

The Analysis of Corporate Governance  
Practices and Their Impact on Minority  
Shareholder Rights in the Thai Banking  
Sector

Chinnapat Kanthapanit

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## DECLARATION

I, Chinnapat Kanthapanit, declare that the PhD thesis entitled the analysis of corporate governance practices and their impact on minority shareholder rights in Thai banking sector is no more than 100,000 words in length including quotes and exclusive of tables, exhibits, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

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Date

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## LIST OF PUBLICATIONS AND AWARDS

Publications from this thesis has been accepted for publication in available journals, websites, and international conferences as follows:

- Kanthapanit, C, Armstrong, A and Tippet, J (2011). 'Determinants of Minority Shareholder Rights in the Thai Banking Sector ', *World Review of Business Research*, vol.1, no.1, pp.90–102.
- Kanthapanit, C, Armstrong, A and Tippet, J (2011). 'Determinants of Minority Shareholder Rights in the Thai Banking Sector'. Social Science Research Network (SSRN), New York, viewed 25 December 2011, <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1967480](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1967480)>
- Kanthapanit, C, Armstrong, A and Tippet, J (2010). 'Determinants of Minority Shareholder Rights in the Thai Banking Sector'. In: Professor Dr Bob Clift, FD, University of Melbourne, Australia (ed). *13th International Business Research Conference*. Novotel Hotel, Melbourne, Australia: World Business Institute, Australia, 13.

## Abstract

This study, supported by the Stock Exchange of Thailand (SET), investigated the responses of institutional investors in Thailand to corporate governance practices that promote minority shareholder rights. The study examined the compliance of banks with corporate governance standards in the commercial banking sector in Thailand and the relationship between compliance, ownership types, and bank performance. Interviews with experts from the sector preceded a survey of 173 bank executives and investors. The data were analysed using multivariate statistics and regression analysis.

The research questions were: research question 1: *What is the optimal model for explaining the protection of minority shareholder rights in the Thai banking sector?* Research questions 2 to 4 examined the effects of bank ownership types on corporate governance practices, bank performance, and minority shareholder rights protection: *Which bank ownership types comply with good corporate governance practices? What is the relationship between bank ownership types and bank performance? Which bank ownership types have enhanced minority shareholder rights protection?* Research question 5 investigated the effects of investor legal protection: *Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?* The effects of corporate governance practices on bank performance and minority shareholder rights protection were addressed in question 6: *Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?* The final two questions determined the relationship between bank performance and free cash flow and minority shareholder rights protection: *Does good bank performance result in strong minority shareholder rights protection? Does free cash flow support minority shareholder rights protection?*

This thesis made two original contributions to knowledge in practice. First, researchers have been calling for institutional investors to exert their influence on companies in

which they invest to require those companies to comply with good corporate governance practices in Thailand. The study therefore fills a gap in knowledge with respect to institutional approaches to companies to comply with governance standards affecting minority shareholder rights.

Second, this thesis raises questions about the relationship of ownership types to corporate governance practices with regard to minority shareholder rights and the impact that this has on bank performance and whether bank performance, in turn, involves a relationship with minority shareholder protection.

This is also the first study to develop a new model for determining the impact of institutions on the Thai commercial banking sector's approach to minority shareholder rights protection.

The findings refute previous research that found that concentrated family ownership is negatively associated with good corporate governance. One explanation may be that Thailand's ownership profile has changed since those earlier studies or that ownership varies in other ways from that found in other countries. This suggests an issue that deserves further investigation.

The regression model confirmed that minority shareholder rights expropriation is associated with poor corporate governance practices and concentrated ownership, but not family ownership types. Unlike previous research, the analysis of bivariate statistics showed that not only dispersed ownership but family ownership of the Thai banks supported good corporate governance practices. These benefited the banks in many ways, such as high bank performance, free cash flow and the protection of minority shareholder rights.

The findings supported previous theories and research that suggested that the factors that determine the protection of minority shareholder rights are dispersed ownership, corporate governance practices, investor legal protection, bank performance, and free

cash flow. The research results further suggested that in a competitive market, minority shareholder rights protection was best achieved by a dispersed ownership model. This model was enhanced by investor legal protection, free cash flow, and bank performance.

The researcher identified the limitations of the study and made suggestions for further reforms of governance in the sector. These included new corporate governance practices that could be introduced by the Stock Exchange of Thailand to more closely link compliance with governance standards concerning minority shareholder rights. Investor legal protection could also empower the rights of minority shareholders against controlling shareholders by improving and enforcing laws that support good corporate governance practices. An example is regulation that requires greater accountability for the disposal of free cash flow. These reforms could lead to improved access to dispute resolution, and cost efficiencies that promote ease of access to legal action.

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## LIST OF ABBREVIATIONS

<b>Abbreviations</b>	<b>Full description</b>
ACL	ACL Bank public company limited
ACs	Agency Characteristics
A.D.	Anno Domini (Number of years after the traditional date of Christ's birth)
ANOVA	Analysis of Variance
BAY	Bank of Ayudhya public company limited
BBC	Bangkok Bank of Commerce
BBL	Bangkok Bank public company limited
B.E.	Buddhist Era (Number of years after the traditional date of Buddha's death)
BIBF	Bangkok International Banking Facilities
BOT	Bank of Thailand
BP	Bank Performance
CASH	Cash-Flow rights of the largest block-holder
CASH/VOTES	The ratio of Cash-Flow to voting rights of the largest block-holder
CEO	Chief Executive Officer
CES	Capital Expenditures over Sales ratio
CG	Corporate Governance practices
CG-ROSC	Corporate governance - Report on the Observance of Standards and Codes
CIMBT	CIMB Thai Bank public company limited
CLSA	Credit Lyonnais Securities Asia
Dc	Country dummy
df	Degrees of Freedom
Disperse	Dispersed ownership

Do	Different ownership and controls
DY	Dividend Yield
E	Error
EBIT	Earnings Before Interest and Tax
Family	Family ownership
FCF	Free Cash Flow
FCs	Firm Characteristics
Foreign	Foreign ownership
FSMP	Financial Sector Master Plan
GAAP	General Accepted Accounting Practice Standards
GDP	Gross Domestic Product
Government	Government ownership
HREC	The Victoria University Human Research Committee
IMF	International Monetary Fund
IOD	Thai Institute of Directors Association
IPO	Initial Public Offering
KBANK	Kasikorn Bank public company limited
KK	Kiatnakin Bank public company limited
KMO	Kaiser-Meyer-Olkin
KTB	Krungthai Bank public company limited
Legal	Investor legal protection
MSE	Residual Mean Square
MSR	Regression Mean Square
N	Number of samples
NCGC	National Corporate Governance Committee
NGV	Natural Gas for Vehicles
NHMRC	National Statement on Ethical Conduct in Human Research
NPLs	Non Profitable Loans
NPM	Net Profit Margin
OECD	Organisation for Economic Co-operation and Development
PLC	Public Limited Company

PTT	PTT public company limited
Q	Question
Raja	Raja finance company
ROA	Return on Assets
ROE	Return on Equity
SCB	Siam Commercial Bank public company limited
SCIB	Siam City Bank public company limited
SGROWTH	The Growth of Sales Revenues over the year
SEC	The Securities and Exchange Commission
SET	The Stock Exchange of Thailand
Sig	Significance
SOEs	State Owned Enterprises
SPSS	Statistical Package for the Social Sciences
TCAP	Thanachat Capital Public Company
TISCO	Tisco Financial Group public company limited
TMB	TMB bank public company limited
UK	United Kingdom
US	United States of America
VIF	Variance Inflation Factor
VLS	Victoria Law School

# CHAPTER 1

## Introduction to the Research

### 1.1 Introduction

The OECD identified minority shareholder rights expropriation as one of the most serious problems of corporate governance practices in the Asian developing countries. This was credited as being due to weak corporate governance regulations that contributed to the Asian economic struggles from 1997 to 1999 (OECD, 2003). One consequence was that the protection of minority shareholder rights became an increasingly important issue. Minority shareholders are non-controlling shareholders who do not have the voting control of a firm (La Porta et al., 1998). Expropriation of minority shareholder rights refers to the misuse of the power of controlling shareholders to maximise their own welfare and extract wealth from minority shareholders (Claessens et al., 1999).

In the resolution of the expropriation of minority shareholder rights, the OECD's White Paper (2003) identified the cause of the lack of protection of minority shareholder rights in the Asian developing countries as the lack of separation of ownership and control associated with the predominance of concentrated ownership, especially by families and government enterprises. Many institutions were seen to be operated by managers for their own self-interest. This led to agency problems, poor corporate governance, weak protection of shareholders with regard to legal enforcement, cash expropriation, insider trading, inefficient investments, and poor firm performance (La Porta et al., 1998). Many harmful activities resulted from the expropriation of minority shareholder rights.

Johnson et al. (2000) investigated corporate governance in the 1997 Asian financial crisis and found examples (Table 1.1) of controlling shareholders, who were also managers, and who supported minority shareholder rights expropriation during the Asian financial crisis. The expropriation of minority shareholder rights is found in Thailand, Hong Kong, Korea, Russia, and Indonesia. The banks also had pyramidal management that allowed managers to transfer cash and assets out of the banks to create their own wealth (Johnson et al., 2000). All of the cases suggested managers were able to steal cash and assets from corporations without any monitoring from minority shareholders. Controlling owners of corporations were also found to engage in insider dealing and transfer pricing among the companies based on their wealth creation.

Another practice of the Asian banks was to provide soft terms for loans to their relationship-based businesses (Johnson et al., 2000, p. 143). This was because the Asian banks were owned by great banking families who owned large industrial conglomerates with the bank at the centre (Siamwalla, 2001).

Finally, the expropriation of minority shareholder rights was a major problem in the Thai banking sector. Evidence of minority shareholder rights expropriation in the Thai banking sector has been reported as follows.

**Table 1.1 Incidents of weak minority shareholder rights protection**

Country	Company	Year	Incident
Thailand	Bangkok Bank of Commerce (BBC)	1996–97	BBC bank's management provided insider lending to their business parties, politicians, friends and relatives, as well as moving money to offshore companies under their control.
Malaysia	United Engineers BHD	1997–98	Management bailed out its financially troubled parent, Renong Bhd, by acquiring a 33% stake at an artificially high price.
Malaysia	Malaysia Air System	1998	The chairman of Malaysia Air System used company funds to retire personal debts.
Indonesia	PT Bank Bali	1997–98	Managers of the bank diverted funds in order to finance a political party.
Indonesia	Sinar Mas Group	1997–98	Managers of Sinar Mas Group transferred foreign exchange losses from a manufacturing company to a group-controlled bank, electively expropriating the bank's creditors and minority shareholders.
Hong Kong	Guangdong International Trust & Investment Co	1998–99	Managers steal assets that had been pledged as collateral that disappeared from the company when it went bankrupt.
Hong Kong	Siu-Fung Ceramics Co	1998–99	Managers steal assets that had been pledged as collateral that disappeared from the company when it went bankrupt.
Russia	Toko Bank	1998–99	Creditors who may have been linked to Toko Bank managers took control of the bank and its remaining assets following default. However, foreign creditors received nothing.
Russia	Menatep	1998	Following Menatep's bankruptcy, managers transferred a large number of regional branches to another bank they controlled.
Russia	AO Yukos	1998–99	Managers transferred Yukos's most valuable petroleum-producing properties to offshore companies they controlled.
Russia	Uneximbank	1999	Following Uneximbank's bankruptcy, managers moved profitable credit card processing and custodial operations to another bank.
South Korea	Samsung Electronics Co	1997–98	Managers used cash from Samsung Electronics to support other members of the Samsung group (notably Samsung Motors) that was losing money.
South Korea	Hyundai	1998–99	Management of a Hyundai-controlled investment fund channelled money from retail investors to loss-making firms in the Hyundai group.

(Johnson et al., 2000, p. 144)

### **The crony lending of the Thai banking sector**

Charumilind, Kali, and Wiwattanakantang (2006) investigated crony lending in Thailand before the 1997 Asian financial crisis and found that management in the Thai banking sector expropriated the rights of minority shareholders by providing the allocation of credits based on soft-term loans to their business parties. This was

because bank executives were also the directors of other business groups described as 'having close ties or lending cronies'. The Thai banking sector collapsed when non-profitable loans (NPLs) of the Thai banks rose to 33% of overall bank assets. By 1999, NPLs had expanded to 47.7%. It was that which affected the 1997 financial crisis.

### **The expropriation of minority shareholder rights in the Thai banking sector**

The Thai banking sector has had a bad reputation for the expropriation of minority shareholder rights. As noted above, several examples associated with the expropriation of minority shareholder rights resulted from insider trading, connected-lending, poor accounting standards, and even a bank collapse (Siamwalla, 2001).

Some examples are the Raja finance company, the Asia Trust Bank, the First Bangkok City Bank, and Siam City Bank. Back to the history of the expropriation found in 1978, Raja finance company (Raja) engaged in insider lending to their business conglomerates in order to invest in Raja's shares (Sundaravej and Trairatvorakul, 1989). The insider-trading behaviour of Raja finance also created investments in other companies' shares in the stock market that created speculative bubbles in the market. The bursting of the bubble caused Thailand to experience the first Thai financial crisis in 1979.

A few years later, the family-owned bank Asia Trust Bank (Tarnvanichkul family) produced such a high bad debt that it exceeded the capital adequacy of the bank. By 1984 it caused the bank financial distress. The investigation by the Bank of Thailand (BOT) found the controlling shareholders of the Asia Trust Bank were involved in insider lending, fraud, and creating window dressing accounts (Siamwalla, 2001). Similarly, another family-owned bank, the First Bangkok City Bank (Tejapaibool family) and Siam City Bank (Mahadamrongkul family) also run businesses based on the self-maximising behaviour of management, which directed the bank to financial distress in 1986–87 (Sundaravej and Trairatvorakul, 1989). The investigation by the Bank of Thailand (BOT) suggested that the failure of the banks was created by high bad debts resulting from the self-dealing behaviour of management that used the money of the banks to fund their cross-holding businesses (Sundaravej and

Trairatvorakul, 1989). The report also showed the banks had poor accounting standards such as inadequate auditing (Siamwalla, 2001).

In the 1997 Asian economic crisis, the family-controlled bank named the Bangkok Bank of Commerce (BBC) had connected lending to their business-based related corporations without collateral guarantees and further created large capital out flow to several defunct Russian banks (Johnson et al., 2000, p. 142). BBC's loans were also granted to politicians for insider trading in the stock market and land speculation (Siamwalla, 2001).

In summary, the background to the study presented minority shareholder rights expropriation as a serious problem that resulted in poor corporate governance and poor firm performance.

## **1.2 Research aims and questions**

The purpose of the research was to improve the protection of minority shareholder rights in the Thai commercial banking sector. The study contributes to the development of minority shareholder rights protection and knowledge of the theoretical framework supporting corporate governance practices. Its specific aims were:

- (1) to determine the optimal ownership model that explains protection of minority shareholder rights in the Thai commercial banking sector
- (2) to determine the relationship between ownership types and the factors of corporate governance practices, bank performance, and minority shareholder rights protection
- (3) to determine the relationship between investor legal protection and the factors of corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow
- (4) to determine the relationship between corporate governance practices and the factors of bank performance and minority shareholder rights protection
- (5) to determine the effects of bank performance on minority shareholder rights protection

- (6) to determine the effects of free cash flow on minority shareholder rights protection.

Within the aims of this study, this investigation seeks to answer eight research questions as follows.

The first question was developed in response to the first of the specific aims of this study, that is, the investigation of the optimal ownership model which addressed factors that provide the best explanation for the protection of minority shareholder rights as presented.

***Research question 1:*** *What is the optimal model for explaining the protection of minority shareholder rights in the Thai banking sector?*

Research questions 2 to 4 were developed to specifically answer aim 2, which addressed the effects of bank ownership types on the protection of minority shareholder rights. Research questions 2 to 4 were designed to explain how bank ownership types relate to several determinant factors of the protection of minority shareholder rights involving corporate governance practices, bank performance, and minority shareholder rights as described.

***Research question 2:*** *Which bank ownership types comply with good corporate governance practices?*

***Research question 3:*** *What is the relationship between bank ownership types and bank performance?*

***Research question 4:*** *Which bank ownership types have enhanced minority shareholder rights protection?*

The roles of investor legal protection and corporate governance practices designed to protect minority shareholder rights are addressed in research questions 5 and 6.

Research question 5 explored the relationship between investor legal protection and several determinant factors that improve the protection of minority shareholder rights,

such as corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow. These research questions are presented as follows.

***Research question 5: Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?***

Research question 6 investigated the relationship between corporate governance practices and several determinant factors that improve the protection of minority shareholder rights, such as bank performance and the protection proposed as follows.

***Research question 6: Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?***

Finally, research questions 7 and 8 specifically answer aim 4, which determined the relationship between the performance of the banks and their response to the protection of the rights of minority shareholders.

Research question 7 was designed to investigate the relationship between bank performance and the protection of minority shareholder rights presented as follows.

***Research question 7: Does good bank performance result in strong minority shareholder rights protection?***

Research question 8 was drawn to examine the relationship between financial liquidity represented by free cash flow and the protection of minority shareholder rights described as follows.

***Research question 8: Does free cash flow support minority shareholder rights protection?***

### **1.3 Theories of the study**

This study used the following theories in order to explain minority shareholder rights protection.

#### **1.3.1 Agency theory**

Agency theory explains the conflict of interest between controlling shareholders (who acted as managers) and minority shareholders relating to minority shareholder rights protection because controlling shareholders are able to operate firms to satisfy their own personal interests (Clake, 2004). By increasing their benefits and exhibiting a tendency towards 'egoism', they engaged in 'minority shareholder rights expropriation' (Eisenhardt, 1989, Solomon and Solomon 1999).

#### **1.3.2 Legitimacy theory**

Legitimacy theory involves minority shareholder rights protection because legitimacy relies on the laws which support investor legal protection and encourages the rights of minority shareholders (La Porta et al., 1998; Suchman, 1995).

#### **1.3.3 Stakeholder theory**

Stakeholder theory suggests managers and minority shareholders are among the major stakeholders in a corporation's impact on a firm or are impacted by the operation of the enterprise. The theory explains the development of stakeholder relationships creating sustainability of the maximisation of the long-term wealth of stakeholders, who include minority shareholders (Donaldson and Preston, 1995).

#### **1.3.4 Corporate governance**

Corporate governance addresses both the agency problems and the rights of stakeholders in particular and supports minority shareholder rights protection because good corporate governance encourages management to recognise the rights of minority shareholders (Shleifer and Vishny, 1997, OECD, 2004, Solomon and

Solomon, 2004). Corporate governance guidelines around the world also include the protection of minority shareholder rights (Solomon and Solomon, 2004).

#### **1.4 Justification for the research**

In Thailand, small investors hold investments in the Stock Exchange of Thailand (SET) with a capital market value of 8,073,751.83 million baht, which is approximately 8.50% of Thailand's GDP (9.5 trillion baht) in 2010 (Stock Exchange of Thailand, 2011). The protection of small investors supports the development of the capital market because strong investor protection increases investor confidence to create more investment in the markets (La Porta et al., 1997). The improvement of minority shareholder rights protection also encourages the development of corporate governance, which in turn leads to benefits that include the financial stability of creditors, corporations, and capital markets in the long run (Shleifer and Vishny, 1997).

The Thai commercial banking sector has total assets valued at 12,816,985 million baht, which is more than Thailand's GDP in 2010 (about 13.50 times) (Bank of Thailand, 2011). The previous section of this chapter suggested minority shareholder rights expropriation is a very serious problem in the Thai banking sector because it is one of the major problems that caused the collapse of the Thai financial system in 1997 (Johnson et al., 2000). The examples in this chapter address the insider lending in the Thai banking sector that may have caused Thai financial distress in the past. The protection of minority shareholder rights is a significant solution to this problem because it promotes good corporate governance practices, increasing information disclosure, and the monitoring of management in the Thai commercial banking sector.

In summary, enhanced protection of minority shareholder rights was related to ownership types, corporate governance practices, investor legal protection, free cash flow, and firm performances. The relationships postulated between the variables were identified in the theoretical framework and an analytical model investigated their relationships with minority shareholder rights protection in Thailand.

This study was also inspired by a gap in the literature review of the previous research that suggested that the several factors that enhanced the protection of minority shareholder rights were ownership types, corporate governance practices, investor legal protection, free cash flow, and firm performance. In this thesis, the factors were identified in the theoretical framework and an analytical model investigated minority shareholder rights protection.

The literature review addressed how ownership types influence minority shareholder rights protection. This is because the separation between ownership and control of a modern corporation encourages the monitoring of management, which reduces the conflict of interest between controlling shareholders and minority shareholders (Bare and Means, 1932; Fama and Jensen, 1983b; Jensen, 1986). In contrast, concentrated ownership types include family, government, and foreign-created expropriation of minority shareholder rights through the self-dealing of controlling shareholders and pyramidal management style.

Good corporate governance practices reduced the agency problems of those ownership types. This was because corporate governance involved the relationship between management and minority investors (OECD, 2004). Corporate governance also encouraged minority shareholders to construct the objectives of the company and effective monitoring (OECD, 2004). The development of good corporate governance practices is important to support the rights of minority shareholders to constrain the self-dealing behaviour of management and increase the accountability of managers (Shleifer and Vishny, 1997).

Investor legal protection combines the rights of minority shareholders with legal enforcement. The legal systems of a country support investor legal protection in order to inhibit the creation of concentrated ownership and pyramidal management (La Porta et al., 1998; 2000b). The OECD also addressed the legal environment that also promotes good corporate governance in a country (OECD, 2004). Strong investor legal protection also reduces the costs of finance to a company (cost of lobby) (La Porta et al., 1998). Enhancing legal foundations thus promotes the confidence of investors through the development of capital markets around the world (La Porta et al., 1998; 2000b).

Free cash flow and firm performance are addressed as the detectors of minority shareholder rights expropriation because controlling shareholders use the cash of a company to create their wealth. The self-dealing behaviour of management has been found to support poor quality of investments, which creates weak firm performance (Claessens et al., 1999a).

In summary, the justification of this study is motivated by the protection of small investors in the Thai capital markets, including small shareholders of the Thai commercial banks. The justification for this study is also encouraged by the literature review that provided the theoretical framework for this study that investigated the protection of minority shareholder rights.

### **1.5 Significance of the study**

The application of an optimal model, as addressed in the justification of the study, will potentially strengthen minority shareholder rights. Corporate governance literature suggests that Thailand's corporate governance needs to solve the problem of the expropriation of minority shareholder rights by family-dominated companies. At present there is no model to guide the use of influencing change in corporate governance practices in the institutions that represent minority shareholders. A purpose of the project is to fill this gap.

This thesis is the first study to develop a new model for determining the impact of institutions on the Thai commercial banking sector's approach to minority shareholder rights protection. It will address this issue by investigating corporate governance mechanisms, ownership structures, corporate governance practices, and firm performance. In addition, there are unexplored issues associated with different ownership structures: types of family ownership, government ownership, widely held ownership, and foreign ownership.

The thesis is also the first study to investigate institutional investors' view of corporate governance practices. The study of financial institutions responses to institutional investors demands for good governance is significant because their

responses may influence the direction of investment. This has implications for the reputation of the Stock Exchange of Thailand.

Knowledge gains of the study will benefit the long-term competitiveness of financial institutions because the financial institutions can choose an appropriate model that can strengthen their minority shareholders rights. Furthermore, this model will provide strategic knowledge to improve a company's corporate governance practices. This will benefit in providing future efforts to raise finance and avoid financial liquidity problems. In addition, this thesis will provide a better understanding of corporate governance policies and their impact on their attractiveness to institutional, overseas and public investors.

## **1.6 Outline of the thesis**

The study was conducted in several stages as follows.

First, the introduction to the research was presented in Chapter 1. The literature review was classified in the following chapters: (1) Chapter 2 described global minority shareholder rights protection which addressed the problems, determinant factors, background theories, and international experiences; (2) Chapter 3 described Thailand's minority shareholder rights protection which focused on the problems of minority shareholder rights, Thai governing institutions and the legal environment, and the reforms of minority shareholder rights protection in Thailand.

Chapter 4 presented the theoretical framework that informed the research that examined the relationship between minority shareholder rights protection and several factors, including ownership types, investor legal protection, corporate governance practices, bank performance, and free cash flow. This chapter also provided the foundation for construction of the research questions and hypotheses of this study.

Next, Chapter 5 described the methodology for this study. The methodology presented the justification of the study, data collection, sampling designs, the development of the questionnaire, and the methods for analysing the data of this study.

The data analysis is explained in the two following chapters: (1) Chapter 6 of this study described the preliminary analysis of the data, which included validity and reliability test, descriptive data analysis, cross-tabulation analysis, and summary of the open-ended questionnaire; (2) Chapter 7 of this study displayed the results of hypothesis testing via the multivariate analysis methods and the relationship analysis of the determinant factors in minority shareholder rights protection.

The discussion of research results based on the research questions and hypotheses of the study were presented in Chapter 8.

Finally, Chapter 9 provided the key findings, implications, and the contribution to knowledge. The implications of the study were described in three ways. First, this chapter drew some implications of family ownership in the development of the Thai commercial banking sector. Second, this chapter provided a contribution to knowledge. Third, this chapter provided recommendations for the development of minority shareholder rights protection in Thailand.

## **1.7 Definitions**

The definitions and key words were described to provide an understanding of the subject under this research. Definitions also related to the theoretical framework of this study.

### **Shareholder rights**

Shareholder rights are the rights that attach to securities that give investors the power to extract returns from their investment (La Porta et al., 1998).

### **Minority shareholder rights**

Minority shareholder rights are the power of non-controlling shareholders who do not have voting control of a firm, and are the rights that attach to securities that give investors the power to extract returns from their investment (La Porta et al., 1998).

## **The expropriation of minority shareholder rights**

Expropriation is defined as the process of using one's control powers to maximise one's own welfare and redistribute wealth away from minority shareholders (Claessens et al., 1999).

### **Corporate governance**

Corporate governance represents the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders, such as employees and creditors. Good corporate governance contributes to growth and financial stability by underpinning market confidence, financial market integrity and economic efficiency (OECD, 2004, p. 1).

### **1.8 Summary**

This chapter introduced the problems and causes of the expropriation of minority shareholder rights in Asian countries. The chapter showed that various researchers suggested that developing good corporate governance practices provides for the protection of minority shareholder rights. The purpose of the research provided information which can be used to improve the protection of minority shareholders in the Thai banking sector. The aims of the study were to determine the relationship between the factors that inhibit and promote minority shareholder rights protection. Research questions were proposed in response to the aims of the study. The justification for the research presented in this chapter to explain the theoretical framework of this study was to find the optimal model and the relationship of the determinant factors that support minority shareholder rights protection.

The results of an optimal model and the relationships investigated in this study demonstrated the significance of the research and provided knowledge gains to improve minority shareholder rights protection in the Thai commercial banking sector. This chapter closed with a summary of the key theories underlying this research, definitions, key words used in this study, and an outline for the research.

