in practice may depart from the cost of capital used and defined by traditional finance, due to the assumption that the CFO exhibits behavioral characteristics, which are not included in the traditional finance estimate.

Therefore, the aim is to test whether the behavioral characteristics play a role in the cost of the capital decision. As suggested by Mitroi and Oproiu (2014) this could be done by considering some individual perceptions, emotions and behavior when making a financial decision.

3. METHODOLOGY

This paper aims to test for the impact of CFO behavioral factors along with some traditional factors on a vital financial decision which is the cost of capital. Generally, there is a debate in the literature on the influence of managerial characteristics on the firm's financial decisions, upon such, the research hypotheses are presented as follows, noting that the direction of the relation is not assumed as this is an explanatory study that aims to explore the possible relation among the variables under study.

H1: The CFO´s demographic characteristics have a significant impact on the firm's cost of capital.

H2: The CFO´s behavioral characteristics have a significant impact on the firm's cost of capital.

H3: The CFO´s personality traits have a significant impact on the firm's cost of capital.

3.1 Study and data type

The Egyptian market has a limited access/availability of behavioral data and therefore, primary data is a main tool for gathering the needed information. A questionnaire is used to examine the Egyptian CFOs in terms of their managerial observable and non-observable characteristics. Data in this study is analyzed at a specific point in time, that is the year 2020. Therefore cross-sectional analysis is used to collect data related to a specific unit of analysis (Levin, 2006).

The questionnaire constitutes two sections; Section A collects some managerial demographic data; Section B is constituted of 5 points Likert scale questions that aim to test for the behavioral biases that managers might incorporate along with personality traits questions.

This paper uses primary and secondary data sources. The secondary data source is used to measure the cost of capital, while the primary data source is used by applying a questionnaire to gather information for the CFO's observable and non-observable characteristics which are: the CFO demographics; behavioral characteristics; and personality traits. Table 1 summarizes all the variables with their measuring tools.

Table 1: Variables Measurement

Variables	Measuring tool	Reference
Dependent variables		
Cost of capital	Traditional WACC W*debt*(1-tc) + W*equity	Pittman & Fortin (2004); Carmo et al. (2016); Eliwa et al. (2019); Sharpe (1964); Brotherson et al. (2013)
Independent variables		
Age	Survey	Barker & Mueller (2002); Jalbert et al. (2013); Peni (2014); Xiong (2016); Li et al. (2017); Hedge & Mishra (2019).
Gender		
Educational level		
Marital status		
Optimism	Survey	Graham et al. (2013)
Overconfidence		Prosad et al. (2015)
Illusion of control		Langer & Roth (1975); Cooper et al. (1988); Simon et al. (2000); Keh et al. (2002); De carolis et al. (2009); Carr & blattner (2010)
Loss aversion		Solidarity funds of the Quebec workers' federation, Souissi & Jarboui (2018)
Herding		Baker et al. (2019)
Anchoring		Baker et al. (2019)
Personality traits	Survey (Ten items inventory)	Gosling et al. (2003) ; Rammstedt & John (2007).

The questionnaire gathers data for the CFO's observable and non-observable characteristics. Section A collects data for the CFO demographics by asking four questions. Question (1) measures the age variable which is the number of years from the decision maker´s birth year to the sample year, the variable takes a value of one, two, three or four based on the range of age that the respondent falls in; Question (2) asks about the gender and is measured using a dummy variable; Question (3) further asks for the general education level that reflects the highest educational level the CFO has reached. When the decision maker has no studies or primary studies the variable takes the value of one; a high school degree takes a value of two; a bachelor's degree takes three; and it takes the value of four for a master's degree and five for a PhD Degree; and finally, question (4) asks about the CFO´s marital status, which is a dummy variable.

Section B gathers data for the behavioral characteristics and personality traits, using a 5-point Likert scale. The section starts with six questions to test for the CFO's optimism as the questions aim to test for the CFO's over or under estimation of future performance/output. Following are four questions testing for overconfidence to test if the CFO overestimates his/her own capabilities, skills, and knowledge. The illusion of control is a third overestimation trait as individuals tend to overestimate their ability to control events/outcome. Three questions are used asking the respondents about their ability to predict certain uncontrollable outcomes and if they believe their skills are greater than those of others.

The fourth characteristic is loss aversion which is when the disutility of giving up an object is greater than the utility associated with acquiring it. This characteristic is measured using five questions aiming to test whether the CFO acquires such trait or not which evidence the prospect theory.

