

The Ownership Structure, Capital Structure and Performance of Thai Firms

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Abstract

This dissertation investigates the ownership and capital structure of Thai firms. Additionally, the study examines the influence of the ownership structure and corporate governance on the capital structure policy and performance of Thai firms. The data sample is based on 270 non-financial companies listed in the Stock Exchange of Thailand in 1996. The firms in the sample account for 97.08 percent of the capitalization of non-financial companies traded in the Stock Exchange of Thailand.

Overall individuals appear to have the highest share of Thai firms' equity. Individuals hold approximately 54 percent of all shares. Domestic corporations are the second largest share-holding group. They hold 25.76 percent of the outstanding shares. Domestic financial institutions hold less than 10 percent of the shares. When corporate shareholders are grouped together with their controlling shareholder, firms are, however, not as widely held as these statistics show. In contrast, in 82.59 percent of the firms, the largest shareholder holds the controlling block, defined as the shareholdings of at least

25 percent of the outstanding shares. In most of the firms the controlling shareholders do not use more complex ownership structures, such as cross-shareholdings and pyramidal ownership to control the firms. Only 21.27 percent of the firms are controlled via pyramid structure and cross-shareholdings.

The controlling shareholders do not merely own the firms but also participate in managing them. The results show that about 70 percent of the firms with at least one controlling shareholder, the controlling shareholder appear in the top management positions as well as the boards of directors.

The existing ownership structure of Thai firms indicates that the traditional agency problem, the conflict of interests between managers and outside shareholders, is not the main problem. The agency conflicts can be controlled by large shareholders. Instead, the agency problem between the controlling shareholders and managers, on one hand, and minority shareholders and other stakeholders such as creditors, on the other hand appears to be more severe. Since the controlling shareholders have voting power and are involved in management, they may obtain private as well as monetary benefits that are not generally available to outside shareholders.

The agency conflicts between controlling shareholders and other stakeholders are analyzed by comparing the performance of firms with controlling shareholders with that of firms with no controlling shareholder. The empirical evidence, however, is against the hypothesis that controlling shareholders have negative influence on the firm's value. Univariate analysis shows that firms with controlling shareholders do not have significant power performance than that of firms with no controlling shareholder. In fact, results from multivariate analysis indicate that firms with controlling shareholders have superior ROA than firms with no controlling shareholder. In addition, further investigation shows that where performance is measured by ROA, foreign investors-controlled firms display significantly different performance than firms with no controlling shareholder.

The analysis also casts doubt on the argument that controlling shareholder involvement in management has a negative effect on the performance. The univariate

and multivariate analyses suggest that the ROA of firms managed by their controlling shareholder is lower than that of firms where controlling shareholders do not participate in management.

Regarding the effectiveness of the existing corporate governance mechanism on performance, the results show that performance is positively related to the presence of financial institutions. The results suggest that domestic financial institutions may monitor the firms. Size of the board of directors is negatively associated with performance, which indicates that larger board reduces communication among members.

The relationship between the performance of firms and levels of managerial ownership differs depending to the characteristics of managers. The relation between the stakes held by top managers who are also the firms' controlling shareholders is uniform. However the ownership of managers who are not the firms' controlling shareholder is non-linearly related to the performance measure, ROA. The results show a significant positive-negative relationship between the non controlling shareholder-managers ownership and performance, which are in line with the developed economies based studies.

With respect to the firms' financing structure, the sources of financing of Thai firms come mainly from external funds. Internal funds account for only 9.33 percent of total assets. The largest sources of external financing are stock issuance and short term and long term debt. The empirical results indicate that taxes, bankruptcy costs, agency costs and information costs are important factors in the Thai firm's financing decisions. Non-debt tax shields, profitability and investment opportunities have negative effects on debt-equity ratio. The results are consistent with the tax based model and the pecking order theory.

The analysis shows that ownership and control mechanisms have significant effects on the financial structure. Firms that have the government as major shareholder are more levered, probably because the borrowing is secured by the government. Firms that are associated with well-known business groups have lower debt ratio. The results

indicate that the problem of information asymmetry may be less severe. The presence of non-financial foreign investors is associated with lower debt ratio. This finding may reflect that foreign shareholders monitor the firms. Firms that have controlling shareholders included in management appear to have higher debt levels. The controlling shareholder-and-managers may adopt high debt ratio to inflate their voting power.