# CHAPTER 2

## Literature Review

### 2.1 Introduction

This chapter presented the literature review in three sections. The first section investigated the problems of minority shareholder rights protection and addressed several factors that determine minority shareholder rights protection. This section also described several reforms in the protection of minority shareholder rights. The second section addressed theories that explain the protection of minority shareholder rights. The final section reported global minority shareholder rights protection in different countries and several discussions in respect to the protection of minority shareholder rights.

### 2.2 Problems of minority shareholder rights protection

The OECD has identified various problems of corporate governance, the most serious of these problems being the expropriation of the rights of minority shareholders (OECD, 2003). The Asian financial crisis in 1997 raised the issue of economic debate in the protection of minority shareholder rights in the Asian developing countries (Johnson et al., 2000; Laurids, 1998; Shleifer and Vishny, 1997). The protection of minority shareholder rights in Asia has since become an area of investigation as part of the overall effort to improve corporate governance standards in Asian developing countries (Johnson et al., 2000; Nikomborirak, 1999).

Evidence of the Asian financial crisis in 1997 confirmed the lack of protection of minority shareholder rights derived from a conflict of interest between the management appointed by dominant shareholders and minority shareholders which

addressed the existence of agency problems in the firm (Johnson et al., 2000). Johnson et al. (2000) summarised the cause of the Asian financial crisis in 1997 as deriving from agency problems with regard to a conflict of interest between management (controlling owners) and minority shareholders rights expropriation as follows:

A simple model shows that managerial agency problems can make countries with weak legal systems vulnerable to the effects of a sudden loss of investor confidence. Countries with only weakly enforceable minority shareholder rights are particularly vulnerable. If such a country experiences even a small loss of confidence, outside investors reassess the likely amount of expropriation by managers and adjust the amount of capital they are willing to provide. The result can be a fall in asset values and a collapse of the exchange rate.

(Johnson et al., 2000, p. 184)

With respect to the above description, Johnson et al. (2000) implied agency problems are at the top of the problems of minority shareholder rights, and agency problems also support management in providing weak legal enforcement for a company. Weak legal enforcement in Asian developing countries derives from the Asian crony system based on the predominance of family ownership and its conglomerated businesses with a bank at the centre (Charumilind et al., 2006; Claessens et al., 2000; Siamwalla, 2001). The Asian family banks also provide insider-lending money to support several politicians and governors of several financial institutions (Charumilind et al., 2006; Siamwalla, 2001).

Similarly, the review of the expropriation of minority shareholder rights by Shleifer and Vishny (1997) addressed the expropriation arising from a conflict of interest between controlling shareholders and minority shareholders. In this particular instance, controlling shareholders served their own egos by expropriating the cash of minority shareholders (Shleifer and Vishny, 1997, p. 738). Similarly, Shleifer and Vishny (1997) suggested agency problems relating to managers stealing cash and assets from minority shareholders, presented as:

... we do not believe that investors as a general rule are prepared to pay good money for securities that are actually worthless because managers can steal everything. As the evidence on agency theory indicates, managers can expropriate only limited wealth, and therefore the securities that investors buy do have some underlying value.

(Shleifer and Vishny, 1997, p. 750).

The risk of expropriation of minority shareholder rights is the major principal-agent problem because controlling shareholders create very high agency costs caused by their self-dealing behaviour commonly found in Asian developing countries. For example, Claessens and Fan (2002) reviewed the agency costs of developing Asian countries and found that agency costs were produced by low corporate transparency, high rent-seeking, the cost of relationship-based transactions, extensive group structures based on over employment, diversification, and risky financial structures. Agency costs also reduce the wealth of minority shareholders (Claessens and Fan, 2002).

Much of the literature on agency problems is based on the assumption of the modern firm which is explained by the separation between ownership and management and which is also related to ownership systems, such as concentrated and dispersed ownership (Berle and Means, 1932; Jensen and Meckling, 1976).

The next section (2.2.1) describes how ownership systems create minority shareholder rights problems. The following sections (2.2.4–2.2.7) present a review of research into the factors which enhance the protection of minority shareholder rights, for example, protection of minority shareholders with respect to legal foundations, corporate governance standards, disclosure and accountability, stakeholder relationships, and detection of shareholder rights expropriation with regard to corporate finance.

### **2.2.1 Ownership systems**

The characteristics of ownership systems can be classified into two categories. The first ownership system is ownership concentration in which companies are controlled by a majority of controlling shareholders, and the second ownership system is dispersed ownership which is owned by widely held shareholders (Claessens, Djankov and Lang, 1999).

#### **(a) Concentrated ownership system**

The Asian ownership system addresses the separation of ownership and control supported by the predominance of ownership concentration in this region, for example, Claessens, Djankov and Lang (1999) investigated ownership systems and the protection of minority shareholder rights of 2,980 companies in Asian countries and found these corporations to be controlled by controlling shareholders, especially families that occupied more than two-thirds of the Asian capital markets (Claessens, Djankov and Lang, 1999).

The majority of Asian-concentrated ownership is also characterised as cross-holding companies (Claessens, Djankov and Lang, 1999) which create large interlocking networks of subsidiaries and sister companies that include partially owned and publicly-listed companies (OECD, 2003; Peng, Au and Wang, 2001). Pyramidal management of cross-holding companies creates powerful incentive abilities to transfer money from one company to their cross-holding companies. The expropriation of minority shareholder rights occurred when small investors were to not only invest their money with the management team of their choice, but to direct this money to the markets and industries they did not know (OECD, 2003).

Concentrated ownership furthermore supported expropriation of the rights of minority shareholders because controlling shareholders have the major voting control to force management to operate firms in their interests (Claessens, Djankov and Lang, 1999). They also make key decisions to promote their own interests at the expense of the firm, and the appointment of board members is authorised by controlling shareholders. This would create a conflict of interest between management and

minority shareholders (Nam and Nam, 2004). In banking businesses, controlling shareholders supported inefficient project investment because they provided credit offerings and connected lending to their relatives, friends, and cross-holding companies (Johnson et al., 2000). Controlling shareholders of government enterprise banks also expropriated the rights of small investors by providing credits based on their political policies (Johnson et al., 2000). The OECD (2004) suggested creditors play an important role in a number of governance systems that can serve as external monitors over corporate performance. However, the Asian banks as creditors of many Asian companies expropriated the rights of investors by providing weak bank performance and profitability during the Asian financial crisis in 1997, represented by large falls in bank asset prices, high non profitable loans (NPL), lack of capital adequacy, and poor cash flow maintenance (Johnson et al., 2000). The behaviour of controlling shareholders reflected the worst quality of project investments of the banks, which later created poor returns to the banks' small investors (Johnson et al., 2000).

Asian companies are characterised by concentrated ownership types dominated by different large shareholders, such as family, government, and foreign ownership. The following sections describe the effects of several concentrated ownership types on minority shareholder rights protection as follows.

#### **(i) Family ownership**

Families own more than 60% of the top companies in Asian corporations (Claessens, Djankov and Lang, 1999). Families provide poor protection of minority shareholder rights because they control the majority of voting rights in their companies and could therefore operate firms to pursue their wealth maximisation at the expense of minority shareholders, such as expropriating cash and assets from a company by using pyramidal management, insider lending, insider trading, and providing poor investments (Claessens, 2006). High voting control of families also provides a lack of management monitoring, poor disclosure and poor transparency (Shleifer and Vishny, 1997).

**(ii) Government ownership**

Government ownership has unique characteristics based on the political influences of the controlling owners. For example, they have monopoly power, externalities, and distributional issues that raise concerns, and private profit distribution may fail to address these concerns (Shleifer and Vishny, 1997, p. 767). Government-owned banks create weak minority shareholder rights protection because the return to shareholders is reduced by the creation of inefficient loans by the banks to pursue the political objectives of the government (Berger et al., 2005; Shleifer and Vishny, 1997). For example, controlling shareholders of Thai government enterprise banks used their banks to loan money based on government political policy, such as student loans, village funds, and farming loans (Rado, 2008). Government ownership also provides over-demanded labour with high overhead costs (Dewenter and Malatesta, 2001).

**(iii) Foreign ownership**

Foreign ownership has been found to have a high performance because foreign ownership has the advantage of adopting superior technologies, information sharing systems, and cross-subsidy funds from their parent companies (Berger et al., 2005; Claessens and Fan, 2002; Okuda and Rungsomboon, 2006). However, in terms of corporate governance practices, foreign controlling owners are poor defenders of minority shareholders because they exhibit a lack of transparency and disclosure in management that supports the stealing of profits from a company by rent-seeking (Ananchotikul, 2007; Claessens and Fan, 2002; Fan and Wong, 2002).

**(b) Dispersed ownership system**

A predominance of dispersed ownership is found in developed countries supported by the liberalisation of the financial system, such as in the US, the UK, Australia, Japan and the developed countries in Europe (Coffee, 2001). The dispersed ownership system implies a separation between ownership and control and encourages the strong development of capital markets around the world (Coffee, 2001; La Porta et al., 1997). Coffee (2001) investigated the global dispersed ownership system and the protection of minority shareholder rights and found that the dispersed ownership

system provides stronger minority shareholder rights protection than the concentrated ownership system because the majority of the control rights in dispersed ownership are non-controlling shareholders who have opportunities for management monitoring, creating minority shareholder activism, participating in executives' meetings, and giving recommendations and general company policies to management (Claessens, 2006; Coffee, 2001; Shleifer and Vishny, 1997). Minority shareholder activism also encouraged the firms' management to provide accountability, transparency and disclosure (Claessens, 2006; Coffee, 2001).

### **2.2.2 Protection of minority shareholders with respect to legal regulation**

Effective legal systems and enforcement enhance the protection of minority shareholders in every country around the world (La Porta et al., 1997). According to the review of the world's legal system in 49 countries surveyed by La Porta et al., (1998), the rights of minority shareholders were expropriated because the judicial processes allowed ineffective legal enforcement (La Porta et al., 1998). They concluded that the common law countries provide stronger minority shareholder rights protection than the civil law countries such as Thailand because the civil law countries had weak legal enforcement and that encourages high ownership concentration in Asian developing countries (Aguilera and Cuervo-Cazurra, 2004; La Porta et al., 1997; Zattoni and Cuomo, 2008). An ineffective judicial system therefore results in weak legal enforcement. For example, La Porta et al. (1998) suggested further that the civil law system of Asian developing countries manifests higher corruption, risk of expropriation, risk of contract repudiation, and weak accounting standards compared to the common law system of developed countries.

In Thailand, the legal system is based on civil law but it has been influenced by its common law origins (La Porta et al., 1998). The effects of the civil law system in Thailand may encourage an ineffective judicial system with weak legal enforcement (La Porta et al., 1998).

As stated above, Thailand's ineffective judicial system and jurisdiction, and weak legal enforcement encourage a concentrated ownership system that is associated with poor investor protection, high corruption, risk of investor expropriation, risk of

contract repudiation, and weak accounting standards (La Porta et al., 1998, p. 1142). The judicial system follows the codification written in laws. However, the judges in common law countries provide various judgments on a case-by-case basis (La Porta et al., 1998). Thailand has an ineffective jurisdiction which defers to the police jurisdiction system (Phongpaichit et al., 2000). For example, the Thai judicial system appoints the police to be public prosecutors who also send cases to the court. This situation may create opportunities for the officers to receive bribes (Phongpaichit et al., 2000).

Finally, protection of minority shareholder rights also includes the strength of creditor rights as reflected in collateral, solvency and bankruptcy laws (Claessens, 2006; Claessens et al., 1999). For example, bankruptcy laws therefore limit the debt of a company by increasing the free cash flow as well as upgrading the liquidation of a company (Claessens, 2006). The law enhances the prevention of financial distress in a company which proves to be of benefit to small shareholders (Claessens, 2006).

In Thailand, a bankruptcy law was reformed after the financial crisis in 1997, and the purpose of the reform was to increase the protection of creditors by punishing the management in the case of financial distress and forcing companies to provide sufficient financial liquidation (free cash flow) in order to protect minority shareholder investment (Claessens et al., 1999).

In conclusion, the ineffective judicial system and jurisdiction are the major problems in Thailand that create weak legal enforcement and provide greater opportunity for controlling shareholders to expropriate minority shareholders.

### **2.2.3 Corporate governance standards**

During the Asian financial crisis in 1997, poor corporate governance practices of Asian countries were evident in the lack of monitoring of management and poor transparency (OECD, 2003). Corporate governance reflects the rules and practices that govern the relationship between managers and minority shareholders. Good corporate governance also contributes to growth and financial stability by

underpinning market confidence, financial market integrity and economic efficiency (OECD, 2004, p. 1).

The lack of monitoring of management in Asian corporations reflects Asian markets providing weak support for corporate governance practices. As a consequence, the requirements for accountability and responsibility of management appear as a significant debate through the extent of good corporate governance practices in Asian capital markets (Claessens et al., 1999; Claessens and Fan, 2002).

After the Asian financial crisis, the reform of minority shareholder rights was debated through the OECD's member and non-member countries (more than 37 nations) in order to establish corporate governance principles and frameworks that encouraged the Asian markets to regulate good corporate governance practices in the region (OECD, 2004). The findings of several investigations suggested corporate governance practices increase the protection of minority shareholder rights in many ways (OECD, 2004). For example, the adoption of the codes of corporate governance practices improved the high level of disclosure (Aguilera and Cuervo-Cazurra, 2004; Todd, 2002). The recommendations of corporate governance practices support the monitoring on behaviour and the structure of a firm's board of directors and their accountability to minority shareholders (Aguilera and Cuervo-Cazurra, 2004, p. 417). Good corporate governance practices also increase the benefits of investors by enhancing market value and dividend payout (La Porta et al., 1998).

The development of minority shareholder rights protection was addressed through the OECD's principles of corporate governance that have been applied to the OECD's member and non-member countries around the world. Each country has established its appropriate corporate governance practices under a voluntary system based on their capital market regulations. The principles of corporate governance created the protection of minority shareholders against the controlling management of a company in many ways and these include: (1) ensuring the basis for an effective corporate governance framework; (2) the rights of shareholders and key ownership functions; (3) the equitable treatment of shareholders; (4) the role of stakeholders in corporate governance; (5) disclosure and transparency; and (6) the responsibilities of the board (OECD, 2004).

The recent reform of minority shareholder rights was focused on by the OECD's White Paper (2003). The paper supported the discussions and recommendations of several international corporate governance meetings that took place from 1999 to 2003. In particular, the investigations of the OECD were supported by the World Bank and the Asian Development Bank in partnership with the Government of Japan and the Global Corporate Governance Forum (OECD, 2003).

The paper reviewed the problems and the reform of corporate governance practices that would strengthen the rights of minority shareholders in Asian corporations (OECD, 2003). Research suggests the problems of the rights of minority shareholders in Asian countries were caused by the predominance of the controlling ownership structure of family-run firms, the informal nature of stakeholder relations and the legal and economic diversity of the region (OECD, 2003). The OECD White Paper (2003) suggested the prioritising of ways to improve the protection of the rights of minority shareholders as follows.

(a) The protection of minority shareholder rights is promoted by good corporate governance that is directed by the cooperation of management and shareholders of public institutions and private sector institutions.

(b) All jurisdictions should protect the rights of minority shareholders by providing effective implementation and enforcement of corporate governance laws and regulations.

(c) Asian Roundtable Countries should encourage the protection of minority shareholder rights by working towards full convergence with international standards and practices for accounting, auditing and non-financial disclosure. Where, for the time being, full convergence is not possible, divergence from international standards and practices (and the reasons for these divergences) should be disclosed by standard setters; company financial statements should repeat or reference these disclosures where relevant to specific items.

(d) Boards of directors must improve the protection of minority shareholder rights via their participation in strategic planning, monitoring of internal control systems and independent review of transactions involving managers, controlling shareholders and other insiders.

(e) The legal and regulatory framework with respect to the protection of minority shareholder rights should ensure that non-controlling shareholders are protected from exploitation by insiders and controlling shareholders.

(f) Governments should support the protection of minority shareholder rights in order to intensify their efforts to improve the regulation and corporate governance of banks.

In conclusion, the OECD (2003) recommended that improvement in the protection of minority shareholder rights should be enhanced by several controlling factors that create sustainable benefits for minority shareholders and other stakeholders. These recommendations also included the development of good corporate governance standards provided by the accountability of management, strong investor legal protection created by governments, and the cooperation of countries in order to set up regulatory and international frameworks of good corporate governance based on enhancing finance and accounting regulations, transparency and disclosure of corporate information.

#### **2.2.4 Disclosure and accountability**

Disclosure and accountability enhance the protection of the rights of minority shareholders. The literature review suggests that controlling shareholders provide weak information disclosure because they operate companies based on self-interest. However, the provision of high disclosure reduces the conflict of interest between insiders and minority shareholders because a high quality of information disclosure is supported by an increasing number of independent directors who are appointed through the rights of minority shareholders (Eng and Mak, 2003; Fama and Jensen, 1983b). High disclosure of information also enhances the benefits of small investors because it encourages investor confidence to raise funds for a company. By increasing

the equity value of a company it enhances the debt to equity ratio and reduces the cost of capital. Improvement of the debt ratios create more opportunity for a company's investments as well as increasing market value and the liquidation of a company (Diamond and Verrecchia, 1991).

Enhancing the accountability of management is associated with improvement in the information disclosure of a company because accountability provides an indirect effect on increasing a company's disclosure practices through their effect on the creation of board independence (John Nowland, 2008). The role of accountability in management also reduces the unethical activities of management, such as creative accounting and corruption (Eldomiaty and Choi, 2006).

In Thailand, the previous literature review suggests that controlling shareholders created relationship-based corporate governance through their self-maximisation, which resulted in weak information disclosure and accountability, such as banks owned by families. The appointment of board members to Thai corporations is related to families in control of the firms which enabled the expropriation of minority shareholders (Eldomiaty and Choi, 2006). For example, McKinsey surveyed 140 major Thai firms in 2002. They found only 5 per cent of listed firms give sufficient information disclosure and 11 per cent give adequate information for corporate analysis (White, 2004).

Weak disclosure and accountability are also supported by the pyramidal management of cross-holding companies in the hands of family-owned banks. For example, the Thai banks and other financial institutions owned 13 per cent of the 150 largest listed companies (Eldomiaty and Choi, 2006). Poor disclosure and accountability in Thailand represent weak corporate governance practices and weak legal foundations (Eldomiaty and Choi, 2006).

The reform of disclosure and accountability in the Thai markets is pursued by good corporate governance practices and good legal foundations as suggested in the previous literature review.

### **2.2.5 Stakeholder relationships**

Literature suggests corporate governance practices provided the necessary instruments that the companies used to manage good stakeholder relationships by building on the work of the protection of minority shareholder rights. The stakeholder relationship and the rights of minority shareholders have been suggested in the OECD White Paper (2003), which is drawn from the OECD's Third Roundtable Meeting on the role of boards and stakeholders in corporate governance and was hosted by the monetary authority of Singapore in collaboration with the Singapore Institute of Directors and the Singapore Stock Exchange (OECD, 2003).

The investigation of the OECD (2003) recommended the development of a stakeholder relationship that encourages companies to explicitly manage their relationships between minority shareholders and management (OECD, 2003; White, 2004). For example, the research suggests the stakeholder relationship of concentrated ownership in Asian countries, found in the informal nature of the relationship of Asian stakeholder/company interaction, can produce benefits for stakeholders offered through more formal approaches based on the rights of investors (OECD, 2003, p. 12). Developing stakeholder relationships may encourage greater minority shareholder activism that supports evolutionary changes in business relationships and the creation of sustainable benefits to a company and its stakeholders (OECD, 2003, p. 12). Good stakeholder relationships increase the firm's performance through creating wealth, jobs, sales, and the sustainability of financially sound enterprises within a company (OECD, 2004, p. 21). These sustainable benefits of a company also create investor confidentiality, which enables an increase in the market value of a company and benefits to minority shareholders and major shareholders (OECD, 2003).

In Thailand, the development of the stakeholder relationship between controlling shareholders and minority investors was introduced to the corporate governance system in March 2002 (White, 2004). The SET recommended the role of stakeholders in the principles of corporate governance for listed companies (Stock Exchange of Thailand, 2006b). The SET states:

Stakeholders of a company should be treated fairly in accordance with their legal rights as specified in relevant laws. The board of directors should provide a mechanism to promote cooperation between the company and its stakeholders in order to create wealth, financial stability and sustainability of the firm.

(Stock Exchange of Thailand, 2006b, p. 3)

In summary, the development of stakeholder relationships appeared to benefit minority shareholders and other stakeholders. The literature review of corporate governance practices showed the rights of minority shareholders have been enhanced by the ability to create small shareholder activism in order to force management to increase its accountability and responsibility to other stakeholders (White, 2004). The rights of minority shareholders with regard to making proposals on the development of management monitoring based on stakeholder protection can encourage management to operate a company to meet the sustainability of financial performance and maximise the benefits of small investors and other stakeholders (OECD, 2004).

### **2.2.6 The role of corporate finance**

The problems with minority shareholder rights protection are detected by the investigations of several corporate finance factors as follows.

#### **(a) Cash expropriation**

One of the major examples of minority shareholder rights expropriation is when managers use cash to maximise their benefits rather than investing cash in more efficient investments (Jensen 1986, p. 323). Executives use cash for self-maximising behaviour, such as increasing remuneration, and investing money in inefficient projects based on their personal interests. Strengthening minority shareholder rights can provide an increased cash flow because the rights give power to minority shareholders to monitor managers (Claessens et al., 1999). The separation of the cash flow from voting rights causes minority shareholder rights expropriation because the separation between ownership and control is associated with lower market values

(Claessens et al., 1999, p. 29). In Asia, Claessens et al. (1999) found controlling shareholders enriched themselves by extracting cash from the firm. They were not paying out dividends or transferring profits to other companies that they control (Claessens et al., 1999, p. 5). These controlling owners also entrenched the value of existing capital. Minority shareholder expropriation is often associated with a lack of cash flow (Claessens et al., 1999, p. 29).

Cash flow monitoring reduces minority shareholder rights expropriation because high cash flow enhances the high valuation of firms (La Porta et al., 2002). However, poor shareholder rights protection is associated with lower firm valuations, and that higher cash flow ownership by the controlling shareholder improves valuation, especially in countries with poor investor protection and especially ineffective legal determinants in bankruptcy law (La Porta et al., 2002, pp. 1168–9; La Porta et al., 1998, p. 1120).

#### **(b) Corporate performance**

Weak investor protection that allowed managers to expropriate the profit of corporations does not provide much flexibility for improving corporate performance (Klapper and Love, 2004). That is why corporate performance relates to the protection of minority shareholder rights. The evidence is shown in Claessens et al. (1999) who studied ‘Expropriation of minority shareholder rights’ in Asian countries. The study focused on the relationship between improving rights by improving corporate performance. They found that controlling ownership expropriated the rights of minority shareholders by manipulating poor corporate performance. This investigation was also interpreted as evidence of expropriation of minority shareholders by controlling shareholders. Similarly, Klapper and Love (2004) found poor corporate performance leads to weak minority shareholder rights protection because they found that analyses of countries with good protection of minority shareholder rights always provided a positive correlation with corporate performance (Klapper and Love, 2004, p. 703). In addition, Nam and Nam (2004) conducted corporate governance research in East Asian countries and found strong protection of minority shareholder rights is supported by high corporate performance (Nam and Nam, 2004, p. 112). Good corporate performance is not only the indicator of strong minority shareholder rights. It also creates a higher return to investors because good

corporate governance increases stock price because the shareholder's values may respond instantaneously to news indicating better corporate governance (Nam and Nam, 2004, p. 89).

### **2.3 Theories of minority shareholder rights protection**

This section describes the background theories that explain the protection of minority shareholder rights based on discussions of the problems that arise from weak minority shareholder rights protection. The summary of the literature review presented the problems of weak minority shareholder rights protection and they have been addressed by the predominance of concentrated ownership systems that relate to problems of the separation between ownership and control (Berle and Means, 1932). The behaviour of controlling shareholders in concentrated ownership is the cause of several agency problems that create poor corporate governance practices (OECD, 2003) and stakeholder relationships (Freeman 1984; Donaldson and Preston, 1995).

The problems of weak protection of the rights of shareholders reflect a number of different theories that involve an analysis of minority shareholder rights protection. However, the implications of each theory based on minority shareholder rights protection are dependent on different perspectives of theories created from a different study discipline (Solomon and Solomon, 2004). For example, agency theory emerged from economics and organisational theory (Jensen and Meckling, 1976; Solomon and Solomon, 2004). Stakeholder theory arose from a social-oriented perspective (Donaldson and Preston, 1995; Solomon and Solomon, 2004).

The discussion of theories in this section aims to encourage an understanding of the background of minority shareholder rights protection via the following theories:

- (i) Agency theory
- (ii) Legitimacy theory
- (iii) Stakeholder theory
- (iv) Corporate governance.

### 2.3.1 Agency theory

The separation of ownership and control explains the protection of minority shareholder rights because modern corporations support the opening up of corporations to general public finance in order to increase funding from outsider investors (Berle and Means, 1932). The rights of minority shareholders are becoming more important in this way because firms can raise more funds due to investor protection (Berle and Means, 1932). The development of fiduciary responsibility of management through modern corporations is dependent on the resolution of conflicts of interest between shareholders and managers as addressed in agency theory.

Agency theory explains the nature of a conflict of interest between managers and shareholders (Ross, 1973). The explanation of agency theory is similar to the review of agency problems in this chapter (see 2.2 Problems of minority shareholder rights protection), which recommended that Asian-concentrated ownership is ruled by controlling shareholders who are often managers and hold major voting control of the firm. The conflict of interest between managers and minority shareholders arises when the controlling shareholders operate a business influenced by self-interest that results in the expropriation of minority shareholders. This is because the controlling shareholders use self-dealing to promote their own benefits, such as insider trading, cash expropriation, and managerial entrenchment (La Porta et al., 2000a; b; Pacini et al., 2005). All of these behaviours are very harmful to minority shareholders. The literature review of this chapter (see 2.2.1 Concentrated ownership system) also suggested the system of pyramidal control in concentrated ownership represents weak corporate governance practices, and in some worst cases, directed a company to financial distress. This is because pyramidal control of cross-holding companies creates weak information disclosure that leads to the expropriation of minority shareholders (Pacini et al., 2005).

The development of minority shareholder rights protection also relates to agency theory. For example, a conflict of interest between management and small investors may reduce when minority shareholders can create effective principal monitoring of agents (Eisenhardt, 1989; Fama and Jensen, 1983a). Practically, minority shareholders may appoint outside directors to monitor managers and limit the power of controlling

management to expropriate the interests of small investors (Fama and Jensen, 1983a). Effective agent monitoring also includes good corporate governance practices and legal determinants of the firm (La Porta et al., 1997; Shleifer and Vishny, 1997).