The questionnaire proceeds with five questions to test for herd behavior which reflects if the CFOs care about the decisions of the peer firms and if they react to them. In addition, the questions reflect if the CFO follows certain forums or consults others before making a decision. The final characteristic is anchoring, and four questions are used to ask if CFOs anchor their personal investment decisions or not. The final question in Section B tests for the CFO's personality traits which naturally exist to distinguish an individual from another. A bipolar

measurement is used as each of the big five personality dimensions has two polar traits and participants are required to rate themselves using a Likert scale.

Research model and regression

Moreover, for the sake of hypothesis testing, this paper presents the research model in Figure 1. The left-hand side of the figure presents the independent variables while the right-hand side of the figure presents the dependent variable. Consequently, the research regression is presented in the following equation:

$$COCi = \beta 0 + \beta 1 DEMOi,1 + \beta 2\ BEHi,2 + \beta 3\ TRAITSi,3 + \varepsilon$$

Where: COC: is the cost of capital, DEMO: is the four demographics, BEH: is the six behavioral characteristics, TRAITS: is the five personality traits, and the ε is the error term. The equation uses the vectors of the variables under study.

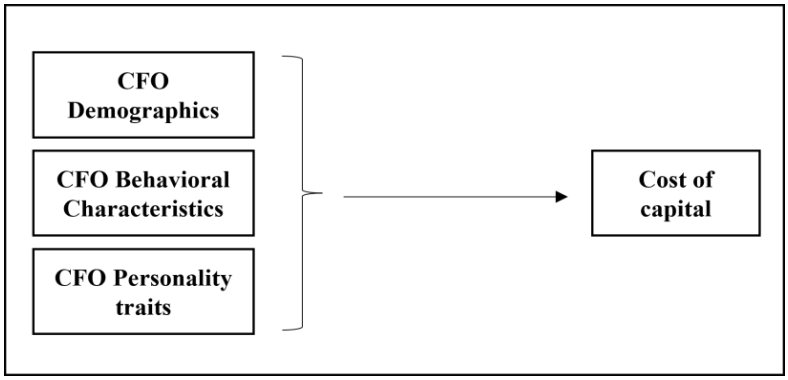

Figure 1: Research Model

4. DATA

This section helps clarify the sample selection. The unit of analysis in this research has a population of the CFOs of the Non-financial firms listed on the EGX and this accounts for 173 CFOs for the year 2020 and this study is left with a sample of 146 firms out of the 173 after excluding firms that had no secondary data in the year of study. The final count of the received responses is 96.

The Egyptian stock exchange website is used to get the sample and a questionnaire was distributed to the sample. Secondary data is used to get market data for measuring the firm´s cost of capital and is gathered using DataStream-Thomson Reuters database.

Table 2: The sample and the CFOs´ response rates

Industry	N.	Market share	N. of responses	% of responses
Food, Beverages, and Tobacco	26	17.81%	16	61.54%
Basic resources	16	10.96%	15	93.75%
Health Care and Pharmaceuticals	16	10.96%	13	81.25%
Building materials	10	6.85%	10	100.00%
Travel and Leisure	8	5.48%	6	75.00%
Textile and Durables	9	6.16%	6	66.67%
Industrial Goods, Services and Automobiles	5	3.42%	5	100.00%
Contracting and Construction Engineering	6	4.11%	4	66.67%
IT, Media and Communication Services	5	3.42%	4	80.00%
Paper and Packaging	4	2.74%	4	100.00%
Shipping and Transportation Services	4	2.74%	4	100.00%
Trade and Distributors	4	2.74%	3	75.00%
Education Services	2	1.37%	2	100.00%
Energy and Support Services	2	1.37%	2	100.00%
Real Estate	28	19.18%	1	3.57%
Utilities	1	0.68%	1	100.00%
Total	146	100%	96	

Table 2 reflects the sample of the study after excluding the financial sector and firms with missing data, and accordingly, the sample became 146 CFOs of the Non-financial listed firms (presented in column 2), In addition, the table reflects the market share for each industry in the sample (column 3), as well as the number of CFOs who responded from each industry with their response rates as compared to the number of firms in each industry (columns 4 and5).