### **2.3.2 Legitimacy theory**

The literature review addressed an effective legal framework directing the protection of minority shareholder rights. Legitimacy theory relates to the protection of minority shareholder rights because:

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.

(Suchman, 1995, p. 574)

Theoretically, the legal determinant of minority shareholder rights is legitimacy, because the nature of corporate law provides equal treaties for stakeholders in a company (La Porta et al., 1998). The laws also elaborate on the rights of minority shareholders and the responsibilities of stakeholders. Legitimacy theory supports legal determinants because corporate laws in some countries were differently created developed differently by its national justice system which is constructed influenced by people's, social, norms, values, beliefs, and definitions (Suchman, 1995). Legitimacy theory also relies on the laws which legitimately regulate the rights of minority shareholders that are usually enforced through stakeholders in the markets and corporations of a country (Suchman, 1995).

Legitimacy theory can also be applied to the creation of the OECD's principles of corporate governance that are reflected as a socially constructed system between the OECD and its member governments in order to develop the protection of minority shareholder rights worldwide. Thus it influences the OECD's member and non-member countries to reconsider the rules of their capital markets in order to encourage the development of corporate governance practices in response to the improvement of minority shareholder rights protection. The related evidence presented in the

investigations of Lim (2010), who suggested the creation of the OECD's principles of corporate governance, have been adapted to legal codes governing corporations in six East Asian countries: Indonesia, Philippines, Thailand, Malaysia, Vietnam and Singapore.

In summary, legitimacy theory is presented as a theory that explains the protection of minority shareholder rights via the system of laws that includes the voluntary system (corporate governance practices) available in many countries.

### **2.3.3 Stakeholder theory**

The literature reviewed in the previous section recommended that stakeholder relationships benefit the protection of minority shareholder rights because stakeholder relationships encourage sustainability of the maximisation of long-term shareholder wealth. Stakeholder theory can explain the protection of minority shareholder rights because stakeholders are persons or groups with legitimate interest in the operation of the firm, and they are affected by the firm's success or failure (Donaldson and Preston, 1995; Freeman, 1984). By this definition, minority shareholders are the stakeholders of a company because they support the financial and legitimate shareholding of company shares (Shleifer and Vishny, 1997).

Stakeholder relationship development creates managers' accountability and responsibility in order to respond to the protection of minority shareholders rights (Freeman et al., 2004). This is because stakeholder theory suggests stakeholder relationships create ethical considerations of stakeholders which are very important to protect the benefits of every stakeholder without favoring one group at the expense of another (Donaldson and Preston, 1995; Freeman et al., 2004). The roles of responsibility also relate to the moral consideration of stakeholders which encourages the important part of managerial objectives of the firm in order to develop the accountability of management in relation to benefiting minority shareholders, including other stakeholder groups (Donaldson and Preston, 1995).

In conclusion, stakeholder relationship enhancement encourages minority shareholder activism in order to reduce the conflict of interest between managers and small

investors over the distribution of the increased wealth and value created by a corporation (Clarkson, 1995).

### **2.3.4 Corporate governance**

The literature reviewed in this chapter suggests agency theory relates to the protection of minority shareholder rights. Corporate governance is also based on agency theory which explains how corporations are financed and managed (Clarke, 2004). For example, the OECD suggests corporate governance is associated with agency problems because investors or financiers (principals) hire managers (agents) to run the firm on their behalf (Maher and Andersson, 1999, p. 5). Investors need managers to operate the firm in order to increase the returns on their investments, and managers need finance from investors, therefore they have limited funds to invest. In this particular instance there is a separation between ownership and control of the firm (Maher and Andersson, 1999). The definition of corporate governance addressed in the OECD showed the background of agency theory creates the definition of corporate governance that suggests management should operate the firm in the interests of shareholders. In this case, corporate governance is closely linked with the management of a corporate system that reduces the conflict of interest between management and investors. The OECD's definition of corporate governance also provides that:

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spell out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

(Clarke, 2004, p. 1)

The definition of corporate governance is also related to the protection of minority shareholder rights. The OECD believes that the optimal stakeholder relationship in corporate governance provides benefits to stakeholders, including minority shareholders (OECD, 2004). Practically, the OECD's principles of corporate governance also include management responsibilities for minority shareholders. The OECD suggests:

Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. (OECD, 2004, p. 20)

Much research explained corporate governance as relating to the protection of minority shareholder rights in order to support management to operate the firm in the interests of investors. For instance, Parkinson's study published in 1994 defined corporate governance as the process of supervision and control intended to ensure that company's management acts in accordance with the interests of shareholders (Solomon and Solomon, 2004, p. 13). Similarly, Tricker's study published in 1984 suggested that corporate governance is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulations by interests beyond the corporate boundaries (Solomon and Solomon, 2004, p. 13). The corporate governance handbook published in 1996 also declared that corporate governance is the relationship between shareholders and their companies and the way in which shareholders act to encourage best corporate governance practices, including shareholder activism which involves a campaign by shareholders or a group of shareholders to achieve change in companies (Solomon and Solomon, 2004, p. 13).

Finally, Shleifer and Vishny (1997) suggested corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997).

In summary, corporate governance supports the protection of minority shareholders. Corporate governance theory is associated with the implications of agency theory through the development of stakeholder relationships in order to encourage minority shareholder rights protection.

## **2.4 Global minority shareholder rights protection**

Global minority shareholder rights protection presents different characteristics of the expropriation of minority shareholder rights around the world that confirms the literature review provided by this study, as follows.

### **2.4.1 The UK, the US and Australia**

The UK, the US and Australia are developed countries governed by capitalist perspectives based on investor-orientations established by the legal environment that supports the expansion of the liberalisation of finance and capital markets (La Porta et al., 1998). The ownership system in these countries has been found to be a dispersed ownership system controlled by the dispersed shareholding of outside investors, institutional investors, and minority shareholders (Coffee, 2001). The management of dispersed ownership provides stronger minority shareholder rights protection because the countries have a strong legal environment based on the common-law system (La Porta et al., 1998). Strong investor legal protection attracts outside investors and provides high profitability of investment and market value of shares (Coffee, 2001).

Strong minority shareholder rights protection is available in the system of securities regulation of countries that require high ownership transparency, high disclosure standards, high listing standards and restrictions on 'creeping control' acquisitions that preclude a shareholder from assembling a controlling block without tendering for all shares (Coffee, 2001).

Corporate governance systems of the UK, US and Australian provide strong protection of minority shareholder rights that are associated with strong legal foundations and securities regulations requiring high information disclosure. Strong investor protection also supports good firm performance, profitability, frequent hostile

takeovers, moderate control by a large range of shareholders, the potential for shareholder democracy, and strong legal protection (Diane and John, 2003).

#### **2.4.2 Germany, France, and Japan**

Germany, France, and Japan are ruled by concentrated ownership with a majority of indirect pyramidal and cross share-holding supported by a civil law system (Dallas, 2004). The characteristic of the management of this system is weak protection of minority shareholder rights because pyramidal management encourages excessive control by a small group of 'insiders', rare hostile takeover activity, and large shareholders tend to have more voice in their invested companies (Diane and John, 2003; Solomon and Solomon, 2004).

The civil law system also provides limited efficiency in the application of the code of good governance due to weak legal enforcement. For instance, civil law judges cannot enforce the application of the codes of good governance with the force of regulation because the codes of good governance are applied formally following the letter but not the spirit of the law and cannot be legally enforced (Cuervo, 2002; La Porta et al., 1998).

In summary, Germany, France, and Japan provide a legal environment that encourages the predominance of concentrated ownership and indirect pyramidal management that produces weak protection of minority shareholder rights.

#### **2.4.3 Asian developing countries**

The Asian developing countries are Thailand, India, South Korea, Malaysia, Indonesia, Philippines, and Taiwan. These countries are characterised as developing economies with low GDP/capita basis and under-developed in market infrastructures (Dallas, 2004). Weak investor legal protection of Asian developing countries provides minority shareholder rights expropriation because the legal system supports concentrated ownership and pyramidal management in the hands of controlling shareholders (Claessens and Fan, 2002). Asian developing countries support relationship-based institutions and high family control (Claessens and Fan, 2002).

Minority shareholders have difficulty in calling shareholders' meetings and putting issues on the agenda at shareholders' meetings. Postal voting provides inadequate protection with priority subscription rights, rights to approve major related party transactions, and dissenters' rights. Minority shareholders also have a small role in the election of directors and suffer from poor information disclosure and transparency (Nam and Nam, 2004).

In summary, Asian emerging countries are characterised by poor minority shareholder rights protection caused by weak legal protection that encourages a concentrated ownership system, pyramidal management, poor corporate governance, and the establishment of crony capitalism.

#### **2.4.4 Communist countries**

Communist countries are governed by a legal and political system based on a social orientation that supports corporations to rule by the 'insider' system with high ownership concentration by state-owned enterprises (SOEs). The state enterprises also gain the majority of positions on the boards of directors and supervisory boards and simply become puppets of the controlling parties (Solomon and Solomon, 2004).

The corporations of communist countries are characterised by an insider system and exploitation by controlling owners. The main problem has been found with minority shareholder rights (Solomon and Solomon, 2004).

### **2.5 Summary**

This chapter described the problems of minority shareholder rights protection derived from ownership systems, agency problems, investor legal protection, corporate governance standards, stakeholder relationships and corporate finance. The protection of minority shareholder rights was explained by several theories relating to the protection of minority shareholder rights, such as the separation of ownership and control, relating to agency theory, contract theory and information asymmetry, stakeholder theory, and corporate governance. For example, Legitimacy theory is appropriate to explain how legal determinants are supported by social values and

norms. The findings of global minority shareholder rights protection presented different characteristics of the expropriation of minority shareholder rights in some countries, which is essential to confirm the literature review of this study.

## CHAPTER 3

# The Protection of Minority Shareholder Rights in Thailand

### 3.1 Introduction

This chapter provides a literature review of the research and regulations that affect minority shareholder rights in Thailand. In particular, the chapter refers to the protection of minority shareholder rights. The first section explains the problems relating to the protection of minority shareholder rights prior to the 1997 financial crisis. The second section describes the response to the need for protection identified in section one. The third section presents the reform of minority shareholder rights in Thailand. The fourth section describes the key legislation on the rights of shareholders, and the final section presents institutions providing corporate governance in Thailand.

### 3.2 Protection of minority shareholder rights prior to the 1997 financial crisis

Before the 1997 Thai financial crisis, Thailand failed to enforce an efficient legal and regulatory system that created strong investor legal protection for minority shareholders. Instead, the system continued to support a predominance of concentrated ownership that had created expropriation of minority shareholders (Claessens and Fan, 2002; Johnson et al., 2000).

Thai companies were characterised by high ownership concentration in which controlling shareholders, the majority of them families, owned more than 60% of the Thai capital market (Wiwattanakantang, 2001). An examination of the structure of family-owned banks (Johnson et al., 2000) indicated a poor corporate governance

system that supported ineffective monitoring of managers and allowed for self-dealing behaviour. These actions expropriated the rights of minority shareholders by their poor accountability demands from management, lack of information disclosure, high cash expropriation, and poor accounting standards and firm performance. As Siamwalla (2001) says:

In Thailand, most of the players in the stock markets were small investors, who could be most charitably described as “noise-traders”. They were easily exploited by the majority shareholders, as controls on insider trading were ineffective for most of the period. The task of the minority shareholders and other players in the stock markets was also not facilitated by the existence of good accounting standards or aggressive financial journalism. Nor was there a sufficiently large group of major institutional investors who can exercise pressure on wayward owners/managers.

(Siamwalla, 2001, p. 7)

The self-maximising behaviour of family shareholders in the Thai commercial banks also resulted in insider lending to their conglomerate, relatives and friends (Charumilind, Kali and Wiwattanakantang, 2006). In many cases a bank’s lending criteria was based on a personal relationship rather than hard criteria of credit and lending decisions (Charumilind, Kali and Wiwattanakantang, 2006; Wiwattanakantang, Kali and Charumilind, 2002). The controlling shareholders of some Thai financial corporations also withdrew cash from the banks to create their wealth through insider trading, fraud, and increasing their remuneration (Sundaravej and Trairatvorakul, 1989).

Some controlling shareholders also provided money to support political parties (Ockey, 1994) and benefited from the connected relationship with some politicians in cabinet and were able to influence government policy (Ockey, 1994). Families also provided insider lending to politicians who used this money to create insider trading in the markets (Sundaravej and Trairatvorakul, 1989; Sussangkarn and Vichyanond,

2007). Evidence of their political influence was provided by Ockey's (1994) study as follows:

... In many cases, personal ties are based around kinship. For example, Nipon Promphan, a timber magnate in Nakhon Ratch-asima, his wife, Sisakun Thechaphaibun and her brother, Phonthep Thechaphaibun of a family famed for its role in the World Trade Center, the Bangkok Metropolitan Bank, and the liquor industry, among other business activities, all entered the parliament in north-eastern constituencies in the last election. (Ockey 1994, p. 258)

Other evidence also detected that companies with connections to banks and politicians had greater access to long-term debt than firms without such relationships (Charumilind, Kali and Wiwattanakantang, 2006).

One of the results of crony lending was that the Thai banking sector generated insufficient cash to pay its off-shore loans since they had excessive borrowing from overseas (Nikomborirak, 1999). The financial distress of the Thai banking sector appeared when the majority of the banks' investment projects were presented as non-profitable loans (NPLs) (Phongpaichit and Baker, 2000). The Thai government spent a large budget to bail out these banks while panic spread through the financial markets and capital markets (Phongpaichit and Baker, 2000). Large capital out flow and investment money had been removed from the country's financial system, and as well, the devaluation of the baht rapidly created investor panic in response to the collapse of the Thai financial markets and capital markets in 1997 (Phongpaichit and Baker, 2000). As a result, the authorities closed down 56 financial institutions (Phongpaichit and Baker, 2000).

### **3.3 The response to the need for protection of minority shareholder rights after the crisis**

After the 1997 financial crisis the Thai commercial banks were required to increase their capitalisation to cover their bad debts (Phongpaichit and Baker, 2000). Equity in

the banks shifted from family ownership to majority ownership by government and foreign investors.

As shown in Table 3.1, prior to 1997, family ownership dominated control of the Thai banking system. However, after the crisis in 1998 there was a restoration of the country's economy. Financial restructuring programs were implemented, and financial restructuring forced the banking system to increase appropriated capital adequacy and decrease the bad debts (Sussangkarn and Vichyanond, 2007). Banks sold their equities to government and overseas investors. After the financial crisis, family ownership was reduced from ownership of 13 of the country's 15 banks to only 2 of the 13. In other words, concentrated ownership by families may not be a problem of the expropriation. This is an issue addressed by this change. Table 3.1 also showed that the control of Thai banks was shifted to other types of controlling shareholders who were in the majority government (4 of 13 banks) and foreign owners (7 of 13 banks). Some banks gained mergers and ownership became more dispersed, such as the Thai Dhanu Bank and the Thai military bank (Siamwalla, 2001).

**Table 3.1 Largest shareholders of Thai commercial banks**

Largest shareholders	Number of banks							
	1996	1997**	1998	1999	2000	2001	2002	2003
<b>Family*</b>	13	12	6	3	3	2	2	2
<b>Government</b>	2	3	5	4	5	5	4	4
<b>Foreign</b>	0	0	1	5	5	6	7	7
<b>Total</b>	15	15	12	12	13	13	13	13

\*Family ownership included the royal family

\*\*Year of financial crisis

(Polsiri and Wiwattanakantang 2005, p. 13)

Although the results in Wiwattanakantang (2001) showed controlling shareholders have significantly increased firm performance in Thailand, several studies argued that the controlling shareholders of government-owned banks expropriated minority

shareholders by providing intervention that dictated their terms to the commercial banks and more often misdirected investments to the wrong beneficiaries (Sussangkarn and Vichyanond, 2007). This was because poor performance in government-owned banks was caused by engaging in connected lending that focused on public policy of the government rather than contributing benefits for minority shareholders (Sussangkarn and Vichyanond, 2007).

Other arguments suggested controlling the shareholders of foreign-owned corporations had the advantage of increasing firm performance by providing superior technologies, information sharing systems, increasing lending discipline, and providing cross-subsidy funds from their parent companies (Berger et al., 2005; Claessens and Fan, 2002; Okuda and Rungsomboon, 2006). However, in terms of minority shareholder rights protection, foreign controlling owners exhibited poor corporate governance consisting of a lack of transparency and disclosure which can lead to the taking of profits of a company through rent-seeking (Ananchotikul, 2007; Claessens and Fan, 2002; Fan and Wong, 2002). Controlling shareholders of foreign-owned banks also acted as insiders who created an ineffective corporate governance system by operating firms motivated by self-interest rather than creating appropriate returns to minority shareholders (Ananchotikul, 2007).

Research by the Bank of Thailand (BOT) found foreign-controlling shareholders of the Thai commercial banks supported insider control to create their wealth by providing weak corporate governance practices, lack of information disclosure, and ineffective monitoring of management (Ananchotikul, 2007). Another problem addressed was the inability of minority shareholders to raise questions about the decisions by majority shareholders (Ananchotikul, 2007).

### **3.4 Reform of corporate governance and minority shareholder rights protection in Thailand**

Reform of corporate governance and minority shareholder rights protection in Thailand is described in three sections as follows.

### **3.4.1 Reform of corporate governance standards in Thailand**

After the 1997 financial crisis, the Thai government improved financial regulations of corporate governance to protect the economy from falling into recession (Polsiri and Wiwattanakantang, 2005). The Stock Exchange of Thailand (SET) also introduced the Principles of Corporate Governance for listed companies to establish good governance systems that promote benefits to stakeholders, the growth of companies, capital markets, and the sustainable development of the economy (Stock Exchange of Thailand, 2006a).

The principles of good corporate governance for listed companies in Thailand (year 2006) are constituted as the principles of corporate governance and recommended best practice. The principles and best practice are presented in 5 categories as follows:

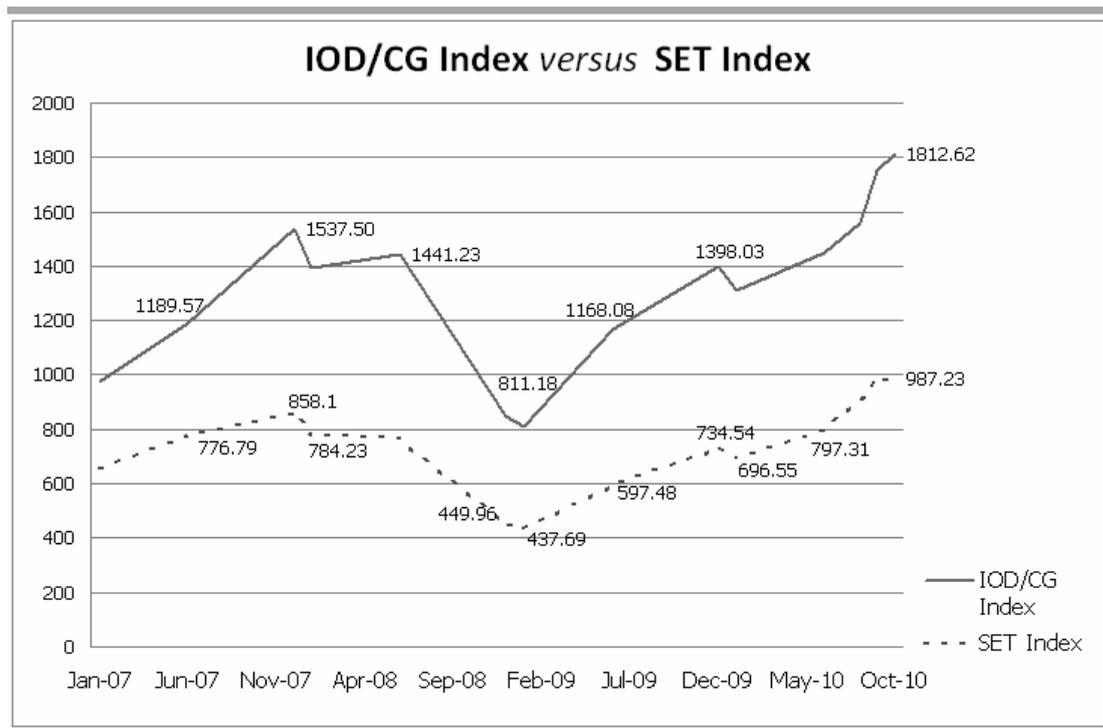
1. Rights of shareholders
2. Equitable treatment of shareholders
3. Role of stakeholders
4. Disclosure and transparency
5. Responsibility of the board.

The principles of corporate governance encouraged Thailand's corporate governance standard and practices to be ranked above world average of corporate governance assessment of the World Bank in 2005 (Lim 2010). The OECD White Paper also showed the testing of overall shareholder rights and equitable treatment of shareholder rights in Thailand have been provided in good preparation compared to other Asian developing countries.

Good corporate governance enhances the protection of minority shareholder rights and the improvement of capital markets (Alba, Claessens and Djankov, 1998). In this regard, the Thai IOD organisation has tested how good corporate governance encouraged investor confidence through the development of the Thai capital market from 2007 to 2010. The results showed the reform of Thai corporate governance increased investor confidence through their investments in the Thai capital market. As a result, and as shown in Graph 3.1, the corporate governance index is associated with

the capital market index (the SET index). The implication of this research suggested corporate governance enhances investments in the Thai markets (Thai Institute of Director, 2010).

**Graph 3.1 Comparison between corporate governance index (IOD/CG) and SET index**



(Thai Institute of Director, 2010)

Although the SET confirmed that corporate governance standards enhance the development of capital markets (Graph 3.1), much research argued that Thailand's corporate governance standards did not provide good support for the improvement of corporate performance. As Siamwalla (2001) says:

Good corporate governance can, in principle, facilitate the rebuilding of that base, but progress has been slow. The stock exchange has been performing poorly and, corporations do not see the immediate reward from improving their governance. Consequently, whatever progress has been made on rebuilding the equity base has occurred because of the conversion of debts to

equity by the banks, which have their own private means of enforcing proper corporate governance.

(Siamwalla, 2001, p. 41)

Similarly, Chuanrommanee and Swierczek (2007) concluded that company documents had not reflected real improvement in corporate governance practices because its corporate governance practices have a negative correlation with company performance (Chuanrommanee and Swierczek, 2007). These results were consistent with Kanthapanit, Armstrong and Tippet (2011) who recently studied protection of minority shareholder rights and found weak corporate governance practices were associated with firm performance in the Thai commercial banking sector (Kanthapanit, Armstrong and Tippet, 2011).

### **3.4.2 Reform of financial regulations in the Thai banking sector**

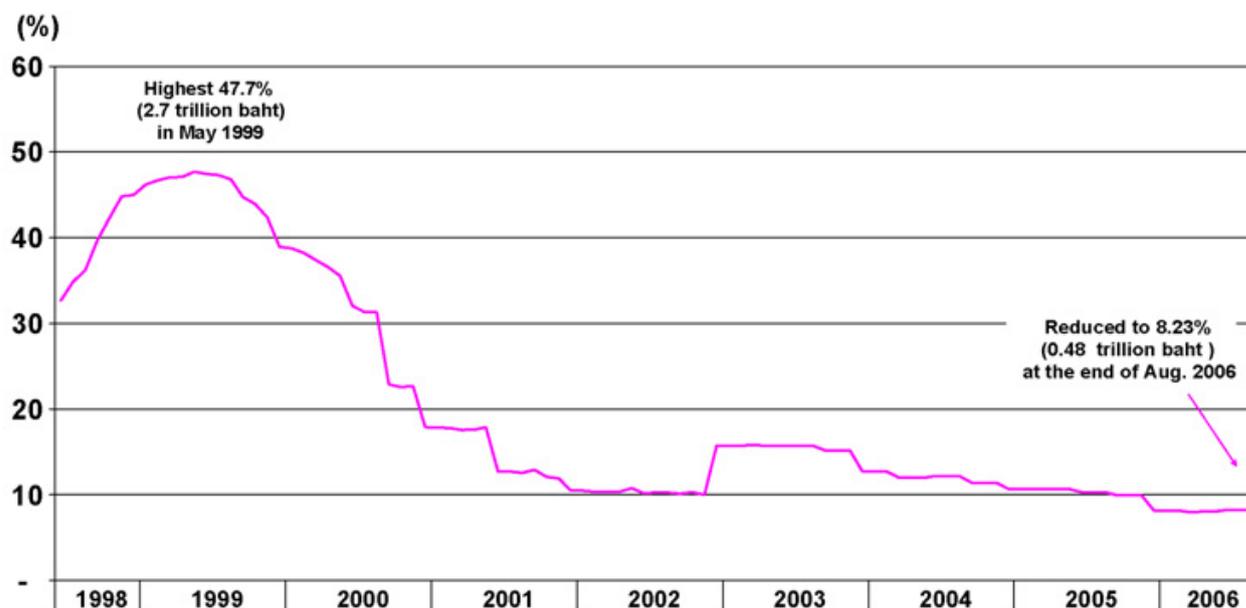
After the 1997 crisis, the reform of Thai financial regulations encouraged stronger financial stability and good quality lending decisions by the Thai financial institutions (Sussangkarn and Vichyanond, 2007). The reform of financial regulations also removed the entry barrier in the Thai banking sector because the government had the task of recapitalisation of the Thai financial sector with a deadline of December 2000. In this particular instance the banks managed to raise 959 billion baht (Siamwalla, 2001). Of this raised capital, 241 billion baht was invested in state enterprise banks (Siamwalla, 2001). Another 10 billion baht of the government's subsidiaries were injected into finance companies (Siamwalla, 2001).

The process of recapitalisation also encouraged a new financial regulation (June 1997) that permitted foreign investors to own equity in Thai financial institutions. The foreign-owned equity regulations were relaxed from 25% to 100% for a period of 10 years (Polsiri and Wiwattanakantang, 2005). After 10 years, foreign shareholders could maintain or lower but not raise their equity in financial institutions by more than 50% (Polsiri and Wiwattanakantang, 2005).

As Graph 3.2 shows, the reform of financial regulations encouraged capital inflow to the Thai banking sector impacted on the large reduction of Non profitable loans

(NPLs) in the Thai banking sector. As can be seen from the graph, the NPLs fell from 2.7 trillion baht (47.7%) in 1997 to 0.48 trillion baht (8.23%) in 2006 (Menkhoff and Suwanaporn 2007).

**Graph 3.2: NPLs to total lending ratio in the Thai financial system (1998–2006)**



(Menkhoff & Suwanaporn 2007, p. 7)

The reform of financial regulations the Thai banking sector and includes:

#### **(i) Deposit insurance**

The government provided full deposit insurance for depositors. The guarantee covered a maximum of 1 million baht for a depositor who deposited money in Thai banks (Sussangkarn and Vichyanond, 2007). The Deposit Insurance Act was introduced in November 2004 (Sussangkarn and Vichyanond, 2007).

#### **(ii) Supervision of financial institutions**

The supervision focused on the protection against financial risks in financial institutions and promoted financial stability in the Thai banking sector. The supervisory reform includes:

**(iii) Consolidated supervision**

This supervision monitors intra-affiliate transactions in the financial institutions and their affiliated units (Sussangkarn and Vichyanond, 2007).

**(iv) Risk-based supervision**

The financial risks assessed are credit risk, foreign exchange risk, liquidity risk, and operational risk. The Bank of Thailand (BOT) adopted 'Basel II' in 2008. This regulation consisted of the three assessment pillars: minimum capital requirements, a supervisory review process, and market discipline (Sussangkarn and Vichyanond, 2007).

**(v) Corporate governance**

The BOT promoted corporate governance of financial institutions in the guidelines of the directors' handbook. The handbook addressed: the structure of banks' board directors, a fit and proper test, lending to/or investing in related parties, information disclosure, and anti-money laundering (Sussangkarn and Vichyanond, 2007).

**(vi) Accommodation of the expansion of financial institutions' business scope**

The new financial regulation of the BOT allowed commercial banks to create more financial investments in hire purchase, leasing, factoring, private repurchase transactions, new derivative products, and electronic money services (Sussangkarn and Vichyanond, 2007). The purposes of the expansion of financial investments are to support more competition, full-circuit services, and greater efficiency in the domestic financial market (Sussangkarn and Vichyanond, 2007).

**(vii) The Credit Bureau**

The Credit Bureau is the sharing system of credit information of clients. It is operated under The Credit Bureau Act that was issued in March 2003. The Act focused on a credit information sharing system that improves loan analysis and credit risk management (Sussangkarn and Vichyanond, 2007).

**(viii) Financial Sector Master Plan (FSMP)**

FSMP is serving as the guidelines of the financial restructuring and development of the Thai financial system over the next 5 to 10 years. FSMP has three principles: broadly disseminate financial services, strengthen efficiency of the financial system, and the protection of consumers (Sussangkarn and Vichyanond, 2007).

**(ix) Accounting standards**

The reform of accounting standards was introduced by the Thai General Accepted Accounting Principles (Thai GAAP) (Siamwalla, 2001). The Thai GAAP was introduced after the GAAP used in the United States. In this particular instance, the Stock Exchange of Thailand (SET) has the role of professional accounting implementation that creates new accounting programs to improve corporate governance in Thai companies. The programs direct the enhancement of information disclosure that requires more external directors for the monitoring of management and the setting up of an audit committee for monitoring accounting standards in Thai companies (Siamwalla, 2001).

**(x) Development of long-term capital markets**

The purpose of this plan is to provide a well functioning, long-term capital market. The plan includes an effective long-term capital market that reduces the risk of alternative financial sources (Sussangkarn and Vichyanond, 2007).

**(xi) Bankruptcy regulations**

In 1998, the government introduced the bankruptcy reform and foreclosure laws. The reform included the establishment of a Central Bankruptcy Court which is independent of the conservative judicial system, the introduction of a rehabilitative procedure, and foreclosure procedures in order to prevent delays (Siamwalla, 2001).

### **3.5 Key legislation on the rights of shareholders**

After the 1997 crisis, the Thai government forced the Stock Exchange of Thailand (SET) to take responsibility for creating corporate governance practices that would assist in protecting minority shareholder rights (Siamwalla, 2001). The SET also acknowledged the rights of shareholders of listed corporations in the Thai markets. The rights of shareholders were addressed in The Public Limited Company Act B.E. 2535 (A.D.1992) (PLC Act.). The protection referred to 15 rights of shareholders implemented in rules and procedures such as Section 59 and Section 170 (7) and (17 governing disclosure of information) (Urapeepatanapong, 2006).

**Table 3.2** The protection of shareholder rights refers to the PLC Act

No.	Shareholder rights protection	Refers to PLC Act. Sections
1	<b>The right to amend the company's memorandum of association or articles of association and such amendment</b> requires at least 75% of votes of total number of votes of shareholders attending the meeting.	31
2	<b>The right to approve the company offering the sale of shares at a price lower than the registered par value</b> which requires majority approval at shareholder meetings, a set price, and publication in the offering prospectus.	52
3	<b>The right to dismiss directors</b> which requires at least 75% of the votes of the total number of shareholders attending the meeting having the right to vote and holding shares in aggregate totalling at least 50% of shares.	76
4	<b>The right to compel the company to take action against a director for operating a business that has a conflict of interest</b> which requires one or several shareholders holding shares in aggregate of at least 5% of the total number of shares sold.	86
5	<b>The right to approve the remuneration for the directors</b> that requires at least two-thirds of the votes of the total number of votes of the shareholders attending the meeting.	90
6	<b>The right to require the directors to call an emergency shareholders' meeting</b> which requires shareholders holding shares in aggregate of at least 20% of the total shares sold, or at least 25 shareholders with shares in aggregate of at least 10% of total shares sold.	100
7	<b>The right to form a quorum for shareholders' meetings.</b> A quorum refers to the number of individuals with certain qualifications that must be present before business may be transacted. In this case, at least 25 shareholders or half of the total number of shareholders holding shares of less than one-third of total shares sold.	103
8	<b>The right to submit proposals for consideration at the shareholders' meeting</b> which requires shareholders holding shares at least one-third of the total shares sold.	105
9	<b>The right to vote for general resolutions at shareholders' meetings</b> as a simple majority of shareholders attending the meeting and where there is a tie, the presiding chairman has the casting vote.	107
10	<b>The right to vote for significant resolutions in the shareholders' meetings</b> at least 75% of the votes of shareholders attending the meeting who are entitled to vote.	107
11	<b>The right to approve the increase or decrease of the capital of a company</b> where the approval requires at least 75% of the votes of the total shareholders' meetings and having the right to vote.	136 and 139
12	<b>The right to approve the issuance of debentures</b> where the approval requires at least 75% of the total votes of shareholders attending the shareholders' meeting and having the right to vote.	145
13	<b>The right to approve a resolution for an amalgamation</b> where the approval requires at least 75% of the total votes of shareholders attending the shareholders' meeting and having the right to vote.	146
14	<b>The right to approve a resolution dissolving the company</b> where the approval requires at least 75% of the total votes of shareholders attending the shareholders' meetings and having the right to vote.	154 (1)
15	<b>The right to remove the liquidator and auditor</b> where the approval requires a majority of votes in the shareholders' meetings. Shareholders holding 10% of total shares have the right to call a shareholder meeting and request such a removal.	163 and 164

(Urapeepatanapong, 2006, p. 23).

### **3.6 Institutions regulating corporate governance in Thailand**

Thailand has four institutions monitoring and regulating good corporate governance. They are as follows.

#### **3.6.1 National Corporate Governance Committee (NCGC)**

The year 2002 was nominated by the National Corporate Governance Committee (NCGC) for establishing good corporate governance.

The NCGC board consists of the Prime Minister (as chairman) and 20 other members. They are the Deputy Prime Minister in charge of economic affairs, Minister of Finance, Minister of Commerce, Permanent-Secretary of Minister of Finance, Permanent-Secretary of Minister of Commerce, Secretary-General of the Council of State, Governor of Bank of Thailand, Secretary-General of the Securities and Exchange Commission, President of Stock Exchange of Thailand, President of Thai Chamber of Commerce, and other various chief executive officers from related government institutions and corporate associations (National Corporate Governance Committee, 2010). NCGC has responsibility for establishing policies, measures, and schemes to upgrade the level of corporate governance among market participants and promote the guidelines of good corporate governance to the public and related parties to raise the confidence of international investors (National Corporate Governance Committee, 2010). NCGC also appoints subcommittees and working groups to study and assist any operations by using their authority according to good corporate governance achievements (National Corporate Governance Committee, 2010).

#### **3.6.2 The Stock Exchange of Thailand (SET)**

The subcommittees of NCGC proposed corporate governance policy for the Stock Exchange of Thailand (SET). The SET has the role of implementation and control, and it requires public limited listed corporations to operate under the issuance of 15 corporate governance principles. Regarded as a voluntary system, it has been adapted from most of the key points addressed by the PLC Thailand, Securities and Exchange Act of Thailand, the Sarbanes-Oxley Act of the US (Lim 2010), OECD principles of

corporate governance, and World Bank Report on the Observance of Standards and Codes relating to Thailand corporate governance (CG-ROSC) (Stock Exchange of Thailand, 2006a). The SET also issued a Code of Best Practice for Directors of Listed Companies to ensure good corporate governance and minority shareholder protection (Stock Exchange of Thailand, 2006a). The voluntary system of corporate governance encouraged listed companies to adopt the Principles of Corporate Governance to practice for their own benefit and for the good development of the Thai capital market and the economy (Stock Exchange of Thailand, 2006a).

The Principles of Good Corporate Governance for listed companies in Thailand (year 2006) are constituted as the principles of corporate governance and recommended best practice. The principles and best practice are presented in 5 categories as follows:

- (i) Rights of shareholders
- (ii) Equitable treatment of shareholders
- (iii) Role of stakeholders
- (iv) Disclosure and transparency
- (v) Responsibility of the board.

The SET has the role of protection of the laws because it has the responsibility to investigate any breaches of the laws by companies. The SET annually reviews companies' annual reports and corporate governance assessment. However, the SET may not take action following an investigation on behalf of an individual shareholder since SET deals with companies. Individual shareholders may need to submit their plaint to the court themselves.

### **3.6.3 Financial supervisory authorities**

Under the Bank of Thailand Act B.E. 2551 (A.D.2008), the Bank of Thailand (BOT) is under the supervision of the Ministry of Finance. BOT has set its objectives to create responsibility for all central banking functions to ensure the protection of Thai society and the economy. The tasks of the BOT include monetary policy, and governing financial institutions, financial markets, and control payment systems. BOT also promotes good governance and transparency in the organisations that it supervises, and it examines and analyses the financial status, performance, and risk

management system of the financial institutions in order to promote financial institution stability. The focus of BOT on minority shareholder rights protection was addressed in the supervision of the boards of directors, internal control system, disclosure, and risk management (Polsiri and Wiwattanakantang, 2005).

### **3.6.4 Thai Institute of Directors Association (IOD)**

The Thai IOD was founded in 1999, two years after the 1997 financial crisis. The Thai IOD is a non-profit and membership organisation. The establishment of the Thai IOD is supported by the Securities and Exchange Commission (SEC), the Stock Exchange of Thailand (SET), Bank of Thailand (BOT), and the Foundation for Capital Market Development Fund, as well as international organisations such as the World Bank. The aims of the Thai IOD provide for the improvement of director professionalism and corporate governance in Thailand. The Thai IOD also develops professional standards of directorship, corporate governance ratings and the best practice guidelines for company directors to achieve good corporate governance based on international standards.

### **3.7 Summary**

This chapter presented the problems of minority shareholder rights protection in Thailand prior to the 1997 financial crisis that was largely caused by family-controlled owners. The responses that encouraged protection for minority shareholder rights following the 1997 financial crisis stimulated a change of ownership structure in Thailand that affected the protection of minority shareholders. The reform of minority shareholder rights in Thailand in recent years was also promoted by the development of corporate governance and financial regulations in Thailand. The key legislation on the rights of shareholders emphasised the relevant laws for shareholder rights protection. The final section described the institutions overseeing corporate governance in Thailand. Despite the regulatory changes and the introduction of corporate governance, the changes in the banking system since 1997 raise questions about the extent to which these changes have impacted on the protection of minority shareholders. These issues are addressed in this study.

# CHAPTER 4

## Theoretical Framework and Hypotheses

### 4.1 Introduction

The review of the protection of minority shareholder rights in Thailand, described in Chapters 2 and 3, presented evidence that the concentrated ownership systems of Thai commercial banks had created minority shareholder rights expropriation during the Thai financial crisis in 1997. In particular, family ownership of the banks expropriated the rights of small shareholders by selecting poor investment projects and engaging in connected lending to their relatives and friends. This led some banks into bankruptcy. The protection of minority shareholder rights of the banks is very important because it encourages small shareholders to monitor managers and bank performance.

After the 1997 financial crisis, the Thai government imposed corporate governance regulations designed to safeguard the integrity of the banking system. Corporate governance regulations can be assessed by examining the response of the banks to the regulations i.e. compliance with the inputs, the regulations to the governance system, processes such as changes to the banks' efficiency and effectiveness or outputs that show an impact on the overall performance of the banks. Another outcome of the corporate governance regulation could be the ways in which the banks treat their own minority shareholders.

This chapter presents the proposed models of this research. Based on the literature presented in Chapter 2 and Chapter 3, it describes the theoretical framework that guides this study of minority shareholder rights in the banking sector in Thailand, and presents the propositions drawn from the research framework. The chapter begins by identifying the gap in previous research that this study is addressing.

## **4.2 Limitations of past studies in minority shareholder rights**

Corporate governance articles are limited in their explanation of how to improve the rights of minority shareholders. Past studies, such as Claessens et al. (1999) and La Porta et al. (1998) provided evidence from corporate governance investigations that suggested investor legal protection, cash flow rights, control rights, and firm performance are significantly affected by minority shareholder rights. Review of their limitations showed that studies such as La Porta et al. (1998) used investor legal protection based on US securities law in order to measure 49 countries around the world without taking into account the specific legal environment of a country (Siems, 2007). They explained minority shareholder rights by drawing implications from studies of corporate governance, and they also used factors that determine corporate governance rather than using the determinant factors of minority shareholder rights. This is why their investigations did not include the effects of the specific corporate governance practices adopted in each country. They also failed to explain the roles of several ownership types, such as government, foreign, and dispersed ownership that are affected by minority shareholder rights. Nor was the relationship between firm performance and minority shareholder rights investigated as Gompers et al. (2003) said:

... shareholders accept restrictions of their rights in hopes of maximizing their wealth, but little is known about the ideal balance of power. From a theoretical perspective, there is no obvious answer ... Is there a relationship between shareholder rights and corporate performance?

(Gompers et al. 2003, p. 107).

## **4.3 Addressing the gap in previous research**

Limitations of past research in minority shareholder rights showed: (1) lack of an explanation of the extent of compliance of banks with corporate governance practices to improve minority shareholder rights; (2) lack of an explanation of the effects of other ownership types (except family) on minority shareholder rights protection; (3) investor legal protection approaches of the specific laws of the countries; (4) lack of

an explanation of the relationship between firm performance and minority shareholder rights protection.

This study addresses these limitations by investigating the factors that determine minority shareholder rights in the Thai commercial bank sector. This investigation explores new ownership models (including family, government, foreign, and dispersed ownership) previously not tested and several factors that impact on the protection of minority shareholder rights, such as corporate governance practices and investor legal protection based on Thai law. This study also explains how corporate governance practices enhance the protection of minority shareholder rights in the Thai commercial banking sector.

#### **4.4 The aims of the theoretical framework**

The literature review of this thesis (Chapter 2) pointed out that the protection of minority shareholder rights depended on determinant factors, such as ownership types (family, government, foreign, and dispersed ownership), investor legal protection, corporate governance practices, free cash flow, and bank performance. The aims of the theoretical framework of this study are to guide research into the factors that affected the development of minority shareholder rights protection in the Thai commercial banking sector. Its specific aims are:

- (i) to determine the optimal ownership model that explains protection of minority shareholder rights in the Thai commercial banking sector
- (ii) to determine the relationship between ownership types and the factors of corporate governance practices, bank performance, and minority shareholder rights protection
- (iii) to determine the relationship between investor legal protection and the factors of corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow
- (iv) to determine the relationship between corporate governance practices and the factors of bank performance and minority shareholder rights protection
- (v) to determine the effects of bank performance on minority shareholder rights protection

- (vi) to determine the effects of free cash flow on minority shareholder rights protection.

#### **4.5 Theoretical framework**

Diagram 4.1 (Theoretical framework) presents a diagrammatic picture of the relationship between three sets of variables: (a) the first set of variables is ownership types: family, government, foreign, and dispersed ownership; (b) the second set of variables is determinant factors of minority shareholder rights: corporate governance practices, investor legal protection, free cash flow, and bank performance; (c) the third set of variables is the dependent variable, minority shareholder rights.

The literature review in Chapter 2 suggested ownership types affected different levels of minority shareholder rights expropriation (Claessens, Djankov and Lang, 1999). Ownership types of this theoretical framework were classified into four types named family ownership, government ownership, foreign ownership, and dispersed ownership. The highest expropriation of the rights of minority shareholders was associated with family ownership, followed by government ownership and foreign ownership (Claessens et al, 1999, Claessens and Fan, 2002, Berger et al., 2005).

Good corporate governance practices improved minority shareholder rights. Corporate governance practices were expected to enhance the quality of companies' board governance and increase disclosure and the accountability of the firm (Aguilera and Cuervo-Cazurra, 2004). Corporate governance practices were also expected to influence management to operate the firm in the interests of shareholders.

The literature also supported the contention that strong investor legal protection improves minority shareholder rights because the rules of law increased the rights of investors and legal enforcement. La Porta et al. (1998) found that weak investor legal protection is associated with countries with high ownership concentration especially found in East Asian countries where the laws involving protection are weak.

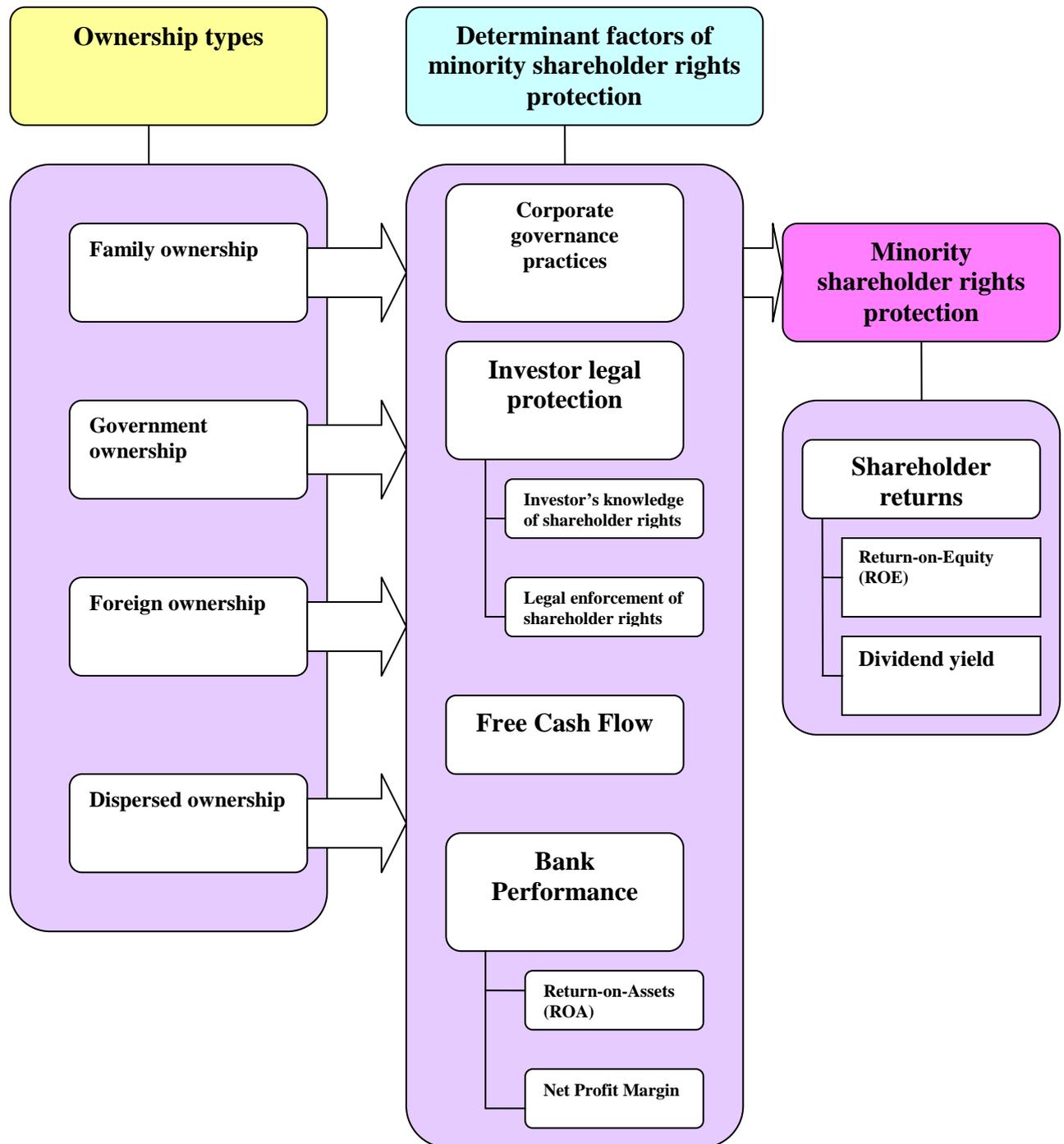
Cash expropriation is one of the most serious problems of minority shareholder rights, as addressed in Claessens et al. (1999) who found that management of firms in which

ownership was concentrated used cash to maximise their benefits and enrich themselves.

Finally, high bank performance increased the rights of shareholders because high corporate performance encouraged shareholder returns (Claessens et al., 1999, Klapper and Love 2004, Nam and Nam 2004).

The theoretical framework of this study views the protection of minority shareholder rights as dependent on the relationship between ownership types (family, government, foreign, and dispersed ownership) and the other determinant factors (corporate governance practices, investor legal protection, free cash flow, and bank performance).

Diagram 4.1: Theoretical framework



#### **4.6 The definitions of the variables presented in Diagram 4.1.**

Diagram 4.1 presented 9 variables that were defined as follows.

##### **Family ownership**

Family ownership refers to controlling shareholders who are families. They have either a direct or indirect vote of greater than 25% of all eligible voting rights (Stock Exchange of Thailand, 2008).

##### **Government ownership**

Government ownership refers to controlling shareholders who are government. They have either a direct or indirect vote of greater than 25% of all eligible voting rights (Stock Exchange of Thailand, 2008).

##### **Foreign ownership**

Foreign ownership refers to controlling shareholders who are foreigners. They have either a direct or indirect vote of greater than 25% of all eligible voting rights (Stock Exchange of Thailand, 2008).

##### **Dispersed ownership**

Dispersed ownership refers to non-controlling shareholders who have either a direct or indirect vote of less than 25% of all eligible voting rights (Stock Exchange of Thailand, 2008).

##### **Investor legal protection**

Investor legal protection is measured by: (1) investor's knowledge of shareholder rights and (2) legal enforcement of shareholder rights. Legal protection for investors of this study was the adoption of the Public Limited Company (PLC) Act B.E. 2535 (1992) of Thailand.

### **Corporate governance practices**

Corporate governance practices are based on the principles of corporate governance with respect to shareholder rights provided by the Stock Exchange of Thailand.

### **Free cash flow**

Free Cash Flow is financial liquidity which is represented as a cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital (Jensen, 1986). Conflict of interest between management and shareholders over dividends or payout policies may be severe when the firm generates a substantial free cash flow (Jensen, 1986).

### **Bank performance**

Bank performance is measured by corporate performance (Berger, et al., 2005). Finance research suggested that bank performance is indicated by its profitability which is supported by cost efficiency (Berger, et al., 2005). Bank performance in this study is measured by means of Return-on-Assets (ROA) and Net-Profit-Margin (NPM) obtained from the financial report of the SET. ROA indicates profitability of banks. NPM also represents profitability and cost efficiency. A higher NPM indicates a more profitable company that has better control over its costs compared to its competitors (Ross, et al., 2004).

### **Minority shareholder rights protection**

Minority shareholder rights protection is the dependent variable of this study that was measured by means of Return-on-Equity (ROE) and Dividend Yield (DY). Many studies have provided evidence of managers who expropriated returns and cash from shareholders (See Table 1.1 Incidents of weak minority shareholder rights protection (Page 3)). That is why Return-on-Equity and Dividend Yield were used as a proxy for minority shareholder protection. Return-on-Equity (ROE) is measured by Net profit / Equity. So, ROE indicates how managers create profit to pay minority shareholders.

Dividend is also paid by cash. It also indicates how much cash returns were distributed to minority shareholders.

#### **4.7 Development of research questions and hypotheses**

The aims of the theoretical framework seek to find the relationship between ownership types and the other determinant factors that support minority shareholder rights protection. The aims are achieved by implementation of the proposed theoretical framework and research questions. This thesis explored 8 research questions and 21 hypotheses. Research questions and hypotheses are summarised in Table 4.1.

**Table 4.1 Summary of research questions and hypotheses**

Research questions	Hypotheses
Q1. What is the optimal model for explaining protection of minority shareholder rights in the Thai banking sector?	<i>Hypothesis 1: Dispersed ownership model is the optimal model to explain protection of minority shareholder rights.</i>
Q2. Which bank ownership types comply with good corporate governance practices?	<p><i>Hypothesis 2: Family ownership has a negative relationship with corporate governance practices.</i></p> <p><i>Hypothesis 3: Government ownership has a negative relationship with corporate governance practices.</i></p> <p><i>Hypothesis 4: Foreign ownership has a negative relationship with corporate governance practices.</i></p> <p><i>Hypothesis 5: Dispersed ownership has a positive relationship with corporate governance practices.</i></p>
Q3. What is the relationship between bank ownership types and bank performance?	<p><i>Hypothesis 6: Family ownership has a positive relationship with bank performance.</i></p> <p><i>Hypothesis 7: Government ownership has a negative relationship with bank performance.</i></p> <p><i>Hypothesis 8: Foreign ownership has a positive relationship with bank performance.</i></p> <p><i>Hypothesis 9: Dispersed ownership has a positive relationship with bank performance.</i></p>
Q4. Which bank ownership types have enhanced minority shareholder rights protection?	<p><i>Hypothesis 10: Family ownership has a negative relationship with minority shareholder rights protection.</i></p> <p><i>Hypothesis 11: Government ownership has a negative relationship with minority shareholder rights protection.</i></p> <p><i>Hypothesis 12: Foreign ownership has a negative relationship with minority shareholder rights protection.</i></p> <p><i>Hypothesis 13: Dispersed ownership has a positive relationship with minority shareholder rights protection.</i></p>
Q5. Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?	<p><i>Hypothesis 14: Investor legal protection has a positive relationship with corporate governance practices.</i></p> <p><i>Hypothesis 15: Investor legal protection has a positive relationship with minority shareholder rights protection.</i></p> <p><i>Hypothesis 16: Investor legal protection has a positive relationship with bank performance.</i></p> <p><i>Hypothesis 17: Investor legal protection has a positive relationship with free cash flow.</i></p>
Q.6 Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?	<p><i>Hypothesis 18: Corporate governance practices have a positive relationship with bank performance.</i></p> <p><i>Hypothesis 19: Corporate governance practices have a positive relationship with minority shareholder rights protection.</i></p>
Q7. Does good bank performance result in strong minority shareholder rights protection?	<i>Hypothesis 20: Bank performance has a positive relationship with minority shareholder rights protection.</i>
Q8. Does free cash flow support minority shareholder rights protection?	<i>Hypothesis 21: Free cash flow has a positive relationship with minority shareholder rights protection.</i>

#### **4.7.1 Research question 1**

The literature review suggested dispersed ownership increases the protection of minority shareholder rights because it manages relationships between the determinant factors of investor legal protection, corporate governance practices, cash flow, and bank performance, which together enhance minority shareholder rights protection. Research question 1 is to develop the optimal ownership models that improve the protection of minority shareholder rights in the Thai commercial banking sector (the optimal ownership models of this study are limited to examining four possibilities: family, government, foreign and dispersed ownership).