4.1 The Egyptian market

The development of the Egyptian stock market goes back to 1888 when stocks were listed in the Alexandria stock exchange and followed by their listing in the Cairo stock exchange which was established in 1903 and was considered one of the most active stock exchange markets. Emerging markets are defined as those having low or middle income and having a stock market that is promising

(Solnik, 2000). Odier et al. (1995) state that emerging markets are promising due to their relatively high volatility compared to the developed markets and this was proven in studies on portfolio diversification, as including Emerging Markets into the investment portfolio results in higher returns for the same level of risk.

Egypt witnessed a turning point in 2016 by launching a vital reform program to improve its stability and to enhance its economic conditions, after suffering in prior years from instability. However, the COVID-19 pandemic created challenges and slowed down the intended impact of the created reforms. A few of the negative impacts of the pandemic are: (1) the increased spending on health and social protection; (2) the instability of firms´ supply and demand which impacted their financial statements negatively and some were facing bankruptcy risk; (3) the drop in vital sources of foreign currency (such as tourism, Suez Canal revenues, and payments from the oil-exporting countries); and last but not least (4) the unemployment rate was impacted.

Despite the challenges caused by the pandemic and to ease the pandemic´s negative effects, the Egyptian government reacted by putting several measures into action to reach the country´s development goals. Such measures include: (1) developing local supply chains for health equipment; (2) Creating cash transfer programs Takaful and Karama to reach remote villages and other vulnerable groups; (3) providing more care to the information and communication technology services due to its vital role in maintaining essential services; (4) deferring tax payments for the affected sectors; (5) removing trade barriers especially in agriculture business and improving food standards to help the country be more food secure. Furthermore, because of the economic slowdown, the banking system witnessed some risks regarding the loan portfolios, cost of capital, and profitability. However, the system was able to maintain its stability as it was proven to be profitable, liquid and well-capitalized during the crisis (IMF Report, 2020).

4.2 Validity and Reliability check

Most of the questions used in the constructed questionnaire are adjusted to match the sample and the type of respondents and therefore, validity and reliability checks are needed. Saunders et al. (2009) in their book mention that validity concerning questionnaires refers to the ability of the questionnaire to

measure what you intend it to measure. On the other hand, reliability is defined by Smith et al. (2008) as the extent to which the data collection technique will generate consistent findings. Several methods for calculating reliability exist, however one of the most common measures is Cronbach's alpha which is most used with multiple Likert scale questions to determine the scale reliability (Saunders et al., 2009).

The questionnaire is checked for construct validity using Pearson's correlation. The survey questions are grouped into two main categories to check for construct validity which are the behavioral questions and the personality traits questions. The personality traits category reports significant values, except for the agreeableness trait as one of the 2 polar questions is not significant (that is: Sympathetic, warm) and one of the reasons could be that few CFOs exhibit this trait, and this is reflected in the description section as CFOs who acquire this trait account for 45 percent which is less than 50 percent. However, this question is not removed as it's a two-polar type of question, noting that the 1 tail significance reflects validity for all questions.

Moreover, checking for the construct validity for the behavioral characteristics, all questions reported valid values except for three questions that reported insignificant results with a Pearson correlation value lower than the critical value, one of these questions is related to the optimism variable (If something can go wrong for me, it will), while the other two are related to the herding variable (Other industry Peers' financial decisions have an impact on my financial decisions, and I rarely consult others before making stock purchases or sales). Therefore, these three questions are removed to have a more reliable questionnaire. Moving to the reliability check for the scales, Cronbach's alpha is used and the total reported scale reliability coefficient for the questionnaire is (0.8115) which is a very good and acceptable scale reflecting that the questionnaire used is reliable.

4.3 Descriptive Statistics

This subsection presents a description of the variables, Table 3 summarizes the descriptive statistics for the behavioral and personality traits of the sample.The six behavioral characteristics are measured using a 5 points Likert scale and the descriptive statistics report that the six behavioral characteristics under study

average above (3) which means that the respondents answer mostly agree and strongly agree and therefore, on average, the CFOs tend to acquire these behavioral characteristics as their averages are above the mean value of the Likert scale, and this answers one of the main research questions of the study, (Are behavioral characteristics identified?), with a yes.

The five personality traits average above (3) as well, meaning that the CFOs tend to acquire these traits. Tabulating each trait reflects that the majority of the sample are pursuing their goals, emotionally stable, open to experience and creative. In addition, they tend to be introverted and not so much cooperat.