This research question is presented as follows.

*What is the optimal ownership model for explaining protection of minority shareholder rights in the Thai commercial bank sector?*

In order to answer research question 1, hypothesis 1 is as follows.

#### **Hypothesis 1**

The literature review indicated that the protection of minority shareholder rights is determined by dispersed ownership, investor legal protection, corporate governance practices, cash flow, and bank performance (Claessens and Fan, 2002; La Porta et al., 1998). Dispersed ownership represents the firm governance that supports the protection of minority shareholders by creating effective monitoring and constraining of the self-dealing behaviour of management that encourages other determinant factors, including investor legal protection, corporate governance practices, cash flow, and bank performance. Accordingly, the first research question seeks the answer to the determinant of the optimal ownership model that improves the protection of minority shareholder rights. There is the following hypothesis to answer research question 1 as follows.

*Hypothesis 1: Dispersed ownership model is the optimal model to explain protection of minority shareholder rights.*

#### **4.7.2 Research question 2**

The literature review suggested concentrated ownership inhibits good corporate governance practices and dispersed ownership supports good corporate governance practices. Research question 2 is to determine the propositions of the relationship between bank ownership type and good corporate governance practices. The research question was suggested as follows.

*Which bank ownership types comply with good corporate governance practices?*

In order to respond to this research question, hypotheses 2 to 5 are as follows.

#### **Hypothesis 2**

The literature review identified family ownership is associated with poor corporate governance practices because family ownership supported governance that encourages a lack of monitoring of management that further encourages the self-dealing behaviour of managers to increase insider lending and poor investment projects in the Thai banking sector. Lack of good corporate governance in family companies also supported pyramidal management of banks that allowed managers to transfer assets of the banks to their cross-holding companies (Bunkanwanicha, Gupta & Wiwattanakantang 2006; Charumilind, Kali & Wiwattanakantang, 2006; Polsiri and Wiwattanakantang, 2005). All of the present studies are the justification for the hypothesis that is presented as follows.

*Hypothesis 2: Family ownership has a negative relationship with corporate governance practices.*

#### **Hypothesis 3**

Government ownership was associated with poor corporate governance practice because government-owned companies supported ineffective monitoring of management which allowed the self-dealing of controlling shareholders (Shleifer and Vishny, 1997). Corporate governance of government-owned corporations has

appeared to serve government political interests rather than focus on minority shareholder interests (Charumilind, Kali and Wiwattanakantang, 2006). This argument is consistent with Berger et al. (2005) who found government-owned banks supported corporate governance that created insider lending which is associated with higher non-performing loan ratios (NPL). This evidence reflects the different goals and lending directives of government-owned banks such as political influences (Berger et al., 2005; Dewenter and Malatesta, 2001; Qiang, 2003).

The evidence from these studies supported the contention that government ownership provided weak corporate governance practices. In the light of a foregoing explanation of government ownership of the banks, the following hypothesis is described:

*Hypothesis 3: Government ownership has a negative relationship with corporate governance practices.*

#### **Hypothesis 4**

Foreign ownership provided poor corporate governance practices because foreign-owned companies have been found to have ineffective monitoring of management, low transparency and disclosure (Claessens and Fan, 2002). Poor corporate governance practices of foreign-owned companies resulted in a lack of transparency and disclosure that supports many activities surrounding the taking of profits of a company from rent seeking (Ananchotikul, 2007; Claessens and Fan, 2002; Fan and Wong, 2002). Lack of good corporate governance over foreign ownership was also represented as the high costs of management monitoring in a company (Claessens and Fan, 2002). Similarly, research of the Bank of Thailand (BOT) found foreign-controlling shareholders of the Thai commercial banks provided a lack of good corporate governance that encouraged insider control to seek private benefits (Ananchotikul, 2007).

The justification for the following hypothesis is that the present study is likely to support the empirical proposal that foreign ownership is associated with poor corporate governance practices.

*Hypothesis 4: Foreign ownership has a negative relationship with corporate governance practices.*

### **Hypothesis 5**

The literature review confirmed that dispersed ownership supports firm governance that encourages good corporate governance practices because dispersed companies are ruled by outside investors (Coffee Jr, 2001; La Porta et al., 2002a). Outsiders also focused on good corporate governance practices which resulted in effective monitoring of management, high information disclosure, good accountability of management, and low risk of expropriation (La Porta et al., 2000b).

The literature review supported dispersed ownership and encouraged good corporate governance practices. Hypothesis 5 is described as follows.

*Hypothesis 5: Dispersed ownership has a positive relationship with corporate governance practices.*

### **4.7.3 Research question 3**

Concentrated ownership leads to poor bank performance and dispersed ownership creates better bank performance. The aim of research question 3 is to investigate the effects of bank ownership types on bank performance. Research question 3 is presented as follows.

*What is the relationship between bank ownership types and bank performance?*

In order to answer this research question, hypotheses 6 to 9 are as follows.

### **Hypothesis 6**

The literature review suggested controlling shareholders of family firms around the world rely on their self-dealing behaviour which creates poor investment projects and self-remuneration resulting in poor company performance (Claessens et al. 1999).

However, after the reform of Thai corporate governance following the 1997 financial crisis, the controlling shareholders of family-owned companies enhanced firm performance because the controlling shareholders provided low agency problems (Wiwattanakantang, 2001). Family-owned companies were also not engaged with pyramidal management that constrained the self-dealing behaviour of the controlling owners that limit the expropriation of the firm's assets (Claessens and Fan, 2002; Wiwattanakantang, 2001).

This thesis proposes to investigate family ownership of Thai commercial banks. This leads to hypothesis 6 as follows.

*Hypothesis 6: Family ownership has a positive relationship on bank performance.*

### **Hypothesis 7**

The literature review of Chapter 3 found government-owned banks provided poor long-term performance because they had high non-performing loans and debt ratios (Berger et al., 2005). Other evidence suggested that government-owned banks created poor bank performance because government ownership had a negative relationship with cost efficiency and profitability efficiency (Bonin et al., 2005). The review of literature in Chapter 3 also indicated that government ownership of Thai banks provided poor bank performance because some banks pursued political policies that further created long-term bad debt. In this case, non profitable loans (NPLs) were developed in the commercial banking sector before the financial crisis of 1997 (Charumilind, Kali and Wiwattanakantang, 2006). These studies supported the findings that government ownership was associated with poor bank performance. The following hypothesis 7 is advanced.

*Hypothesis 7: Government ownership has a negative relationship on bank performance.*

### **Hypothesis 8**

The literature review suggested foreign ownership provides high firm performance because it creates superior technology and its corporate funds were cross-subsidised from their parent companies (Claessens and Fan, 2002). Similarly, Okuda and Rungsomboon (2006) found foreign ownership created high firm performance because the benefits of their information sharing system introduced more cost reduction and that improved their operational efficiency. Accordingly, the following hypothesis is submitted.

*Hypothesis 8: Foreign ownership has a positive relationship on bank performance.*

### **Hypothesis 9**

The literature review of Chapter 3 presented that dispersed ownership in Thailand has a positive relationship with firm performance (Wiwattanakantang, 2001, p. 348). Dhnadirek and Tang (2003) found that higher levels of dispersed ownership have a positive relationship with firm performance. Dispersed ownership improves firm performance because minority shareholders have more power in the monitoring of the firm's managers with regard to their accountability, which avoids both the cost and problem of moral hazards (Claessens, 2006; Sabherwal and Smith, 2008). Thus the following hypothesis is constructed.

*Hypothesis 9: Dispersed ownership has a positive relationship on bank performance.*

#### **4.7.4 Research question 4**

A conclusion from literature review recommended that concentrated ownership creates the expropriation of minority shareholder rights, while dispersed ownership encourages the protection of minority shareholder rights. Research question 4 aims to investigate the effects of bank ownership types on the protection of minority shareholder rights in the Thai commercial bank sector. Research question 4 is proposed as follows.

*Which bank ownership types enhance minority shareholder rights protection?*

In order to respond to this research question, hypotheses 10 to 13 were created as follows.

### **Hypothesis 10**

The literature review in Chapter 2 addressed family ownership operating the firm based on self-interest and supporting high minority shareholder rights expropriation (Claessens and Fan, 2002). The literature review of Chapter 3 also showed that managers of family-owned banks preferred to pursue their own personal interests by: 1) increasing their remuneration; 2) insider trading; 3) inefficient project investments; and 4) connected lending to relatives and friends (Charumilind, Kali and Wiwattanakantang, 2006; Nikomborirak, 1999; Phongpaichit and Baker, 2000). This evidence of minority shareholder rights expropriation impacted on the collapse of Thai banks and created the collateral damage of minority shareholders. All the previous evidence supports the following hypothesis.

*Hypothesis 10: Family ownership has a negative relationship on minority shareholder rights protection.*

### **Hypothesis 11**

The literature review suggested government-owned banks were associated with minority shareholder rights expropriation because they produced the highest inefficient loans and investments in the banking sector, which indicated their goal in lending money was affected by political influences (Berger et al., 2005). Government ownership also hired over-demanded labour which is associated with high overhead costs (Dewenter and Malatesta, 2001). In the banking business, government used its controlling banks as one of the financial instruments to support their monetary policy. Government policy also led to the donation of major benefits to its citizens rather than concern for the rights of minority shareholders. The following hypothesis is constructed as follows.

*Hypothesis 11: Government ownership has a negative relationship on minority shareholder rights protection.*

### **Hypothesis 12**

The literature review of Chapter 3 presented that foreign ownership in Thailand has different characteristics in terms of minority shareholder rights protection because corporate profits provided by foreign ownership were taken by their parent companies rather than being returned to small shareholders. This is because foreign banks had entered emerging markets in an exploitative manner that possibly affected weak minority shareholder rights (Ananchotikul, 2007). For example, Claessens & Fan (2002) found foreign ownership of emerging markets was associated with weak transparency and disclosure because foreign ownership involved acquisitions and takeovers which are also associated with poor takeover defence and accountability (Solomon and Solomon, 2004). Hypothesis 12 is suggested as follows.

*Hypothesis 12: Foreign ownership has a negative relationship on minority shareholder rights protection.*

### **Hypothesis 13**

The literature review supported dispersed ownership giving more opportunity for non-controlling shareholders to establish the role of management monitoring that encouraged stronger minority shareholder rights protection than any other concentrated ownership types (Coffee Jr, 2001). The establishment of a controlling system of these minority shareholders also increased the protection of minority shareholder rights (Claessens, 2006; Coffee Jr, 2001; Shleifer and Vishny, 1997). Hypothesis 13 is submitted as follows.

*Hypothesis 13: Dispersed ownership has a positive relationship on minority shareholder rights protection.*

#### **4.7.5 Research question 5**

The literature review showed investor legal protection encourages the enhancement of the factors of corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow. Research question 5 aims to find how investor legal protection manages its relationship with these variables. Research question 5 is presented as follows.

*Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?*

In order to answer this research question, hypotheses 14 to 17 are determined as follows.

#### **Hypothesis 14**

The literature review supported investor legal protection encouraging good corporate governance practices because La Porta et al. (1998) found investor legal protection provided legal rules and enforcement that reduced ownership concentration and increased the quality of minority shareholder rights protection by improving mandatory disclosure and management monitoring. Enhancing disclosure and the monitoring of management are consistent with good corporate governance practices. Hypothesis 14 is represented as follows.

*Hypothesis 14: Investor legal protection has a positive relationship on corporate governance practices.*

#### **Hypothesis 15**

The literature review described investor legal protection as empowering and protecting minority shareholders to acquire dividend payouts from management (La Porta et al., 1998). The costs of large shareholdings included the expropriation of cash and assets of minority shareholders and are associated with poor investor legal

protection in countries in East Asia (Claessens et al., 1999). Hypothesis 15 is addressed as follows.

*Hypothesis 15: Investor legal protection has a positive relationship on minority shareholder rights protection.*

### **Hypothesis 16**

The literature review showed La Porta et al. (1998) and Shleifer and Vishny (1997) suggested investor legal protection encouraged the protection of the rights of small investors, including both shareholders and creditors. The benefit of investor legal protection was that it created better corporate performance because it facilitated financing of the firm, created more dispersed ownership, improved the efficiency of investment, and encouraged private financial restructuring in a crisis. Thus the developing financial market supports capital adequacy of the firm that increases firm performance. Hypothesis 16 is addressed as follows.

*Hypothesis 16: Investor legal protection has a positive relationship on bank performance.*

### **Hypothesis 17**

The literature review found controlling shareholders of East Asian companies compensated for low legal protection because these large shareholders were associated with a positive relationship between expropriation and the separation of cash flow from voting rights. The separation of cash flow from voting rights was particularly associated with lower market values that are assisted by financing funds from investors. The implications of this study showed investor legal protection encourages the increase of cash investment from financial markets (La Porta et al., 1998). Hypothesis 17 is addressed as follows.

*Hypothesis 17: Investor legal protection has a positive relationship on free cash flow.*

#### **4.7.6 Research question 6**

The literature review suggested corporate governance practices support the enhancement of bank performance and the protection of minority shareholder rights. Research question 6 is to find the effects of corporate governance practices on bank performance and minority shareholder rights protection. Research question 6 below is proposed as follows.

*Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?*

In order to find how corporate governance practices improved bank performance and minority shareholder rights protection, hypotheses 18 and 19 were proposed as follows.

#### **Hypothesis 18**

The literature review suggested good corporate governance practices increase bank performance because good corporate governance constrains the self-dealing behaviour of managers (Claessens et al., 1999). Managers pursued their self-interest by investing in poor return projects and increasing their remuneration (Claessens et al., 1999). Hypothesis 18 is suggested as follows.

*Hypothesis 18: Corporate governance practices have a positive relationship on bank performance.*

#### **Hypothesis 19**

The literature review suggested good corporate governance encourages the protection of minority shareholder rights because it improves the accountability of management, effective monitoring of management, and information disclosure (Aguilera and Cuervo-Cazurra, 2004). Corporate governance practices also support a non-controlling ownership structure in which minority shareholder rights were protected

by a high level of disclosure and legal protection (Todd, 2002). Hypothesis 19 is proposed as follows.

*Hypothesis 19: Corporate governance practices have a positive relationship on minority shareholder rights protection.*

#### **4.7.7 Research question 7**

This research question is designed to investigate how good bank performance created strong protection of minority shareholder rights since Claessens et al. (1999 and 2006) found the costs of large shareholdings were minimised by the management monitoring of minority shareholders. The lower costs of minority shareholder rights expropriation may create higher performance of the firm. Research question 7 is nominated as follows.

*Does good bank performance result in improved minority shareholder rights protection?*

In order to respond to this research question, hypothesis 20 is proposed as follows.

#### **Hypothesis 20**

The empirical studies of corporate governance suggested that firm performance was improved if managers worked on shareholder benefits (La Porta et al., 2000b). In this particular instance, the benefits of small shareholders relate to how managers operate the firm with high performance. Jensen (2000) also supported this view that the role of shareholder monitoring encouraged managers to provide good corporate performance by using resources efficiently to guarantee that they will not take actions that would harm shareholders. Hypothesis 20 is created as follows.

*Hypothesis 20: Bank performance has a positive relationship on minority shareholder rights protection.*

#### **4.7.8 Research question 8**

This research question is seeking whether the protection of minority shareholder rights is supported by a greater cash flow of the firm. Research question 8 is presented as follows.

*Does free cash flow improve minority shareholder rights protection?*

In order to answer this research question, hypothesis 21 is applied as follows.

#### **Hypothesis 21**

The literature review addressed the protection of minority shareholder rights being supported by high cash flow because minority shareholder rights protection was caused by the cash flow expropriation of managers (Claessens et al., 1999). Jensen (1986) also investigated free cash flow and agency costs. The results of the study showed free cash flow reduces the conflict of interest between managers and shareholders because free cash flow is the provision of dividend payout policies (Jensen, 1986). The findings of Jensen (1986) implied increasing the free cash flow also resulted in the enhancement of minority shareholder rights protection. Hypothesis 21 is proposed as follows.

*Hypothesis 21: Free cash flow has a positive relationship on minority shareholder rights protection.*

#### **4.8 Summary**

This chapter described the theoretical framework and hypotheses that emerged from the literature review, and the gap in previous research to determine the aims of this study. Then the key definitions were described in order to connect with the theoretical framework of this study. Hypotheses were explained after the theoretical framework development. The next chapter is the research methodology.

# CHAPTER 5

## Research Methodology

### 5.1 Introduction

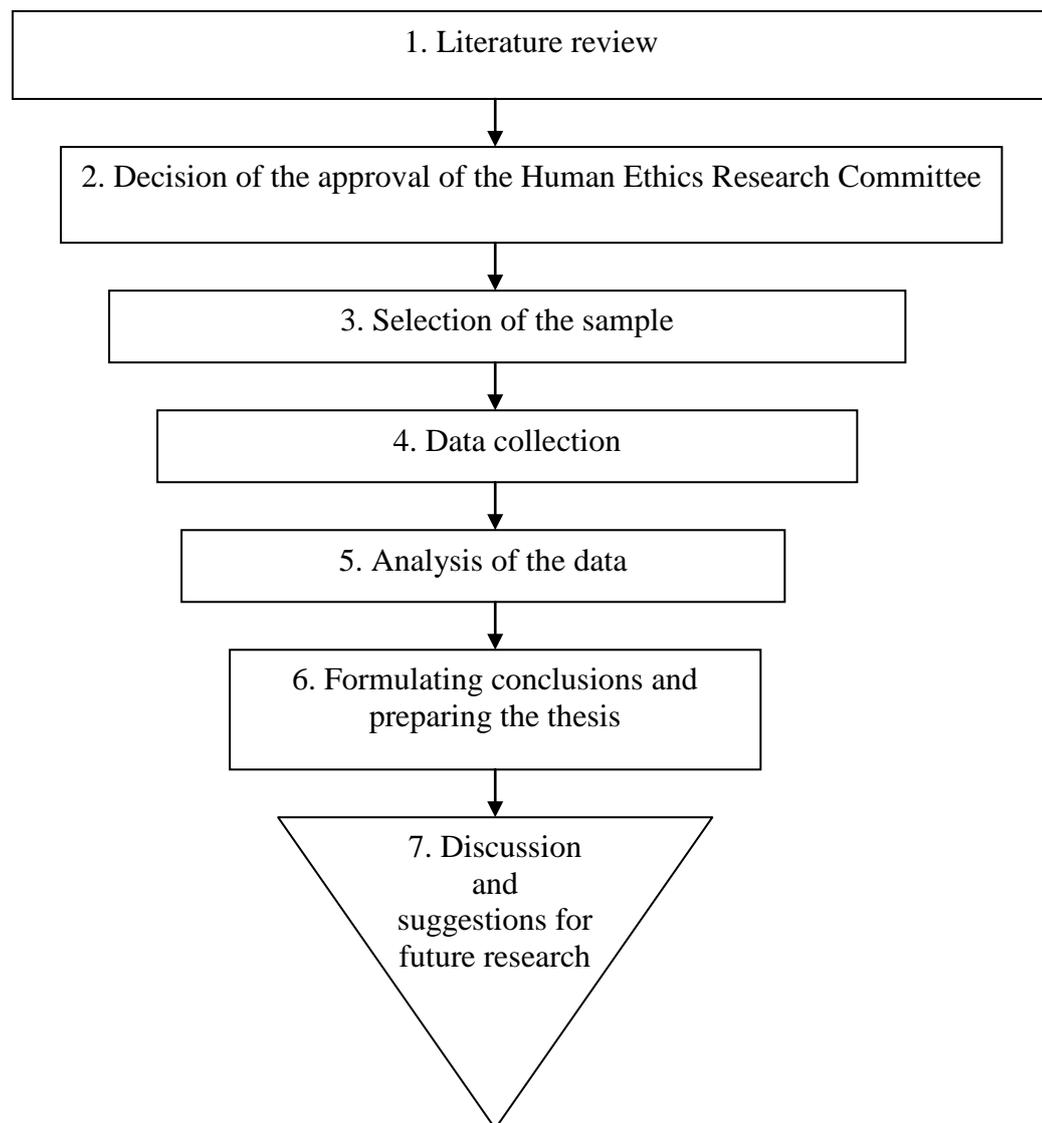
Chapter 4 described the theoretical framework for this thesis and the research questions and hypotheses to be tested. This chapter discusses the research design and the methodology used to undertake this research. The first part describes the research design and ethical considerations. The second part describes the methodology. The research methodology included both quantitative and qualitative methods and used both secondary and primary data collection methods. The quantitative study used secondary data from company annual reports to explore the profiles of listed banks. The primary data collection was a survey of institutional investment managers and bank executives in Thai banks using a structured questionnaire with both open and closed questions designed to collect quantitative and qualitative data. The study was supported by the Thai Stock Exchange (SET), which assisted the data collection by distributing the questionnaires.

### 5.2 The justification of the research design

The research design of this study was a plan that guided the detailed methods and procedures for developing the theoretical framework and collecting and analyzing data. This study used a design framework based on the objectives of the study presented in Chapter 4 to ensure that the collected data was appropriate for solving the research questions and propositions (Veal, 2005). The research was a non-contrived, cross-sectional study, with minimum researcher interference. The purpose of the study was primarily hypotheses testing so as to explain the relationship between the different constructs defined in Chapter 4.

The study was also descriptive in nature in order to describe the factors that determine the protection of minority shareholder rights in the Thai banking sector.

Diagram 5.1 shows the stages of the research process and the progression of this study. The first stage of research was the literature review that was described in Chapter 2 and Chapter 3. The literature addressed the theoretical framework in Chapter 4. The theoretical framework guided the construction of the research questions and propositions. The second stage of the study was ethical considerations and confidentiality. Ethics was important because this study involved social research with human participants. This research complied with Victoria University ethical guidelines. The third stage was a sample selection that addressed target samples and their attributes. The fourth stage described data collection methods, measures, and the way in which data was collected confidentially. Data analysis that followed this chapter showed the construction of the analyses that was appropriate to answer the research questions and propositions. The results of this analysis led to formulating conclusions to describe the knowledge gains. The final stage is the conclusion that was about defining new problems, discussion, and suggestions that were necessary for future study. These stages are fully discussed below. This study used quantitative and qualitative methods of data collection and analysis because the available data accessed from the banks' financial reports enabled the statistical testing of the relationship between independent variables and dependent variables (Sakaran, 2003).

**Diagram 5.1: Stages in the research process of this study**

### 5.3 Ethical considerations

Ethical guidelines were adopted in Australia and the US to ensure that research should be conducted in a way that provided protection for human participants. Thus the researcher was ultimately responsible for the welfare of the participants and protecting participants from harm (Jackson, 2006). In Australia, the Australian government developed ethical guidelines which were issued by the *National Health and Medical Research Council Act 1992* (the Act).

The ethical conduct of the research in this study was approved by the Victoria University Human Research Committee (HREC) that administers the guidelines for

the ethical practice of research by Victoria University. The HREC was responsible for ensuring that research projects involving humans adhere to ethical principles and that research projects conform to relevant legal requirements. The expectation of HREC is that all research involving or impacting on humans is performed in an ethical manner (Office for Research Ethics and Biosafety, 2009).

Approval to conduct this study was granted and was deemed to meet the requirements of the National Health and Medical Research Council's (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)', by the Chair, Faculty of Business & Law Human Research Ethics Committee (refer to Appendix B of this study).

Confidentiality of responses was ensured by the Corporate Governance Centre of the Stock Exchange of Thailand since they fully informed respondents about the study by forwarding an 'Information for Participants' sheet and a 'Consent Form' with each survey. Copies are attached in Appendix C. The responses were returned in reply paid envelopes to the researcher. Confidentiality in the analysis was assured by aggregating responses and not identifying individual respondents. All respondents in the primary study were over 18 years of age and were professional persons. As responding was voluntary, it was assumed that they were literate in English and that no translation of material was required.

#### **5.4 Selection of the sample**

Populations were chosen from the listed banks on the SET, and bank executives, and institutional investors of the banks.

##### **5.4.1 Ownership and financial data of listed banks (secondary data)**

Ownership and financial data were collected from the annual reports of 12 listed banks of the SET (every bank that were listed in the SET) at the end of financial year 2009. Data included their ownership types, bank performance, free cash flow, and minority shareholder rights (shareholder returns).

#### **5.4.2 The survey population (primary data)**

The primary data were collected from a survey of all bank executives and institutional investors of Thai listed banks in the year 2009. There were 401 respondents, consisting of 213 investment managers, 33 chief executives of investment institutions, 12 bank chief executive officers, 97 bank directors, and 46 bank independent directors.

These samples of the survey population were chosen for a number of reasons. Firstly, financial institutional investors were regarded as powerful minority shareholders whose role was important in monitoring corporate governance practices, and whose responsibilities impacted directly on minority shareholder rights (Solomon and Solomon, 2004). Secondly, institutional shareholders can form representative groups and present resolutions to company management. Their voting proposals sponsored by institutional investors or coordinated groups also appeared to act as stronger proposals than those sponsored by individual shareholders (Gillan and Starks, 2000). Next, the banks' executives and directors are motivated to improve corporate governance practice for many reasons. For instance, bank directors were responsible for holding shareholder meetings and achieving the goals of good corporate governance practices and safeguarding minority shareholder rights as recommended by the SET's codes of best practice (Stock Exchange of Thailand, 1998). Furthermore, bank executives have the power to increase the importance given to shareholder rights and equitable treatment, as well as business ethics and responsibilities to other stakeholders. In addition, they are subject to the enforcement of Thai company law and compliance with the terms of shareholder rights as stated in Table 3.1 of Chapter 3 (Urapeepatanapong, 2006).

#### **5.5 Justification of collecting data and variables**

Data collection had two main sources. Primary data were obtained from the survey questionnaire. Secondary data were obtained from bank annual reports. Table 5.1 summarises the variables investigated by the data collection methods and how they were measured. Minority shareholder rights were the dependent variable and the other variables are independent variables.

**Table 5.1 Variables and data collection methods**

<b>Variables</b>	<b>Indicators</b>	<b>Measures</b>	<b>Data sources</b>
Minority shareholder rights protection (Dependent variable)	Shareholder returns	Mean of dividend yield ratio and Return-on-Equity (ROE) ratio	Bank annual reports (Secondary)
Family ownership (Independent variable)	Family ownership	Dummy variable, indicating if the firm has a controlling shareholder who is an individual	Bank annual reports (Secondary)
Government ownership (Independent variable)	Government ownership	Dummy variable, indicating if the firm has a controlling shareholder who is the government	Bank annual reports (Secondary)
Foreign ownership (Independent variable)	Foreign ownership	Dummy variable, indicating if the firm has a controlling shareholder who is a foreign investor	Bank annual reports (Secondary)
Dispersed ownership (Independent variable)	Dispersed ownership	Dummy variable, indicating if the firm has no significant controlling shareholder	Bank annual reports (Secondary)
Bank performance (Independent variable)	Bank performance	Mean of Return-on-Assets (ROA) ratio and Net-Profit-Margin	Bank annual reports (Secondary)
Free cash flow (Independent variable)	Free cash flow	Free cash flow from cash flow statements of the banks	Bank annual reports (Secondary)
Investor legal protection (Independent variable)	Investor's knowledge of shareholder rights	Mean of rating scales in investor's knowledge of shareholder rights	Survey questionnaire (Primary)
	Legal enforcement of shareholder rights	Mean of rating scales in legal enforcement of shareholder rights	Survey questionnaire (Primary)
Corporate governance practices (Independent variable)	Corporate governance practices	Mean of rating scales in corporate governance practices	Survey questionnaire (Primary)

### **5.5.1 Primary data**

Primary data were collected from a survey questionnaire. The questionnaire consisted of four sections that gathered the data about: (1) respondents' position in the banks, (2) the selection of investor's main investment banks (choose one bank) (3) legal protection for investors (which is measured by (3.1) investor's knowledge of shareholder rights and (3.2) legal enforcement of shareholder rights, (4) corporate governance practice regarding minority shareholder rights. The questionnaire design is described in 5.6 (the next section of this thesis). The questionnaire was distributed to participants via email by the Corporate Governance Centre of the Stock Exchange of Thailand and participants returned the questionnaire to the researcher's collection base in Thailand by posted mail. The timeframe on this data collection was taken between 6 August 2009 and 31 October 2009. The researcher also followed up some non-responded questionnaires by sending another questionnaire and the necessary advice again. The time taken in this extension was until 31 January 2010.

### **5.5.2 Secondary data**

Secondary data referred to 5.4.1 was drawn from a sample of the ownership and financial data of listed banks. Table 5.2 describes all the variables of this study. Secondary data were collected and dummy scores constructed for family ownership, government ownership, foreign ownership and dispersed ownership. Bank performance was represented by Return-on-Assets (ROA) ratios. Free cash flow was measured by free cash flow from cash flow statements of the banks. Minority shareholder rights were measured by shareholder returns, such as the mean of dividend yield and Return-on-Equity (ROE) ratios. These secondary data were collected from bank annual reports recorded on FM 56-1 forms provided by the Stock Exchange of Thailand (SET). The annual financial reports of the banks were obtained by downloading data from the SETTRADE.COM website (authorised by the Stock Exchange of Thailand) as viewed in the selection of the form FM 56-1 submitted from the banks. And the collection procedures were supported by the Corporate Governance Centre of the Stock Exchange of Thailand.

Table 5.1 presented the variables sourced from secondary data: ownership types (family, government, foreign, and dispersed ownership), bank performance, free cash flow, and minority shareholder rights. The measurement of the variables sourced from secondary data and related studies using these variables are explained as follows.

**(a) Ownership-type measurement**

Thai commercial bank ownership structures are defined by four categories, namely: family ownership, government ownership, foreign ownership, and dispersed ownership. Thai commercial banks are classified by types of the largest shareholder. The types of ownership were classified by the types of major shareholders who have either a direct or indirect vote of more than 25% of all eligible voting rights (Stock Exchange of Thailand, 2008). This research measured all ownership types by dummy scores. The scores rated each bank on the level of each type of ownership, Yes = 1 and No = 0.

**(b) Bank performance measurement**

Bank performance was measured by the mean of Return-on-Assets (ROA) and Net-Profit-Margin (NPM).

**(c) Free cash flow**

Free cash flow is operating cash flow minus capital expenditure as:

Free cash flow = EBIT (1 – Tax Rate) + Depreciation & Amortisation – Change in Net Working Capital – Capital Expenditure

**(d) Minority shareholder rights protection**

Minority shareholder rights protection was measured by the mean of dividend yield ratio and Return-on-Equity (ROE) ratio.

## **5.6 Questionnaire design (primary data)**

The questionnaire design of this study collected data from respondents about the factors that determined minority shareholder rights. Table 5.2 presented the variables and data collection methods of this study in this chapter. The questionnaire was composed of four parts as follows (see questionnaire in Appendix 1).

**5.6.1 The first part of the questionnaire** collected data about the position of respondents within their financial institutions, such as in positions of management in a commercial bank, in the management of an investment company, a non-controlling shareholder, and a controlling shareholder. This part was designed to investigate how the positions of investors affected their evaluations of the factors that determine minority shareholder rights.

**5.6.2 The second part of the questionnaire** asked respondents to select their main investment banks from the 12 commercial banks in the Stock Exchange of Thailand (SET) based on the year 2009. This part was designed to examine the relationship between the characteristics of the banks and minority shareholder rights. Each bank had different characteristics, such as bank ownership types, performance, and free cash flow as presented in Table 5.2. Some characteristics of the banks, such as legal protection for investors and corporate governance practices were analysed in relation to the third and the fourth parts of this questionnaire.

**5.6.3 The third part of the questionnaire** examined legal protection for investors. This was separated into two main sections: (a) investor's knowledge of shareholder rights and (b) legal enforcement of shareholder rights. The aims of the questionnaire were to investigate the levels of respondents' perceptions of and knowledge of shareholder rights and their satisfaction with the legal enforcement of shareholder rights.

The supporting literature for applying Thai company law to measure investor's knowledge of shareholder rights referred to the study of La Porta et al. (1998) who studied the relationship between investor legal protection and shareholder rights. La Porta et al. (1998) used the rules of law (based on the US laws) to investigate the

improvement of shareholder rights. They found the rules of law are positively correlated with stronger shareholder rights (La Porta et al., 1998). However, this thesis used Thai law because it is appropriate for investors in Thailand.

The supporting literature for applying Thai company law to measure the legal enforcement of shareholder rights is found in La Porta et al. (1998). La Porta et al. (1998) used investor legal enforcement (based on US laws) to investigate how investor legal protection dominated shareholder rights. The test of La Porta et al. (1998) showed legal enforcement is necessary to improve minority shareholder rights because the country with strong legal enforcement gave greater returns to shareholders and higher market value of equity prices.

#### **(a) Investor's knowledge of shareholder rights**

The section of the questionnaire investigating investor's knowledge of shareholder rights has 15 questions. Respondents were asked to provide their perception of shareholder rights based on PLC Act B.E. 2535 (1992) (see Table 5.2).

Table 5.2 showed the questionnaire items that investigated how much respondents know about the rights of shareholders. If they answered 'Yes', their response meant that they know their rights. If they answered 'No', it indicated that they believed wrong information about shareholder rights because all the rights shown in the questionnaire were endorsed by the law. If they answered 'Do not know', it meant they did not know because they lacked information on shareholder rights.

With regard to the method of scaling the rules of law as perceived in shareholder rights, all respondents should have known the law because they were involved in holding shares for the banks. By dummy scoring, the researcher gave a score in each answer, such as the answer 'Yes' = 2, 'No' = 1 and 'Don't know' = 0.

## **(b) Legal enforcement of shareholder rights**

The questionnaire of legal enforcement of shareholder rights has been constructed with open-ended and close-ended questions. The open-ended question asked is as follows.

**‘Are there any new additional basic rights that should be introduced into company law to safeguard minority shareholders’ rights?’**

The open-ended question investigated the opinions of respondents toward the introduction of new minority shareholder rights in the Thai banking sector. The answers from respondents were expected to provide some suggestions for the markets that also benefit from the discussion raised by this study and could identify issues for further research in minority shareholder rights.

Close-ended questions asked the respondents to rate the levels of their satisfaction of shareholder rights enforcement on each rule of law based on shareholder rights drawn from PLC Act B.E. 2535 (1992) (see Table 5.3).

The questionnaire items presented in Table 5.3 showed the legal enforcement of shareholder rights as they are applied in Thailand according to company law (PLC Act B.E. 2535 (1992)). The levels of their satisfaction with legal enforcement of shareholder rights were measured by a Likert 7 itemised rating scale. This rating scale benefited from the flexibility of using as many points in the scale as considered necessary. This scale has frequently been used in business research since it can be adapted to use the number of points desired (Sakaran, 2003). The meanings of the scales were as follows: 7 is ‘enforcement very high’, 6 is ‘enforcement high’, 5 is ‘enforcement quite high’, 4 is ‘enforcement neither high nor low’, 3 is ‘enforcement quite low’, 2 is ‘enforcement low’, and 1 is ‘enforcement very low’.

**Table 5.2: Questionnaire of investor's knowledge in shareholder rights**

'Are the shareholders of your bank able to ...'	YES	NO	Do not know
<p>vote for general resolutions at shareholders' meetings?</p> <p>vote for significant resolutions in the shareholders' meetings?</p> <p>form a quorum for shareholders' meetings?</p> <p>require the directors to call an emergency shareholders' meeting?</p> <p>amend the company's memorandum of association or Articles of Association?</p> <p>dismiss directors?</p> <p>submit proposals for consideration at shareholders' meetings?</p> <p>approve the company offering the sale of shares at a price lower than the registered par value?</p> <p>compel the company to take action against a director for operating a business that has a conflict of interest?</p> <p>approve the remuneration for the directors?</p> <p>approve the increase or decrease of the capital of the company?</p> <p>approve the issuance of debentures?</p> <p>approve a resolution for an amalgamation?</p> <p>approve a resolution dissolving the company?</p> <p>remove the liquidator and auditor?</p>			

**Table 5.3: Questionnaire of legal enforcement of shareholder rights****Scales assessment:**

Enforcement very low	Enforcement low	Enforcement quite low	Enforcement neither high nor low	Enforcement quite high	Enforcement high	Enforcement very high
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

<b>To what extent do you think that the following measures provide which levels in legal enforcement for minority shareholders?</b>	<b>Scales</b>						
The right to vote for general resolutions at shareholders' meetings	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to vote for significant resolutions in the shareholders' meetings	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to a quorum for shareholders' meetings	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to require the directors to call an emergency shareholders' meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to amend the company's memorandum of association or Articles of Association	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to dismiss directors	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to make proposals for consideration at the shareholders' meetings	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve the company offering the sale of shares at a price lower than the registered par value	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to compel the company to take action against a director for operating a business that has a conflict of interest	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve remuneration for the directors	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve the increase or decrease of the capital of the company	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve the issuance of debentures	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve a resolution for an amalgamation	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to approve a resolution dissolving the company	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
The right to remove the liquidator and auditor	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

**5.6.4 The fourth part of the questionnaire** investigated the satisfaction of corporate governance practices with regard to shareholder rights in the Thai commercial banking sector. This part constructs questionnaire items containing open- and close-ended questions. The close-ended questionnaire was measured by seven Likert scales. The meaning of the scales is as follows: 7 is 'very satisfied', 6 is 'strongly satisfied', 5 is 'satisfied', 4 is 'neither satisfied nor dissatisfied', 3 is 'dissatisfied', 2 is 'strongly dissatisfied', and 1 is 'very dissatisfied'.

The questionnaire had two main sections. The first section of the questionnaire (Table 5.4) investigated satisfaction with corporate governance practices (9 questions) and the second section examined the satisfaction with shareholder meetings (10 questions). This section also provided an open-ended questionnaire that asked the respondents to provide reasons if they were absent from shareholder meetings as shown in Table 5.5.

The questionnaire items of this study were selected from the practices of shareholder rights addressed in the principles of corporate governance of the Stock Exchange of Thailand (SET) published by the SET in Urapeepatanapong (2006). The principles of corporate governance with regard to shareholder rights in the SET also covered most key points in the principles of corporate governance with regard to shareholder rights of the Organization for Economic Co-operation and Development (OECD) (Stock Exchange of Thailand, 2006c). The SET believes these principles of corporate governance with regard to the equitable treatment of shareholder rights assists small investors to monitor and extract appropriate returns from the management of companies (Stock Exchange of Thailand, 2006c). The OECD reported in the White Paper (2003) on corporate governance in Asia that separating ownership and management caused minority shareholder rights expropriation (see page 17 of the report) because most Asian countries have a predominance of concentrated ownership ruled by a few controlling shareholders, especially families (OECD, 2003). The questionnaire in this study focused on the practice of the equitable treatment of shareholder rights. The questionnaire is presented in Table 5.4 (The satisfaction of corporate governance practices with regard to shareholder rights in the Thai commercial banking sector) and 5.5 (Shareholders meeting practice assessment).

According to a review of various methods of corporate governance practices of assessment with regard to shareholder rights, every country around the world has created their own corporate governance assessment criteria which are appropriate to their own laws and regulations (Solomon and Solomon, 2004). However, the adoption of the basic ideas of the OECD's principles of corporate governance was found in both its member countries and non-member countries. The OECD is an international economic organisation of 34 countries, including the major developed countries of the world, such as the US, UK, Germany, France, Spain, Australia, Canada, Netherlands, Norway, Sweden, Italy, and New Zealand. Non-member countries, such as Thailand and most East Asian countries (Vietnam, Malaysia, Indonesia, and Singapore), also adopted the OECD's principles of corporate governance (Stock Exchange of Thailand, 2006a).

In corporate governance research the adoption of most of the key points addressed in the OECD's principles of corporate governance are the same. For example, the World Bank has created the assessments of countries' corporate governance which was applied from the OECD's principles of corporate governance (Nam and Nam, 2004). Standard & Poor's surveyed corporate governance and created their own criteria to the practice of corporate governance in some countries. These criteria were also adopted from the basic ideas of OECD principles of corporate governance (Nam and Nam, 2004). Klapper and Love (2004) investigated corporate governance and investor protection in emerging markets. They used Credit Lyonnais Securities Asia (CLSA) data which also adopted the basic ideas of OECD principles of corporate governance (Klapper and Love, 2004). Nam and Nam (2004) investigated Asian corporate governance, and they developed their own survey of corporate governance practices that were also based on OECD principles of corporate governance.

**Table 5.4 Questionnaire of corporate governance practices****Scales assessment:**

<b>Very dissatisfied</b>	<b>Strongly dissatisfied</b>	<b>Dissatisfied</b>	<b>Neither satisfied nor dissatisfied</b>	<b>Satisfied</b>	<b>Strongly satisfied</b>	<b>Very satisfied</b>
<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>

**How satisfied are you with the rights of shareholders?**

<b>Satisfaction criteria</b>	<b>Scales</b>						
To be involved in the operation of the company through shareholders' meetings	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To appoint directors of their choice	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To access information	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To object to disposal of the bank's shares	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To protection by independent directors	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To apply to the court to cancel shareholder resolutions	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To appoint another person to vote on their behalf (proxy vote)	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To request the appointment of an inspector (20% of total shares sold in a company or at least one-third of the total number of shareholders)	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>
To sue directors who do not comply with their fiduciary duties by conflict of interest, inside trading, or distributing misleading information	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>

**Table 5.5 Questionnaire of corporate governance practice in shareholders****meetings****Scales assessment:**

Very dissatisfied	Strongly dissatisfied	Dissatisfied	Neither satisfied nor dissatisfied	Satisfied	Strongly satisfied	Very satisfied
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

To what extent does the meeting encourage ...?	Scales						
high quality communication?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
shareholders to monitor the share register?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
monitoring of shareholders' activities?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
monitoring of voting patterns?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
high standards of corporate governance?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
a good and thorough knowledge of the relevant company law?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
a comfortable meeting atmosphere and procedure?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
the submission of questions from shareholders?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
executives to inform shareholders of any changes in company legislation and regulation?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
executives to respond to shareholders questions?	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

### 5.7 Justification of the analytical methodology

This study selected quantitative methods as the major methodology because quantitative methods provide the reliability appropriate to the theoretical framework of this study assigned in Chapter 4 that addressed the study of the relationship between corporate governance factors and minority shareholder rights. Both the data

retrieved from the figures available in the banks' financial reports and the surveys were measured by parametric variables, such as dummy scores and the Likert scale. However, this method was supported by open-ended items representing a qualitative data approach.

## **5.8 Questionnaire testing**

The data from the scales used in the study were tested for their reliability and validity. The results of the reliability and validity tests are reported in the next chapter.

### **5.8.1 Reliability test**

A reliability test refers to the test of the consistency or stability of the questionnaire (Jackson, 2006). The data collected in this study were parametric variables, such as dummy scores and the Likert scale. The test of reliability for parametric variables employed was Cronbach's Alpha Coefficient using the SPSS software program. Cronbach's Alpha Coefficient provides a measure of the internal consistency. The measure of reliability ranges from 0–1, with the value close to 1 it is deemed to have more reliability (Hair et al., 1998).

### **5.8.2 Validity test**

The results of the validity test are reported in Chapter 6 (Descriptive Statistics of Research Results). Validity testing of the questionnaire used factor analysis. A factorial validity test is conducted to assess the construct validity of the variables. Each part of the questionnaire was composed of variables that were measured by parametric statistics such as a Likert scale. Factor analysis of this study is appropriate because one of the aims of using factor analysis is to assist in the confirmation of the validity of the construction in the questionnaire (Hair et al., 1998). The analysis confirmed that no new factors were detected in the questionnaire and to make sure that every variable assessed in this study was accurately measured by the questionnaire.

## **5.9 Data analysis**

Data analyses of the questionnaire used univariate and multivariate analysis as follows.

### **5.9.1 Descriptive statistics**

Descriptive methods of this study organised data into frequency, means, tables and graphs that made the data set more meaningful and appropriate for explanation. Descriptive statistics are used to describe demographic results and the factors that determine protection of minority shareholder rights, such as investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices in minority shareholder rights, and the views of respondents toward the protection of minority shareholder rights.

### **5.9.2 Multiple regression analysis**

Multiple regression analysis was used to test the relationship proposed in the theoretical framework of Chapter 4. It was used to examine the relationship between corporate governance factors and minority shareholder rights. The independent variables were employed to construct the multivariate models that are able to explain minority shareholder rights. Multiple regression analysis is the most suitable methodology for the analysis of the framework of this study which aimed to test the relationship between a set of independent variables and a single dependent variable such as minority shareholder rights (Hair et al., 1998).

The literature review showed that many similar minority shareholder rights and corporate governance studies used multiple regression analysis. For example, Nam and Nam (2004) conducted broader research in Asian countries including Thailand. Their propositions are based on the optimal quality of corporate governance that enhanced firm performance and market value. They focused on finding the optimal model by using different dependent variables, such as firm performance (ROA) and market value (Tobin q). The independent variables were the quality of corporate governance derived from the relationship between the firm's agency characteristics

(ACs), firm characteristics (FCs), dummy variables for different ownership and controls (Do), and Country dummy (Dc). Their regression model is presented as follows.

$$\text{Firm performance} = \beta_0 + \beta_1 (CG*Do) + \beta_2 (Dc) + \beta_3 (Acs) + \beta_4 (FCs) + E$$

$$\text{Market value} = \beta_0 + \beta_1 (CG*Do) + \beta_2 (Dc) + \beta_3 (Acs) + \beta_4 (FCs) + E$$

Finally, Claessens et al. (1999) investigated minority shareholder rights expropriation in Asian developing countries. Their methodology analysed the relationship between the independent factors, such as voting, cash and corporate finance, and firm performance. This study developed a multiple regression model that employed the cash flow rights of the largest block-holder (CASH), and the ratio of cash flow to the voting rights of the largest block-holder (CASH/VOTES). Control variables were the growth of sales revenue over the years (SGROWTH) and capital expenditure over sales ratio (CES). Their model is suggested as follows.

$$\text{Firm performance} = \beta_0 + \beta_1 (SGROWTH) + \beta_2 (CES) + \beta_3 (CASH) + \beta_4 (CASH/VOTES) + E$$

The analysis of this thesis used multiple-regression modelling because the review of the analytical methodology provided in Nam & Nam (2004) and Claessens et al. (1999) supported the analyses followed in this study which aimed to investigate the relationship between minority shareholder rights protection (a dependent variable) and the other determinant factors (independent variables) that enhanced the protection of minority shareholder rights, such as four ownership types, corporate governance practices, investor legal protection, free cash flow, and bank performance.

The same multiple-regression model constructions of this study are similar to the previous studies in Nam & Nam (2004) and Claessens et al. (1999).

The model construction is applied to this study by entering the independent variables (four ownership types: corporate governance practices, investor legal protection, free cash flow, and bank performance) and a dependent variable (minority shareholder

rights protection) into multiple-regression models where the independent variables predict the dependent variable.

In the theoretical framework of this study (Chapter 4), the protection of minority shareholder rights (a dependent variable) gives investors the power to extract returns from their company management (La Porta et al., 1998) therefore the protection of minority shareholder rights depends on the following determinant factors:

**(a) Ownership types (family, government, foreign, and dispersed ownership)**

The literature review suggested each ownership type provides unique characteristics that affect the protection of minority shareholder rights. Four ownership types need to be investigated in this study. For example, the literature review addressed concentrated ownership (family, government and foreign ownership) that expropriates minority shareholder rights in different ways (Claessens, 2006). However, dispersed ownership enhances protection of minority shareholder rights (Coffee Jr, 2001; La Porta et al., 1997).

**(b) Investor legal protection**

The review of literature recommended that investor legal protection increases the protection of minority shareholder rights. Much research suggests the rights of minority shareholders were defined by corporate law. However, the expropriation of minority shareholder rights exists because the judicial process allows ineffective legal enforcement through different legal systems as common law and civil law (La Porta et al., 1998).

**(c) Corporate governance practices**

The review of literature recommended corporate governance practices encourage strong protection of minority shareholder rights. Corporate governance practices have a positive relation to the protection of minority shareholder rights because they support management monitoring and information disclosure of a company (OECD, 2003).

#### (d) Bank performance

The literature review suggested that bank performance is the detection of the expropriation of minority shareholder rights that has been broadly studied with regard to the relationship between corporate governance and firm performance. This was because bank performance measures the overall effectiveness of management in using its assets to generate returns to minority shareholders (Klapper & Love, 2004).

#### (e) Free cash flow

The literature review suggested that the expropriation of minority shareholder rights was detected when managers used their control rights to expropriate the cash flow rights of a company (Claessens et al., 1999). Practically, cash is a detector of the protection of minority shareholder rights because managers control the cash flow of a firm. Minority shareholder rights expropriation arises when managers invest cash in over diversification, inefficient projects and reward themselves (Jensen, 1986).

According to the theoretical framework of this study (see Chapter 4), the independent variables as suggested above were entered to the four ownership models in order to explain minority shareholder rights protection. The four ownership models were constructed as:

#### Model 1: Family ownership model

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Family}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### Model 2: Government ownership model

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Government}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### Model 3: Foreign ownership model

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Foreign}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### Model 4: Dispersed ownership model

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Dispersed}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

**Table 5.6: Coding the multiple regression model**

Factors to determine minority shareholder rights	Indicators	Measurement
Minority shareholder rights protection	Minority shareholder returns	Mean of dividend payout and ROE
Family	Family ownership	Dummy scores of family ownership
Government	Government ownership	Dummy scores of government ownership
Foreign	Foreign ownership	Dummy scores of foreign ownership
Dispersed	Dispersed ownership	Dummy scores of dispersed ownership
Legal	Legal protection for investors	– Investor’s knowledge of shareholder rights (Likert scale) – Legal enforcement of minority shareholder rights (Likert scale)
CG	Corporate governance practice of minority shareholder rights	Corporate governance practice of minority shareholder rights (Likert scale)
BP	Bank performance	Mean of ROA and net profit margin
FCF	Free Cash Flow	Free Cash Flow

### **5.9.3 The analysis of R square, ANOVA, T- Statistic, F-Statistic, Significant (p-value), Coefficients, and Multicollinearity in the Multiple Regression Model**

Multivariate analysis was employed in the statistical analysis that was used for testing the four ownership models and their hypotheses.

Firstly, to test the proposition that the amount of variation explained by the regression model is more than the variation explained by the average (i.e. that  $R^2$  is greater than zero), the f ratio was used (Hair et al., 1998).

Secondly, the overall fit of the model in this study can be examined through the multiple correlation coefficients R and  $R^2$  which should have values more than zero and closer to 1 (Hair et al., 1998). The analysis of variance (ANOVA) provided details of variation explained by the regression model compared with the unexplained

variation. A model with a large regression of sum squares in comparison with the residual sum of squares, shows that a model accounts for most of the variation in the dependent variable (Cavana et al., 2001).

Next, the T statistic in a regression model was used to determine the relative importance of each dependent variable in the model. The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). The regression degree of freedom (*df*) is the numerator *df* and the residual degree of freedom is the denominator *df* for the F statistic. The total *df* is the number of cases (observations) minus 1. If the significant or p-value of the F statistic is lower than 0.05, then the independent variables can explain the dependent variable (Cavana et al., 2001).

Next, the Standardised Coefficients are the estimated regression model extracted from the model's equation. Beta coefficients are an attempt to make the regression more comparable. Beta showed how independent variables had positive or negative relationships with the dependent variable (Cavana et al., 2001).

Next, a multicollinearity test shows if multicollinearity complicates the interpretation of the variate. This is because it is difficult to ascertain the effect of any single variable owing to their relationships (Hair et al., 1998). The result if no multicollinearity exists is that it confirms that this study has not (1) improperly used dummy variables; (2) included a variable that is computed from other variables in the equation; (3) included the same or almost the same variable twice. Finally, the occurrence of any or all of the above implies some sort of error on the researcher's part. But it may just be that variables really and truly are highly correlated (Hair et al., 1998; Sakaran, 2003).

Finally, data analysis in this study used statistical analysis processed by the Statistical Package for the Social Sciences (SPSS) computer program. SPSS was used to analyse all statistical data in this study. After data had been entered into the computer files, the data in the files were checked for errors and mistakes. The program was allowed to process after this checking to make sure there was no mistake in the analyses.

#### **5.9.4 Bivariate analysis**

Bivariate analysis provides an investigation of the relationship between two factors as some research questions of this study (Q2 to Q8) seek to investigate the relationship between two factors. Bivariate analysis is suitable for providing answers for the research questions because the results of bivariate analysis provide zero-order correlation and the correlation between two continuous variables. The resulting coefficient provides a range of possible values from  $-1$  to  $+1$ . The value indicates the strength of the relationship as a negative and positive relationship, while the sign (+, -) indicates the direction of the relationship between two variables (Coakes, Steed & Price, 2008).

#### **5.10 Summary**

The introduction to this chapter showed the goals of the research to be achieved. According to Victoria University ethical regulations, the ethical research application for the study was approved. The research methodology is described in the justification of the methodology that was employed to collect research data from both primary data and secondary sources to ensure the research questions can be answered. Then the research instruments were presented, the methods of data analyses were described using both descriptive statistics analysis and multivariate statistics analysis in order to determine the significance of the hypotheses and the propositions. The descriptive statistics results are presented in the next chapter. The multivariate analyses results are reported in Chapter 7.