Table 3: Descriptive statistics results

Variable	N	Mean	Std. Dev.	Min.	Max.
Optimism	96	3.6479	.6908	1.8	5
Overconfidence	96	3.8125	.6619	2	5
Illusion of control	96	3.5731	.6867	1.67	5
Loss aversion	96	3.4187	.4625	1.4	4.2
Herding	96	3.25	.7254	1.67	5
Anchoring	96	3.24	.7951	1	5
Extraversion	96	3.1953	.8608	1	5
Conscientiousness	96	4.2291	.7323	2	5
Agreeableness	96	3.2968	. 7311	1.5	5
Emotional Stability	96	3.5677	. 8291	1.5	5
Openness	96	3.9375	. 7548	1.5	5

The four main demographics under study are the CFO´s age, gender, general educational level and marital status, these are the observable managerial characteristics. Table 4 below tabulates the four demographic variables, showing that most of the sample are males, in the age group 45- 64 years, married and the majority achieved a bachelor's degree as the highest educational degree.

Table 4: Tabulating CFO Demographics

	Variable	Freq	%	Cum.
Age	Age 25-34 (1)	10	10.42	10.42
	Age 35-44 (2)	33	34.38	44.79
	Age 45-64 (3)	46	47.92	92.71
	Age 65 or above (4)	7	7.29	100.00
Gender	Male (0)	83	86.46	86.46
	Female (1)	13	13.54	100.00
Education	No studies/Primary studies (1)	0	0	0
	High school (2)	1	1.04	1.04
	Bachelor degree (3)	57	59.38	60.42
	Master degree (4)	32	33.33	93.75
	PhD degree (5)	6	6.25	100.00
Marital Status	Un Married /Single (0)	14	14.58	14.58
	Married (1)	82	85.42	100.00

The normality check for the dependent variable is reported in Table 5, below, presenting the P values reflecting normality as values are more than (0.05). Detailed summarization reported a negative skewness with a value of (-0.2097) and a kurtosis value of (2.7255). Sattar et al. (2020) mention that data is considered normal when all the values lie between +3 and -3.

Table 5: Skewness and kurtosis tests for normality

Variable	N.	Pr (skewness)	Pr (kurtosis)	Joint Adjchi2(2)	test Prob>chi2
WACC	96	0.3750	0.7297	0.93	0.6296

The survey took approximately six months to receive responses representing a very satisfactory response rate of about 66%, compared favorably to other similar survey studies conducted on different markets (Scott & Johnson, 1982; Graham & Harvey, 2001; Bancel & Mittoo, 2004; Brav et al., 2008; Graham et al., 2013). Such studies have response rates ranging from 5.3 to 21.2 percent, noting that their sample size is much bigger than the sample size of this study.

4.4 Correlation Analysis

Pearson's correlation matrix is used, and it shows the degree of correlation between the variables which should not exceed (0.8) (Bryman & Cramer, 1997; Soliman, 2013). The correlation analysis results, Table 6, reflect no

multicollinearity problem between all the variables as the correlations between them are lower than (o.8).

Table 6: Correlation analysis for all variables

	WACC	Age	Gender	Education	Marital	Optimism	Confidence	Illusion	Lossaversion	Herding	Anchoring	Extraversion	Conscientiousness	Agreeableness	Emotionalstability	Openness
WACC	1															
Age	-0.0182	1														
Gender	0.132	-0.422	1													
Education	-0.1369	-0.0085	-0.0885	1												
Marital	0.012	0.4669	-0.5265	-0.0343	1											
Optimism	-0.0642	0.0391	0.1053	-0.016	0.0116	1										
Confidence	-0.1065	0.196	-0.1069	0.2413	0.1177	0.2247	1									
Illusion	-0.0043	0.0135	-0.0645	0.017	0.1737	0.2373	0.5301	1								
Lossaversion	0.1586	0.0717	-0.0161	-0.0869	-0.0216	0.2488	0.1577	0.1227	1							
Herding	0.0441	-0.0402	0.116	0.0518	-0.075	0.1929	0.3799	0.179	0.2368	1						
Anchoring	0.0152	-0.0322	0.0166	0.039	0.0983	0.2224	0.235	0.0916	0.2092	0.2664	1					
Extraversion	0.2062	0.0585	0.0164	-0.1047	0.1115	0.1301	-0.032	0.0165	0.0978	-0.0762	-0.2437	1				
Conscientiousness	-0.0204	0.102	0.0635	-0.0081	0.0287	-0.0719	0.304	0.2001	0.1456	0.1684	0.1073	0.091	1			
Agreeableness	0.0013	0.0858	-0.0987	-0.086	-0.0951	-0.1222	-0.0279	-0.0837	-0.1318	0.0306	-0.0721	-0.1663	0.0485	1		
Emotionalstability	0.042	0.0506	0.1705	0.0824	0.0339	0.0421	0.22	0.0698	0.1476	0.2836	0.2328	-0.1902	0.4075	-0.0292	1	
Openness	-0.1503	0.0915	0.0938	0.1037	-0.054	-0.0043	0.1843	0.1612	-0.0931	0.0288	0.1268	-0.0033	0.3546	-0.0471	0.0909	1

5. EMPIRICAL RESULTS AND DISCUSSION

A multiple regression is applied, and results in Table 7 below report only three significant factors which are the CFO gender, optimism, and extraversion trait.

Table 7: Regression result

VARIABLES	WACC
Age	0.0733
	(0.167)
Gender	**0.502***
	(0.266)
Education	-0.0615
	(0.128)
Marital	0.120
	(0.347)
Optimism	**-0.242***
	(0.130)
Overconfidence	-0.174
	(0.211)
Illusion of control	0.145
	(0.187)
Loss aversion	0.280
	(0.198)
Herding	0.0577
	(0.146)
Anchoring	0.120
	(0.143)
Extraversion	**0.260****
	(0.119)
Conscientiousness	-0.105
	(0.163)
Agreeableness	0.0799
	(0.122)
Emotional stability	0.0785
	(0.130)
Openness	-0.156
	(0.137)
Constant	-1.700
	(1.146)
Observations	96
R-squared	0.163

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

The CFO gender reports a positive coefficient at a P value of (0.1), reflecting that a female CFO tends to increase the firm's cost of capital. This result opposes what the literature has reached with regard to female CFOs, as female CFOs are more risk-averse than male CFOs when making various corporate decisions. Further, Francis et al. (2013) report that banks grant firms with female CFOs lower loan prices as compared to male CFOs and provide them with better contract terms. Thus, this unusual result could be attributed to the year of study as this research was conducted during the covid 19 pandemic in year 2020.

The negative coefficient of optimism reflects that a one unit increase in optimism will decrease the cost of capital by a value of (0.242), so optimistic managers tend to lower their firms' cost of capital and this result is consistent with Meier and Esmatyar (2016). This behavioral characteristic is significant at a P value of (0.1). This relation could reflect that optimistic CFOs tend to lower their firm's cost of capital by avoiding external long-term sources of finance, another opinion confirming the negative relation is that optimistic managers are granted a loan more easily, with better conditions.

Further, the positive extraversion coefficient reflects that a firm with an extraverted CFO will tend to have a high cost of capital as a one unit increase in extraversion will increase the cost of capital by a value of (0.260), following Adebambo et al. (2018) the positive coefficient between extraversion and the cost of capital is justified by the tendency of extraverted CFOs to take risks and have lower credit rating and therefore, the cost of capital increases. An additional check for the multicollinearity problem is conducted, which is the VIF (variance inflation factor) and the results report an average VIF value of (1.47) and the VIF values for the variables range from (1.16) to (1.98), Therefore, all the values are far from (10) confirming that there is no multicollinearity problem, Table 8.

Table 8: VIF result for all the variables

Variable	VIF	1/VIF
Overconfidence	1.98	0.50504
Marital status	1.86	0.538267
Gender	1.73	0.57868
Conscientiousness	1.61	0.619883
Illusion of control	1.6	0.623624
Age	1.58	0.63361
Emotional stability	1.49	0.672922
Anchoring	1.37	0.730507
Herding	1.35	0.739527
Extraversion	1.3	0.768526
Optimism	1.3	0.77066
Openness	1.3	0.771852
Loss aversion	1.28	0.781538
Educational level	1.17	0.853027
Agreeableness	1.16	0.862137
Mean VIF	**1.47**	

6. CONCLUSION

This paper aims to test for the theory and practice gap by identifying the CFO's observable and non-observable characteristics and to highlight different determinants of the firm´s cost of capital. This research sheds light on the cost of capital decision because it is at the core of other major financial decisions that contribute to the wealth of the economy. Furthermore, on the effect of the COVID-19 pandemic on financial decisions, Ke (2022) report that COVID-19 affects firm´s cost of equity in US firms. Another study on the Egyptian market by Golubeva (2021), shows that equity can be preferred over debt due to the bankruptcy costs raised under the pandemic.