# CHAPTER 6

## Descriptive Analysis of Research Results

### 6.1 Introduction

Descriptive analysis of the research results provided descriptive statistics of the research data that were collected from the questionnaire of this study. The analysis aims to provide characteristics of respondents and bank ownership types, investor's knowledge of shareholder rights, the legal enforcement of shareholder rights, and corporate governance practices with respect to shareholder rights. These factors were extracted for use in the multivariate analysis of research results in the next chapter that answers the research questions of this study.

The descriptive analysis of the research results are explained in eight sections as: Section 1 explained the validity and reliability tests; Section 2 provided a description of the sample and response rate; Section 3 showed demographic analysis of the respondents; Section 4 presented the descriptive analysis of investor knowledge in shareholder rights; Section 5 described the compliance of the Thai commercial banks with shareholder rights; Section 6 displayed the analysis of legal enforcement of shareholder rights; Section 7 explained the analysis of corporate governance practices with respect to shareholder rights; and Section 8 presented the views of respondents toward protection of minority shareholder rights.

## **6.2 Validity test and reliability test**

The validity test and a reliability test are used to confirm the use of data with regard to the variables in the theoretical framework being appropriated for conducting statistical analysis.

### **6.2.1 Validity test**

The validity test involved analysis of several factors by factor analysis. The factors were 'legal enforcement of shareholder rights' and 'corporate governance practice of shareholder rights'. Factorial validity analysis was the correct test because these two factors were measured by the seven point Likert scale (Hair et al., 1998). The other factors of this study, such as 'investor's knowledge of shareholder rights, provided dummy scores which are problematic for factorial analysis (Hair et al., 1998).

#### **(i) Validity test of 'legal enforcement of shareholder rights'**

The results of factorial validity analysis of 'legal enforcement of shareholder rights' (Table 6.1) presented a valid construction because the test showed 15 legal enforcements of shareholder rights ranged between 0.818–0.816 and with no exclusion of the factors (see Table 6.4).

#### **(ii) Validity test of 'corporate governance practice of shareholder rights'**

The results of factorial validity analysis of 'corporate governance practices of shareholder rights' (Table 6.2) presented a valid construction because the test showed all variables of corporate governance practice of shareholder rights ranged between 0.768–0.876 and with no exclusion of the factors (see Table 6.5).

**Table 6.1: Legal enforcement of shareholder rights**

Variables	Loading
• Legal enforcement of the right to approve the increase or decrease of the capital of the company (Enforce 11)	.877
• Legal enforcement of the right to amend the company's memorandum of association or Articles of Association (Enforce 5)	.873
• Legal enforcement of the right to compel the company to take action against a director for operating a business that has a conflict of interest (Enforce 9)	.871
• Legal enforcement of the right to dismiss directors (Enforce 6)	.866
• Legal enforcement of the right to make proposals for consideration at the shareholders' meetings (Enforce 7)	.858
• Legal enforcement of the right to a quorum for shareholders' meetings (Enforce 3)	.858
• Legal enforcement of the right to approve the company offering the sale of shares at a price lower than the registered par value (Enforce 8)	.853
• Legal enforcement of the right to approve the remuneration for the directors (Enforce 10)	.841
• Legal enforcement of the right to approve the issuance of debentures (Enforce 12)	.837
• Legal enforcement of the right to approve a resolution for an amalgamation (Enforce 13)	.837
• Legal enforcement of the right to vote for significant resolutions in the shareholders' meetings in Thai banks (Enforce 2)	.835
• Legal enforcement of the right to require the directors to call an emergency shareholders' meeting (Enforce 4)	.833
• Legal enforcement of the right to approve a resolution dissolving the company (Enforce 14)	.825
• Legal enforcement of the right to vote for general resolutions at shareholders' meetings (Enforce 1)	.808
• Legal enforcement of the right to remove the liquidator and auditor (Enforce 15)	.807

**Table 6.2: Corporate governance practice of shareholder rights**

Variables	Loading
• Practice 2: To appoint directors of their choice	.876
• Practice 1: To be involved in the operation of the company through shareholders' meetings	.871
• Practice 12: Monitoring of shareholders' activities	.867
• Practice 13: Monitoring of voting patterns	.865
• Practice 10: High quality communication	.863
• Practice 11: Shareholders to monitor the share register	.859
• Practice 14: High standards of corporate governance	.858
• Practice 3: To access information	.847
• Practice 16: A comfortable meeting atmosphere and procedure	.840
• Practice 4: To object to disposal of the bank's shares	.836
• Practice 6: To apply to the court to cancel shareholder resolutions	.825
• Practice 17: The submission of questions from shareholders	.824
• Practice 5: Protection of minority shareholders rights by independent directors	.822
• Practice 8: To request the appointment of an inspector (20% of total shares sold in a company or at least one-third of the total number of shareholders)	.819
• Practice 9: To sue directors who do not comply with their fiduciary duties by conflict of interest, inside trading, or distributing misleading information	.818
• Practice 18: Executives to inform shareholders of any changes in company legislation and regulation	.806
• Practice 19: Executives to respond to shareholders' questions	.792
• Practice 15: A good and thorough knowledge of the relevant company law	.788
• Practice 7: To appoint another person to vote on their behalf (proxy vote)	.768

The factors were identified using Kaiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Hair et al., 1998). The value of KMO is above 0.50, which indicated appropriateness, and Bartlett's Test of Sphericity showed the statistical test for the overall significance at .000 levels of all correlations within a correlation matrix. Table 6.3 showed the testing result and found both factors had KMO above 0.50 and Bartlett's Test of Sphericity showed the statistical test for the overall significance at .000.

**Table 6.3: The result of using KMO and Bartlett's Test on legal enforcement of shareholder rights and corporate governance practice of shareholder rights**

<b>KMO and Bartlett's Test</b>			
<b>Methods</b>		<b>Legal enforcement of shareholder rights</b>	<b>Corporate governance practice of shareholder rights</b>
<b>Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy</b>		.934	.957
<b>Bartlett's Test of Sphericity</b>	<b>Chi-Square</b>	3100.409	3597.861
	<b>df</b>	105	171
	<b>Sig.</b>	.000	.000

Graphs 6.1 and 6.2 showed the selection of each factor based on Eigenvalues above 1, and total variance explained by these values. Legal enforcement of shareholder rights' variables had been constructed as the only component because its Eigenvalue was 10.728. Corporate governance practice of shareholder rights' variables had been constructed as the only component because its Eigenvalue was 13.229. The other components were excluded because their Eigenvalues were lower than 1.0. Table 6.4 also showed the reliability of each factor.

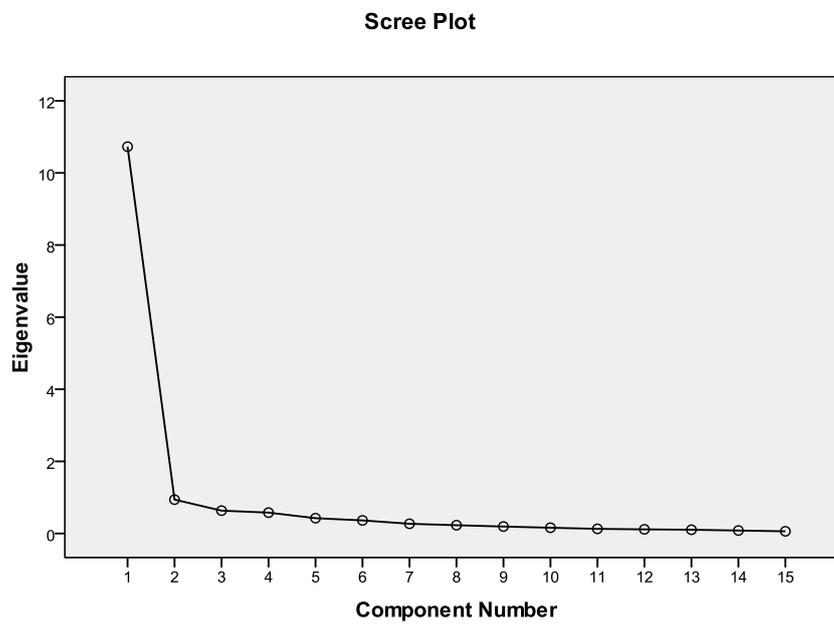
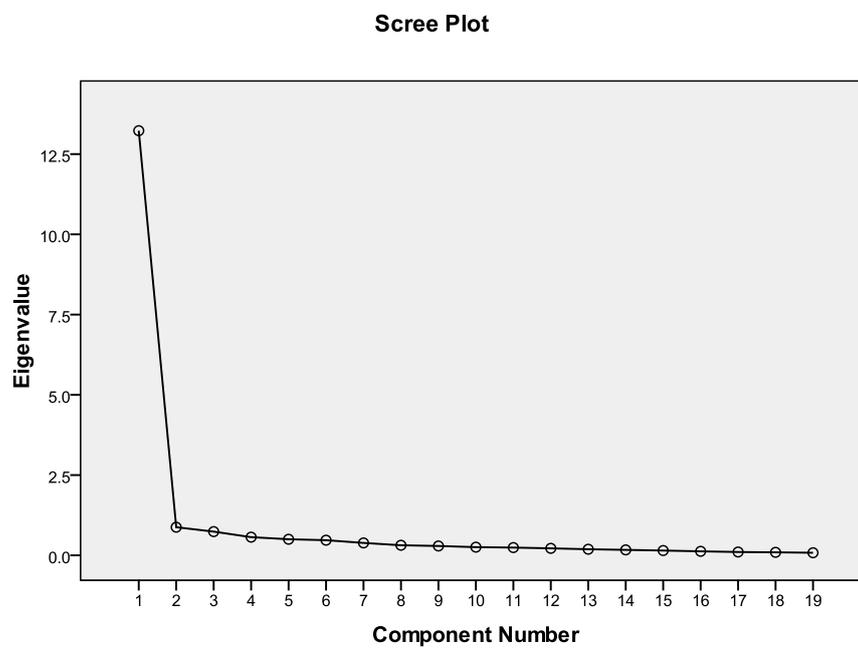
**Graph 6.1: Scree plot of legal enforcement of shareholder rights****Graph 6.2: Scree plot of corporate governance practice of shareholder rights**

Table 6.4 showed Component 1 consisted of 15 variables of legal enforcement of shareholder rights with the highest validity (10.728). This result indicated that the scale was well constructed. The other components (Components 2–15) were excluded because the total initial Eigenvalues were lower than 1.0.

**Table 6.4: The total variance explained in legal enforcement of shareholder rights**

Total variance explained						
Component	Initial Eigenvalues			Extraction sums of squared loadings		
	Total	Per cent of variance	Cumulative per cent	Total	Per cent of variance	Cumulative per cent
<b>1*</b>	<b>10.728</b>	<b>71.518</b>	<b>71.518</b>	<b>10.728</b>	<b>71.518</b>	<b>71.518</b>
2	.939	6.260	77.777		Excluded	
3	.633	4.220	81.997		Excluded	
4	.578	3.854	85.851		Excluded	
5	.424	2.826	88.677		Excluded	
6	.362	2.415	91.092		Excluded	
7	.269	1.792	92.884		Excluded	
8	.229	1.525	94.409		Excluded	
9	.192	1.283	95.692		Excluded	
10	.159	1.060	96.751		Excluded	
11	.128	.855	97.606		Excluded	
12	.114	.759	98.364		Excluded	
13	.104	.690	99.055		Excluded	
14	.082	.546	99.601		Excluded	
15	.060	.399	100.000		Excluded	

**Extraction method: Principal Component Analysis**

Table 6.5 showed Component 1 consisted of 19 variables of ‘corporate governance practice of shareholder rights’ with the highest validity (13.229). This result indicated that the scale was well constructed. Table 6.5 also presented Components 2 to 19 that were not included in the selected group of constructed variables because their total initial Eigenvalues were lower than 1.0.

**Table 6.5: The total variance explained in corporate governance practice of shareholder rights**

Total variance explained						
Component	Initial Eigenvalues			Extraction sums of squared loadings		
	Total	Per cent of variance	Cumulative per cent	Total	Per cent of variance	Cumulative per cent
<b>1*</b>	<b>13.229</b>	<b>69.627</b>	<b>69.627</b>	<b>13.229</b>	<b>69.627</b>	<b>69.627</b>
2	.876	4.611	74.239		Excluded	
3	.739	3.889	78.128		Excluded	
4	.566	2.980	81.108		Excluded	
5	.501	2.637	83.745		Excluded	
6	.472	2.483	86.228		Excluded	
7	.386	2.034	88.262		Excluded	
8	.314	1.651	89.913		Excluded	
9	.291	1.532	91.445		Excluded	
10	.255	1.340	92.786		Excluded	
11	.242	1.272	94.058		Excluded	
12	.218	1.146	95.203		Excluded	
13	.190	1.000	96.204		Excluded	
14	.170	.893	97.097		Excluded	
15	.149	.787	97.883		Excluded	
16	.125	.656	98.539		Excluded	
17	.104	.546	99.085		Excluded	
18	.094	.492	99.578		Excluded	
19	.080	.422	100.000		Excluded	

Extraction method: Principal Component Analysis

### 6.2.2 Reliability test

The reliability test used the data measured by the dummy score and Likert scale which are available from the variables, such as investor's knowledge of shareholder rights, legal enforcement of shareholder rights, and corporate governance practice of shareholder rights.

**(i) Reliability test of investor's knowledge in shareholder rights**

Investor's knowledge in shareholder rights was measured by the dummy score. Table 6.6 showed a reliability test of investor's knowledge in shareholder rights provided good reliability because the Cronbach Alpha is 0.884.

**Table 6.6: Reliability test of investor's knowledge in shareholder rights**

Reliability statistics		
Cronbach Alpha	Cronbach Alpha based on standardised items	Number of items
.874	.884	15

**(ii) Reliability test of legal enforcement of shareholder rights and corporate governance practices of shareholder rights**

The reliability test of legal enforcement of shareholder rights and corporate governance practices of shareholder rights was analysed by Cronbach's Alpha from the extensions of factorial analysis in the previous section. Legal enforcement of shareholder rights and corporate governance practice of shareholder rights have high reliability because their Cronbach's Alpha is close to 1. As shown in Table 6.7, legal enforcement of shareholder rights produced Cronbach's Alpha at 0.971 and corporate governance practices of shareholder rights also provided Cronbach's Alpha at 0.976.

**Table 6.7: Reliability test of legal enforcement of shareholder rights and corporate governance practices of shareholder rights**

Total variance explained							
	Initial eigenvalues			Extraction sums of squared loadings			Cronbach's alpha
	Total	Percent of variance	Cumulative per cent	Total	Variance	Cumulative per cent	
Legal enforcement of shareholder rights	10.728	71.518	71.518	10.728	71.518	71.518	.971
Corporate governance practice of shareholder rights	13.229	69.627	69.627	13.229	69.627	69.627	.976

**Extraction Method: Principal component analysis.**

### 6.3 Description of sample data and response rate

Data for this study were collected from two sources. The first sample provided the primary data that were collected by survey questionnaire. The second database was the secondary data which were collected from the bank's annual reports.

#### 6.3.1 Respondents

Respondents were selected from 100% of the population of Thai institutional investors and bank executives provided in the year 2009. They consisted of 213 investment managers, 33 chief executives of investment institutions, 12 bank chief executive officers, 97 bank directors, and 46 bank independent directors. The distribution of 401 questionnaires was sent by the Stock Exchange of Thailand (see Appendix 3) and some distribution was followed up by the researcher. There were 173 questionnaires returned. The response rate was 43.14 %, which is deemed to be acceptable because the appropriate response rate of a survey questionnaire should be more than 30 per cent (Sakaran, 2003).

### **6.3.2 Secondary data collection**

The source of secondary data of this study was provided by the 2009 annual report of listed banks in Thailand. The banks' annual reports were published on the SETTRADE.com website as viewed in the FM 56-1 form. The selected financial data were Free Cash Flow (FCF), Return on Assets (ROA), Net Profit Margins (NPM), Dividend yields (DIV) and Return on Equity (ROE).

The Thai commercial bank companies were listed banks on the Stock Exchange of Thailand (SET) in the year 2009, presented as follows:

1. ACL Bank public company limited (ACL)
2. Bangkok Bank public company limited (BBL)
3. Bank of Ayudhya public company limited (BAY)
4. CIMB Thai Bank public company limited (CIMBT)
5. Kasikorn Bank public company limited (KBANK)
6. Kiatnakin Bank public company limited (KK)
7. Krungthai Bank public company limited (KTB)
8. Siam Commercial Bank public company limited (SCB)
9. Thanachat Capital Public Company (TCAP)
10. Siam City Bank public company limited (SCIB)
11. Tisco Financial Group public company limited (TISCO)
12. TMB bank public company limited (TMB).

### **6.4 Demographic analysis**

This study protected the privacy data of the respondents who played important roles in Thai financial institutions and markets; they are CEOs, board directors, independent directors, auditors, controlling shareholders, and shareholders. The presentation of profiles of the respondents including name, address, gender, age, education and income were aggregated in order to protect their confidentiality because the disclosure of the profiles may matter with the privacy law of Thailand (Sections 34, 37, and 58 of the 1997 Constitution Law). Demographic analysis is presented in three characteristics as follows.

#### 6.4.1 Respondents positions in the banks

Table 6.7 showed the distribution of the positions of respondents. The largest group, 59.50% of overall respondents, was investment managers. The second largest population was shareholders comprising 14.50%. Next, bank directors were 12.10%. Independent directors were 6.90%. CEOs of the banks were 3.5%. Controlling shareholders were 2.30%. Finally, auditors were the smallest population comprising 1.20%.

**Table 6.8: The distribution of the frequency and percentage of respondents**

<b>Positions</b>	<b>Frequency</b>	<b>Per cent</b>
<b>CEO</b>	6	3.5
<b>Director</b>	21	12.1
<b>Independent director</b>	12	6.9
<b>Auditor</b>	2	1.2
<b>Investment manager</b>	103	59.5
<b>Shareholder</b>	25	14.5
<b>Controlling shareholder</b>	4	2.3
<b>Total</b>	173	100.0

#### 6.4.2 The main investment banks of respondents

Table 6.9 shows respondents were asked to identify their main investment bank. The main investment banks were chosen by 173 respondents. The most striking result to emerge from the data is that KTB bank provided the highest response rate of 13.30%, followed by BBL bank (10.40%), BAY bank (10.40%), and KBANK (9.20%). The medium response rate is SCIB bank (8.70%), TISCO bank (8.70%), TCAP bank (7.50%), and CIMBT bank (6.40%). The low response rate is KK bank (5.8%) and ACL bank (5.80%). The lowest response rate is TMB bank (3.5%).

**Table 6.9: The distribution of the frequency and percentage of the main investment banks of respondents**

Banks	Frequency	Per cent
ACL	10	5.8
BBL	18	10.4
BAY	18	10.4
CIMBT	11	6.4
KBANK	16	9.2
KK	10	5.8
KTB	23	13.3
SCB	18	10.4
TCAP	13	7.5
SCIB	15	8.7
TISCO	15	8.7
TMB	6	3.5
Total respondents	173	100.0

### 6.4.3 Bank ownership types

The main investment banks selected by the respondents were categorised by several ownership types. Table 6.10 shows dispersed ownership provided the highest response rate (41.20%). The moderate response rate was found in government (22%) and foreign ownership (20.20%). However, family ownership provided the lowest response rate of 16.20%.

**Table 6.10: The distribution of the frequency and percentage of bank ownership**

<b>Ownership types</b>	<b>Frequency</b>	<b>Per cent</b>
Family	28	16.2
Government	38	22
Foreign	35	20.2
Dispersed	72	41.6
<b>Total</b>	<b>173</b>	<b>100</b>

### **6.5 The analysis of investor's knowledge of shareholder rights**

Knowledge of fifteen shareholder rights was assessed (Table 6.11) rated by investor's knowledge of their shareholder rights showing very good knowledge.

The results as shown in Table 6.11 indicate the mean was 86.05%, when investor's knowledge of shareholder rights was tested.

The results (Table 6.11) show some investors' knowledge of shareholder rights is higher than the mean indicating that investors had a strong knowledge of shareholder rights. These rights are: (1) the right to vote for general resolutions at shareholders' meetings (97.70%); (2) the right to vote for significant resolutions in the shareholders' meetings (95.40%); (3) the right to submit proposals for consideration at the shareholders' meetings (95.40%); (4) the right to form a quorum for shareholders' meetings (91.30%); (5) the right to require the directors to call an emergency shareholders' meeting (88.40%); (6) the right to amend the company's memorandum of association or Articles of Association (88.40%); (7) the right to approve a resolution dissolving the company (87.30%).

In Table 6.11, some investors' knowledge of shareholder rights is lower than the mean which represented that investors had a weak knowledge of shareholder rights. These rights are: (1) the right to approve the issuance of debentures (75.70%); (2) the right to dismiss directors (76.90%); (3) the right to remove the liquidator and auditor (80.90%); (4) the right to compel the company to take action against a director for operating a business that has a conflict of interest (81.50%); (5) the right to approve a

resolution for an amalgamation (82.10%); (6) the right to approve the remuneration of the directors (82.70%); (7) the right to approve the company offering the sale of shares at a price lower than the registered par value (82.70%); (8) the right to approve the increase or decrease of the capital of the company (84.40%).

**Table 6.11: Interpretation of Investor’s knowledge of shareholder rights contained in the company law**

Abbreviations	Shareholder rights	I knew the law about this right (%)	There is no law about this right (%)	I don’t know the law about this right (%)
LAW 1	The right to vote for general resolutions at shareholders’ meetings	97.70	1.20	1.20
LAW 2	The right to vote for significant resolutions in the shareholders’ meetings	95.40	3.50	1.20
LAW 3	The right to form a quorum for shareholder’s meetings	91.30	2.30	6.40
LAW 4	The right to require the directors to call an emergency shareholders’ meeting	88.40	4.00	7.50
LAW 5	The right to amend the company’s memorandum of association or Articles of Association	88.40	3.50	8.10
LAW 6	The right to dismiss directors	76.90	9.80	13.30
LAW 7	The right to submit proposals for consideration at the shareholders’ meetings	95.40	1.70	2.90
LAW 8	The right to approve the company offering the sale of shares at a price lower than the registered par value	82.70	5.80	11.60
LAW 9	The right to compel the company to take action against a director for operating a business that has a conflict of interest	81.50	8.10	10.40
LAW 10	The right to approve remuneration for the directors	82.70	4.00	13.30
LAW 11	The right to approve the increase or decrease of the capital of the company	84.40	4.60	11.00
LAW 12	The right to approve the issuance of debentures	75.70	6.90	17.30
LAW 13	The right to approve a resolution for an amalgamation	82.10	5.20	12.70
LAW 14	The right to approve a resolution dissolving the company	87.30	4.00	8.70
LAW 15	The right to remove the liquidator and auditor	80.90	8.10	11.00
<b>Mean</b>		<b>86.05</b>	<b>4.85</b>	<b>9.11</b>

## 6.6 The compliance of Thai commercial banks in shareholder rights

This section reports the results of respondents' perceptions of whether commercial banks take action to comply with the laws that protect shareholder rights. As the results show in Table 6.12, the mean was 73.15% when the individual laws are examined. This result indicated that compliance was quite high. The compliance value of Thai commercial banks in shareholder rights presented in low levels and high levels as follows.

With high levels of compliance of Thai commercial banks with corporate regulations that protect shareholder rights, Table 6.12 shows some shareholder rights were provided with strong protection by Thai commercial banks because the compliance of Thai commercial banks with corporate regulations that protect these rights was higher than the mean. They are: (1) the right to vote for general resolutions at shareholders' meetings (94.20%); (2) the right to vote for significant resolutions in the shareholders' meetings (94.20%); (3) the right to form a quorum for shareholder's meetings (87.30%); (3) the right to require the directors to call an emergency shareholders' meeting (80.90%); (4) the right to amend the company's memorandum of association or Articles of Association (79.80%); and (5) the right to submit proposals for consideration at the shareholders' meetings (76.30%).

With low levels of compliance of Thai commercial banks with corporate regulations that protect shareholder rights, the results of Table 6.12 suggested some shareholder rights were provided with weak protection by Thai banks because the compliance of Thai commercial banks with corporate regulations that protect these rights was lower than the mean. They are: (1) the right to approve the increase or decrease of the capital of the company (67.10%); (2) the right to dismiss directors (66.50%); (3) the right to remove the liquidator and auditor (66.50%); (4) the right to approve a resolution dissolving the company (66.50%); (5) the right to approve the issuance of debentures (65.90%); (6) the right to approve the remuneration for the directors (65.30%); (7) the right to approve the company offering the sale of shares at a price lower than the registered par value (65.30%); (8) the right to approve a resolution for an amalgamation (63.60%); (9) the right to compel the company to take action against a director for operating a business that has a conflict of interest (57.80%).

**Table 6.12: The compliance of the Thai commercial banks with corporate regulations that protect shareholder rights**

Abbreviations	Shareholder rights	Yes, the right	No, the right
		action was taken (%)	action was not taken (%)
LAW 1	The right to vote for general resolutions at shareholders' meetings	94.20	5.80
LAW 2	The right to vote for significant resolutions in the shareholders' meetings	94.20	5.80
LAW 3	The right to form a quorum for shareholders' meetings	87.30	12.70
LAW 4	The right to require the directors to call an emergency shareholders' meeting	80.90	19.10
LAW 5	The right to amend the company's memorandum of association or Articles of Association	79.80	20.20
LAW 6	The right to dismiss directors	66.50	33.50
LAW 7	The right to submit proposals for consideration at the shareholders' meetings	76.30	23.70
LAW 8	The right to approve the company offering the sale of shares at a price lower than the registered par value	65.30	34.70
LAW 9	The right to compel the company to take action against a director for operating a business that has a conflict of interest	57.80	42.20
LAW 10	The right to approve the remuneration for the directors	65.30	34.70
LAW 11	The right to approve the increase or decrease of the capital of a company	67.10	32.40
LAW 12	The right to approve the issuance of debentures	65.90	33.50
LAW 13	The right to approve a resolution for an amalgamation	63.60	35.30
LAW 14	The right to approve a resolution dissolving the company	66.50	32.40
LAW 15	The right to remove the liquidator and auditor	66.50	32.40
Mean		73.15	26.56

### 6.7 The Thai commercial banks and their shareholder rights expropriation

The majority of the Thai commercial banks provided no expropriation. As the results show in Table 6.13, the majority of respondents (96.50%) said 'No' expropriation.

**Table 6.13: The Thai commercial banks and their shareholder rights expropriation**

Shareholder rights expropriation	Frequency	Per cent
No	167	96.5
Yes	6	3.5
Total	173	100.0

### 6.8 The analysis of legal enforcement of shareholder rights

The analysis examined the perception of whether the respondents believed that the rights of shareholders were enforced. Legal enforcement of shareholder rights was described in two parts.