To achieve the objectives of this study, CFOs of the non-financial firms listed on the EGX were surveyed and responses were analyzed which totaled 96. The survey reported a Cronbach's Alpha of (0.8115) which reflects its reliability, and this supports that behavioral finance can be explored in the Egyptian market. After analyzing the responses, the findings answer the research questions of the study, and the main findings are presented as follows:

(1) What is the impact of CFO demographics on the firm´s cost of capital? Results report that the cost of capital is significantly impacted by the CFO's gender only. (2) Are behavioral characteristics identified among Egyptian CFOs? Most of the CFOs respond above the average value for the behavioral questions and therefore they acquire such behavioral characteristics which answers this research questions, with a yes. (3) Are the CFO´s behavioral characteristics impacting the firm´s cost of capital? Only one behavioral characteristic reports a significant influence on the cost of capital decision which is the CFO's optimism. (4) Are the CFO´s personality traits impacting the firm´s cost of capital? Only one personality trait reports a significant relation, which is the CFO's extraversion.

Upon such, based on the results reached, all the research hypotheses are partially not rejected. This study contributes to the behavioral finance literature as: (1) most of the variables adhered in this research have not been studied before in relation to the cost of capital decision; (2) studying the impact of behavioral factors on the financial decisions in the context of corporations is not fully documented as compared to the context of financial markets; (3) focusing on the CFO is limited as prior work extensively focuses on CEOs; (4) choosing the Egyptian market contributes to the literature as behavioral corporate finance studies are conducted rarely on the Middle Eastern countries and especially Egypt as a developing market.

On a broader view, the results serve academics by referring to different factors that influence one of the financial decisions in a developing market in addition they could benefit from the primary data tool which could be applied in other studies. On the other hand, practitioners could benefit as well, for example: investors and financial analysts looking at the firm´s financial statements and annual reports would now realize that the decisions taken by managers could be impacted by their behavior, realizing this could affect their investment and analysis decision if they decided to understand the pattern and behavior of the manger. Additionally, the board of directors would be interested in the results of this study and similar ones, as it is crucial to consider the human behavior of the managers when planning to hire them, aiming to hire managers who will make decisions that have a positive impact on the firm.

Like any research, this study has a few limitations that are summarized in the following points: (1) Data accessibility; (2) The percentage of responses is considered acceptable; however the results might not be robust from a statistical point of view especially that the study is conducted for one year only so this leads to a small number of observations; (3) Requiring CFOs to respond to surveys is not easy as they are not always free, and they are not easily reached.

To conclude, the results support the importance of studying human behavior and characteristics within corporations as they seem to explain the variation in one of the firms' financial decisions (cost of capital), and this goes in line with behavioral finance theories. Further, the findings of this paper open avenues for future research and thus, a few recommendations are suggested: (1) It is recommended to explore some moderating variables (such as the Culture); (2) Replicating this study on CEOs with a larger sample size to minimize statistical problems that may arise and provide a comparison between the CEOs and CFOs to test if the decision under study will be impacted differently; (3) Using interviews as a data gathering tool will help to have a better understanding of the managerial behavior; (4) Including some control variables such as the firm characteristics could result in good insights.

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تأثير الخصائص السلوكية للمدير المالي وسماته الشخصية على تكلفة رأس المال

د. سارة وحيد رأفت بسيوني

ملخص البحث باللغة العربية

تهدف هذه الورقة إلى تحديد خصائص المدير المالي واستكشاف تأثير هذه الخصائص على تكلفة رأس المال. ولتحقيق أهداف البحث تم توزيع استبيان على المديرين الماليين بالشركات غير المالية المقيدة بالبورصة المصرية. علاوة على ذلك، يتم جمع البيانات الثانوية للحصول على أي بيانات مطلوبة لاتخاذ القرار المالي. تشير النتائج الاحصائية إلى أن هناك ثلاثة عوامل تؤثر بشكل كبير على تكلفة رأس المال وهي جنس المدير المالي، والتفاؤل، وسمة الانفتاح. وتكشف النتائج عن أهمية تضمين محددات أخرى في نماذج الشركات غير المحددات التقليدية وهذا يدعم نظرية التمويل السلوكي. تضيف هذه الورقة إلى الأبحاث السابقة من خلال استكشاف خصائص المدير المالي التي لم تتم دراستها بشكل كامل في سياق الشركات، وخاصة في الأسواق النامية.

الكلمات الدالة: العوامل السلوكية، السمات الشخصية، المدير المالي، تكلفة رأس المال، مصر.

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