The overall results of legal enforcement of shareholder rights presented quite high enforcement because Table 6.14 shows the mean was 5.07. Descriptive analysis of legal enforcement of shareholder rights classified the levels of legal enforcement of shareholder rights into two categories as weak legal enforcement of shareholder rights, and strong legal enforcement of shareholder rights. They are described as follows.

First, weak legal enforcement of shareholder rights represented the level of legal enforcement of some shareholder rights that was under 5.07 (the overall mean value). For example, Table 6.14 presented as: (1) the right to dismiss directors (4.8092); (2) the right to approve the company offering the sale of shares at a price lower than the

registered par value (4.8902); (3) the right to compel the company to take action against a director for operating a business that has a conflict of interest (4.8555); (4) the right to approve the remuneration of the directors (4.8324); (5) the right to approve the increase or decrease of the capital of the company (4.9942); (6) the right to approve the issuance of debentures (4.9133); and (7) the right to approve a resolution for an amalgamation (5.000).

The finding of weak legal enforcement of shareholder rights represented the limitations of the legal enforcement of shareholder rights in the Thai commercial banking sector that relate to weak power of minority shareholders in order to control agency problems. For instance, they are: (1) the right of shareholders to control a conflict of interest between minority shareholders and management (such as the right to compel the company to take action against a director for operating a business that has a conflict of interest and the right to dismiss directors); (2) the right of shareholders to control the self-maximising behaviour of management (such as the right to approve the remuneration for the directors); and (3) the right of shareholders to control corporate finance and liquidity of the firm (such as the right to approve the increase or decrease of the capital of the company, the right to approve the issuance of debentures, and the right to approve a resolution for an amalgamation).

Second, strong legal enforcement of shareholder rights presented the levels of legal enforcement of some shareholder rights that were higher than 5.07 levels (the overall mean value). For example, Table 6.14 presented as: (1) the right to vote for general resolutions at shareholders' meetings (5.5087); (2) the right to vote for significant resolutions in the shareholders' meetings (5.4104); (3) the right to form a quorum for shareholders' meetings (5.2312); (4) the right to require the directors to call an emergency shareholders' meeting (5.1387); (5) the right to submit proposals for consideration at the shareholders' meetings (5.1098); (6) the right to amend the company's memorandum of association or Articles of Association (5.0809); (7) the right to approve a resolution dissolving the company (5.1098); and (8) the right to remove the liquidator and auditor (5.1965).

The findings of strong legal enforcement of shareholder rights represented minority shareholders as having strong levels of legal enforcement of shareholder rights with

regard to the rights of shareholders to monitor management via shareholder's meeting. The results also suggested the Thai commercial banking sector encouraged very good management monitoring and shareholder meeting arrangements.

**Table 6.14: Legal enforcement of shareholder rights**

Abbreviations	Shareholder rights enforcement	N	Range	Min	Max	Mean
Enforce 1	The right to vote for general resolutions at shareholders' meetings	173	6.00	1.00	7.00	5.5087
Enforce 2	The right to vote for significant resolutions in the shareholders' meetings	173	6.00	1.00	7.00	5.4104
Enforce 3	The right to form a quorum for shareholders' meetings	173	6.00	1.00	7.00	5.2312
Enforce 4	The right to require the directors to call an emergency shareholders' meeting	173	6.00	1.00	7.00	5.1387
Enforce 5	The right to amend the company's memorandum of association or Articles of Association	173	6.00	1.00	7.00	5.0809
Enforce 6	The right to dismiss directors	173	6.00	1.00	7.00	4.8092
Enforce 7	The right to submit proposals for consideration at the shareholders' meetings	173	6.00	1.00	7.00	5.1098
Enforce 8	The right to approve the company offering the sale of shares at a price lower than the registered par value	173	6.00	1.00	7.00	4.8902
Enforce 9	The right to compel the company to take action against a director for operating a business that has a conflict of interest	173	5.00	2.00	7.00	4.8555
Enforce 10	The right to approve the remuneration for the directors	173	6.00	1.00	7.00	4.8324
Enforce 11	The right to approve the increase or decrease of the capital of the company	173	6.00	1.00	7.00	4.9942
Enforce 12	The right to approve the issuance of debentures	173	6.00	1.00	7.00	4.9133
Enforce 13	The right to approve a resolution for an amalgamation	173	6.00	1.00	7.00	5.0000
Enforce 14	The right to approve a resolution dissolving the company	173	6.00	1.00	7.00	5.1098
Enforce 15	The right to remove the liquidator and auditor	173	6.00	1.00	7.00	5.1965
Valid N (list-wise)		173			Mean	5.07

## 6.9 The analysis of corporate governance practices

The analysis of corporate governance practices examined the perception of whether the respondents believed that their investment banks introduced good corporate governance practices.

Table 6.15 explained that corporate governance practices were measured by corporate governance practices of shareholder rights and corporate governance practices with regard to shareholder meetings. The mean of overall corporate governance practices presented at 5.2034 levels, which explained that the levels of overall respondents' satisfaction with corporate governance practices were high. The mean of corporate governance practices of shareholder rights was 5.1477, which explained that the levels of respondents' satisfaction with corporate governance practices were high. The mean of corporate governance practices of shareholders' meetings was 5.2591, which explained the levels of respondents' satisfaction with corporate governance practices were high.

In the corporate governance practices of shareholder rights (Practice 1 to Practice 9), the highest satisfaction of respondents was Practice 3 as the rights of shareholders in order to access the information of a company (5.409), followed by Practice 7 as the rights of shareholders to appoint another person to vote on their behalf (proxy vote)' (5.3815), and Practice 1 as the rights of shareholder in order to be involved in the operation of the company through shareholders' meetings. However, the lowest satisfaction of respondents was Practice 9 as the rights of shareholder to sue directors who do not comply with their fiduciary duties by conflict of interest, inside trading, or distributing misleading information (4.7457).

In corporate governance practices of shareholders' meetings (Practice 10 to Practice 19), the highest satisfaction of respondents was Practice 10 as the right of shareholders to receive high quality communications (5.5848), followed by Practice 19 as the right of shareholders to force executives to respond to shareholders' questions (5.3684), and Practice 11 as the right of shareholders with regard to monitoring the share register (5.4386). However, the lowest respondent satisfaction

was Practice 15 as the right of shareholders with regard to receiving a good and thorough knowledge of relevant company law (4.8480).

**Table 6.15: Corporate governance practices**

Abbreviations	Corporate governance practices	N	Mean
Corporate governance practices of minority shareholder rights:			
Practice 1	to be involved in the operation of the company through shareholders' meetings	173	5.3237
Practice 2	to appoint directors of their choice	173	5.1792
Practice 3	to access information	173	5.4509
Practice 4	to object to the disposal of the bank's shares	173	5.0867
Practice 5	to protection by independent directors	173	5.0636
Practice 6	to apply to the court to cancel shareholder resolutions	173	4.8555
Practice 7	to appoint another person to vote on their behalf (proxy vote)	173	5.3815
Practice 8	to request the appointment of an inspector (20% of total shares sold in a company or at least one-third of the total number of shareholders)	173	5.2428
Practice 9	to sue directors who do not comply with their fiduciary duties by conflict of interest, inside trading, or distributing misleading information	173	4.7457
			5.1477
Corporate governance practices of shareholder meetings			
Practice 10	High quality communication	171	5.5848
Practice 11	Shareholders to monitor the share register	171	5.3684
Practice 12	Monitoring of shareholders' activities	171	5.2749
Practice 13	Monitoring of voting patterns	171	5.2632
Practice 14	High standards of corporate governance	171	5.3333
Practice 15	A good and thorough knowledge of the relevant company law	171	4.8480
Practice 16	A comfortable meeting atmosphere and procedure	171	5.2749
Practice 17	The submission of questions from shareholders	171	5.2164
Practice 18	Executives to inform shareholders of any changes in company legislation and regulation	171	4.9883
Practice 19	Executives to respond to shareholders' questions	171	5.4386
			5.2591
Mean of corporate governance practices = 5.2034			

**Note:** Corporate governance practices of shareholder meetings were recommended by 171 respondents because two respondents did not attend shareholders' meetings and they cannot rate the levels of shareholder meeting satisfaction.

### **6.10 The views of respondents toward the protection of minority shareholder rights in Thailand**

The views of respondents toward the protection of minority shareholder rights were collected by the open-ended questionnaire of this study. The respondents responded to the question of:

*Are there any new additional basic rights that should be introduced into company law to safeguard minority shareholder rights?*

171 respondents replied. Of these, three responses are reported below.

#### **6.10.1 The suggestions of the first respondent who is an investment manager**

The comments of the first respondent suggested that the lack of protection of minority shareholder rights is apparent from the controlling shareholders of government-owned companies operating their companies based on self-interest in order to respond to the government's policies. The expropriation of minority shareholder rights relates to government-owned banks that create benefits for the public sector at the expense of minority shareholders.

The first respondent suggested that:

“My view – In Thailand, many of the large listed companies are in some way linked to the government. For example, many banks are government-owned banks. In the energy sector” (she means the listed companies in the energy sector of the stock exchange market of Thailand). “For instance, the PTT group, is majority government-held. Minority shareholders in state-owned banks are powerless to do anything about the bank's policies if a director is

appointed by the government. For example, if the government wants state banks to boost loan growth by 20%, then the bank must do it irrespective of what the government feels, quite often ignoring longer-term risk issues. To give you another example, the PTT group is often used to subsidise NGV or retail gasoline prices. Is this to the benefit of minority shareholders? The answer is no. But, yes, it does benefit the general public.”

“In summary, government-owned institutions and banks are not following strong corporate governance procedures. If they want to use these institutions to help the public, then perhaps these companies should not be listed in the markets in the first place.”

#### **6.10.2 The suggestions of the second respondent who is a minority shareholder**

The comments of the second respondent addressed the problem of minority shareholder rights protection derived from the lack of power of minority shareholders in order to submit proposals at shareholder meetings. The controlling shareholders also submitted proposals without consulting minority shareholders. In this case, it appears that the controlling shareholders approved a resolution dissolving companies at the expense of minority shareholders.

The following suggestions showed the second respondent’s comments about the protection of minority shareholder rights as:

“I feel that most of the corporate action has been already lobbied by major shareholders. So that most of the time, a significant agenda will be approved. Only when there are different ideas among major shareholders will the agenda be disapproved.”

#### **6.10.3 The suggestions of the third respondent who is an executive of the bank**

The views of the third respondent are reflected as a positive representation of the protection of minority shareholder rights in the Thai banking sector. This is because the respondent advised their bank to comply with the basic 15 shareholder rights that

were presented in corporate law. The bank encouraged minority shareholder activism in the board election, board composition, and board monitoring.

The third respondent advised about the protection of minority shareholder rights as:

“The bank always gives importance to the protection of shareholders’ rights and promotion of the additional basic rights that should be introduced apart from those mentioned above (15 shareholder rights) are as follows.

- (1) The company allows shareholders to elect board members individually.
- (2) The company has mechanisms to allow minority shareholders to influence the board composition.
- (3) The company provides a channel for shareholders to communicate any concerns to the board.”

## **6.11 Summary**

The first section of this chapter presenting the data of this study was constructed with high levels of validity and reliability. The second section of this chapter described the samples of this study and the response rate that were acceptable. The third section described a demographic of respondents that represented the characteristics of respondents in terms of: (1) respondents’ positions in the banks; (2) respondents’ investment banks, and (3) banks’ ownership types. The fourth section provided a descriptive analysis of investor knowledge of shareholder rights, and the overall results of this section presenting respondents’ positions have been provided with a good knowledge of shareholder rights. The fifth section described the compliance of Thai commercial banks in shareholder rights, and the results of this section presented that the majority of the Thai commercial banks comply with shareholder rights. The sixth section analysed the legal enforcement of shareholder rights, and the overall results displayed the Thai commercial banking sector as providing quite a high legal enforcement of shareholder rights. The seventh section explained the analysis of corporate governance practices with respect to shareholder rights, and the overall results showed the Thai commercial banking sector provided moderate satisfaction of corporate governance practices with regard to minority shareholder rights and

shareholder meetings. The final section presented the views of respondents toward the protection of minority shareholder rights in Thailand. This section found the protection of minority shareholder rights requires good corporate governance practices in order to enhance the monitoring of management that encourages the power of the rights of minority shareholders against controlling shareholders.

# CHAPTER 7

## Multivariate Analysis of Research Results

### 7.1 Introduction

This chapter describes the research results analysed by the multivariate analysis of the questionnaires collected from one hundred and seventy-three respondents. The results of this study correspond with the theoretical framework of Chapter 4, which proposed eight research questions and twenty-one hypotheses. In order to respond to the research questions, this chapter provided the research results in two major sections.

The first section explains the research results of the optimal ownership model that enhances the protection of minority shareholder rights. The optimal ownership model was analysed by using multivariate statistical instruments. They are multiple regression analysis, the analysis of R square, ANOVA, T-Statistic, F-Statistic, significant (p-value), coefficients, and multicollinearity.

The second section describes the statistical analyses of the relationships between the factors that determine the protection of minority shareholder rights. These were ownership types, investor legal protection, corporate governance practices, free cash flow, and bank performance. The research results of the second section were analysed by applying bivariate analysis, correlations analysis, and significant (p-value).

## **Section 1: The investigation of the optimal ownership model**

This section provides the investigation of the optimal ownership model in three major parts. The first part addresses the results of the investigation of the optimal ownership model (7.2). The second part presents the results of the four ownership models and their characteristics for the protection of minority shareholder rights (7.3). The final part of this section shows the comparison of the four ownership models (7.4).

### **7.2 The optimal ownership model**

This section used multiple-regression analysis to test four ownership models in order to find the optimal ownership model in order to answer research question 1 and test hypothesis 1.

***Research question 1:** What is the optimal model for explaining the protection of minority shareholder rights in the Thai banking sector?*

In order to answer research question 1, hypothesis 1 was proposed as follows.

***Hypothesis 1:** The dispersed ownership model is the optimal model to explain the protection of minority shareholder rights.*

In order to answer the research question and hypothesis testing, four ownership models were employed in multiple-regression modelling with respect to finding the optimal model:

#### **(i) Family ownership model**

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Family}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### **(ii) Government ownership model**

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Government}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### **(iii) Foreign ownership model**

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Foreign}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

#### **(iv) Dispersed ownership model**

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Dispersed}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

Table 7.1 presents the abbreviations, indicators, and measurement of variables used in multiple-regression modeling of the four ownership models.

**Table 7.1 Coding the multiple-regression model**

<b>Abbreviations</b>	<b>Variables</b>	<b>Measurement</b>
Minority shareholder rights protection	Minority shareholder rights protection	Mean of dividend payout and ROE
Family	Family ownership	Dummy scores of family ownership
Government	Government ownership	Dummy scores of government ownership
Foreign	Foreign ownership	Dummy scores of foreign ownership
Dispersed	Dispersed ownership	Dummy scores of dispersed ownership
Legal	Legal protection for investors	
	– Investor’s knowledge of shareholder rights	Likert scale of investor’s knowledge of shareholder rights
	– Legal enforcement of shareholder rights	Likert scale of legal enforcement of minority shareholder rights
CG	Corporate governance practices	Corporate governance practices (Likert scale)
BP	Bank performance	Mean of ROA and net profit margin
FCF	Free cash flow	Free cash flow
E	Errors	Number of errors

The optimal ownership model was computed from the comparison of Adjusted R square of the four ownership models in order to find the models that provided the highest Adjusted R square for explaining minority shareholder rights. This is because Hair et al., (1998) explained that Adjusted R square is calculated from the number of independent variables relative to the sample size, and it is useful in comparing across regression equations involving different numbers of independent variables or different sample sizes because it makes allowances for the specific number of independent variables and the sample size upon which each model is based (Hair et al. 1998, p. 182). Sakaran (2003) also suggested the highest Adjusted R square of regression models indicated that independent variables are appropriate to predict a dependent variable.

### **Test results**

The results of Adjusted R square of the four ownership models presented in ***Hypothesis 1 are accepted*** because the findings presented a dispersed ownership model providing the highest Adjusted R square. The results showed the dispersed ownership model provided the highest Adjusted R square as 0.802, which can be interpreted as the independent variables of the dispersed ownership model are able to explain minority shareholder rights up to 80.20%. The independent variables of the dispersed ownership model are constructed with: (1) dispersed ownership; (2) investor's knowledge of shareholder rights; (3) legal enforcement of shareholder rights; (4) corporate governance practices; (5) free cash flow; and (6) bank performance.

In the comparison of results of the investigation, the family ownership model produced Adjusted R square at 0.738 (or 73.80%), followed by the foreign ownership model providing Adjusted R square at 0.627 (or 62.70%), and the government ownership model providing Adjusted R square at 0.582 (or 58.20%).

### 7.3 The results of four ownership models and their characteristics for the protection of minority shareholder rights

This section provided the results of the investigation of the four ownership models and characteristics of the models that explain the protection of minority shareholder rights.

#### 7.3.1 Dispersed ownership model

The model summary of Table 7.2 presented the independent variables of the dispersed ownership model as dispersed ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, bank performance, and a dependent variable (minority shareholder rights protection) were entered into multiple-regression analysis. The findings presented the R square (0.900) as the correlation of the independent variables with a dependent variable as minority shareholder rights protection, and the Adjusted R square as 0.802 representing the model producing a high prediction power.

**Table 7.2 Dispersed ownership model summary**

<b>Model summary<sup>b</sup></b>				
Model	R	R square	Adjusted R square	Std error of the estimate
4	.900 <sup>a</sup>	.809	.802	1.35471
a. Predictors: (Constant), dispersed ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance				
b. Dependent variable: Minority shareholder rights protection				

ANOVA test of Table 7.3 presented the F statistic produced ( $F = 115.975$ ) is significant at  $p\text{-value} < 0.000$  levels.

**Table 7.3 ANOVA of the dispersed ownership model**

ANOVA <sup>b</sup>						
Model		Sum of squares	df	Mean square	F	Sig.
4	Regression	1277.053	6	212.842	115.975	.000 <sup>a</sup>
	Residual	300.980	164	1.835		
	Total	1578.032	170			

a. Predictors: (Constant), dispersed ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The coefficients (Table 7.4) displayed several factors that were positively related to improved protection of minority shareholder rights. The factors are dispersed ownership (beta = 0.549 with significance at p-value < 0.001 levels), investor's knowledge of shareholder rights (beta = 0.117 with significance at p-value < 0.05 levels), bank performance (beta = 0.633 with significance at p-value < 0.000 levels), and free cash flow (beta = 0.314 with significance at p-value < 0.001 levels).

The negative beta weight indicated the relationships that were negatively related to the protection of minority shareholder rights. They were corporate governance practices (beta = -0.220 with significance at p-value < 0.05 levels). The results suggested that corporate governance practices inhibit minority shareholder rights protection in the Thai commercial banking sector.

Table 7.4 also showed that in the results of this study no multicollinearity exists because tolerance is more than 0.10 and VIF is less than 10. This finding indicates all variables are valid for statistical analysis (because multicollinearity complicates the interpretation of the variate analysis which makes it more difficult to ascertain the effect of any single variable owing to their relationship). The result of multicollinearity described that the analysis of all variables in this study did not:

- include improper use of dummy variables
- include a variable that is computed from other variables in the equation
- include the same or almost the same variable twice.

**Table 7.4 Coefficients of the dispersed ownership model**

Coefficients <sup>a</sup>							
Model	Unstandardised coefficients		Standardised coefficients		Collinearity statistics		
	B	Std Error	Beta	t	Sig.	Tolerance	VIF
4 (Constant)	-4.708	.775		-6.074	.000*		
Dispersed ownership	3.376	.248	.549	13.619	.000*	.717	1.396
Investor's knowledge of shareholder rights	1.063	.364	.117	2.920	.004*	.726	1.377
Legal enforcement of shareholder rights	-.064	.239	-.021	-.267	.789	.188	5.308
Corporate governance practices	-.669	.233	-.220	-2.871	.005*	.199	5.025
Bank performance	.573	.035	.633	16.477	.000*	.787	1.271
Free cash flow	.000	.000	.314	8.255	.000*	.806	1.240
a. Dependent variable: Minority shareholder rights protection							
b. * is significant at 0.05 levels and ** is significant at 0.10 levels							

### 7.3.2 Family ownership model

The summary of the family ownership model (Table 7.5) showed the results of entering independent variables as family ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, bank performance and a dependent variable (minority shareholder rights protection) into the regression model. The R (0.747), which is the correlation of the independent variables with the dependent variable, and Adjusted R square (0.738) showed that the model produced moderate predictive power.

**Table 7.5: The summary of the family ownership model**

Model summary <sup>b</sup>				
Model	R	R square	Adjusted R square	Std error of the estimate
1	.864 <sup>a</sup>	.747	.738	1.55918

a. Predictors: (Constant), family ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The ANOVA of Table 7.6 showed that the F statistic produced ( $F = 80.853$ ) is significant at  $p\text{-value} < 0.000$  levels.

**Table 7.6 ANOVA of the family ownership model**

ANOVA <sup>b</sup>						
	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	1179.341	6	196.557	80.853	.000 <sup>a</sup>
	Residual	398.692	164	2.431		
	Total	1578.032	170			

a. Predictors: (Constant), family ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The coefficients of Table 7.7 showed that when the Thai commercial banks were controlled by family ownership, the factors that are significantly correlated with the protection of minority shareholder rights were bank performance ( $\beta = 0.948$  with significance at  $p\text{-value} < 0.001$  levels) and free cash flow ( $\beta = 0.337$  with significance at  $p\text{-value} < 0.001$  levels). These factors had the main power to improve minority shareholder rights protection.

The factors that inhibited the protection of minority shareholder rights are family ownership ( $\beta = -0.498$  with significance at  $p\text{-value} < 0.001$  levels), and corporate governance practices ( $\beta = -0.168$  with significance at  $p\text{-value} < 0.10$  levels).

Table 7.7 also explained the results provided that no multicollinearity exists because tolerance is more than 0.10 and VIF is less than 10, which presented the variables of this study as valid for the regression model analysis.

**Table 7.7 Coefficients of the family ownership model**

Coefficients <sup>a</sup>							
Family ownership model	Unstandardised coefficients		Standardised coefficients		Sig.	Collinearity statistics	
	B	Std Error	Beta	t		Tolerance	VIF
1 (Constant)	3.527	.976		3.615	.000*		
Family ownership	-4.151	.415	-.498	-9.992	.000*	.619	1.614
Investor's knowledge of shareholder rights	.424	.423	.047	1.004	.317	.713	1.402
Legal enforcement of shareholder rights	.205	.275	.067	.745	.458	.189	5.282
Corporate governance practices	-.512	.269	-.168	-1.899	.059**	.197	5.079
Bank performance	.857	.040	.948	21.470	.000*	.790	1.265
Free cash flow	.000	.000	.337	7.237	.000*	.712	1.404

a. Dependent variable: Minority shareholder rights protection  
b. \* is significant at 0.05 levels and \*\* is significant at 0.10 levels

### 7.3.3 Foreign ownership model

In the foreign ownership model (Table 7.8), the independent variables are foreign ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, bank performance, and a dependent variable (minority shareholder rights protection), were entered to the multiple-regression model. The R (0.800), which is the correlation of these independent variables with the dependent variable and Adjusted R square (0.627) in this model had moderate prediction power.

**Table 7.8 The summary of the foreign ownership model**

Model summary <sup>b</sup>				
Model	R	R square	Adjusted R square	Std error of the estimate
3	.800 <sup>a</sup>	.640	.627	1.86187

a. Predictors: (Constant), foreign ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The ANOVA of Table 7.9 explained the F value of 48.536 is significant at p-value < 0.000 levels.

**Table 7.9 ANOVA of the foreign ownership model**

ANOVA <sup>b</sup>						
Model		Sum of squares	df	Mean square	F	Sig.
3	Regression	1009.514	6	168.252	48.536	.000 <sup>a</sup>
	Residual	568.518	164	3.467		
	Total	1578.032	170			

a. Predictors: (Constant), foreign ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The coefficients of Table 7.10 explained that the factors that increased protection of minority shareholder rights are bank performance (beta = 0.569 with significance at p-value < 0.001 levels), free cash flow (beta = 0.121 with significance at p-value < 0.05 levels), and investor's knowledge of shareholder rights (beta = 0.096 with significance at p-value < 0.10 levels).

The factors that inhibited protection of minority shareholder rights are foreign ownership (beta = -0.316 with significance at p-value < 0.001 levels) and corporate governance practices (beta = -0.207 with significance at p-value < 0.10 levels). The

findings suggested enhancing these negative beta variables was necessary to improve minority shareholder rights protection in the Thai commercial banking sector.

The results in Table 7.10 showed that multicollinearity does not exist in this study because the tolerance of all variables was more than 0.10 and VIF is less than 10. This finding indicates the variables of this study are valid for statistical analysis.

**Table 7.10 Coefficients of the foreign ownership model**

Coefficients <sup>a</sup>							
Foreign ownership model	Unstandardised coefficients		Standardised coefficients	t	Sig.	Collinearity statistics	
	B	Std error	Beta			Tolerance	VIF
3 (Constant)	3.649	1.484		2.459	.015*		
Foreign ownership	-2.377	.519	-.316	-4.585	.000*	.463	2.159
Investor's knowledge of shareholder rights	.875	.501	.096	1.748	.082**	.725	1.380
Legal enforcement of shareholder rights	.070	.329	.023	.214	.831	.189	5.304
Corporate governance practices	-.631	.322	-.207	-1.959	.052**	.196	5.093
Bank performance	.515	.065	.569	7.938	.000*	.427	2.342
Free cash flow	.000	.000	.121	2.551	.012*	.971	1.030

a. Dependent variable: Minority shareholder rights protection  
b. \* is significant at 0.05 levels and \*\* is significant at 0.10 levels

### 7.3.4 Government ownership model

In the government ownership model (Table 7.11) the independent variables, government ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, bank performance and a dependent variable (minority shareholder rights protection) were entered to multiple-regression analysis. The R (0.773), which is the correlation of these independent variables with the dependent variable and Adjusted R square (0.582) presented this model that created moderate prediction power.

**Table 7.11 Summary of the government ownership model**

Model summary <sup>b</sup>				
Model	R	R square	Adjusted R square	Std error of the estimate
2	.773 <sup>a</sup>	.597	.582	1.96965

a. Predictors: (Constant), government ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The ANOVA of Table 7.12 showed that the F statistic produced ( $F = 40.460$ ) is significant at  $p\text{-value} < 0.000$  levels.

**Table 7.12 ANOVA of the government ownership model**

ANOVA <sup>b</sup>							
	Model		Sum of squares	df	Mean square	F	Sig.
2	Regression		941.789	6	156.965	40.460	.000 <sup>a</sup>
	Residual		636.244	164	3.880		
	Total		1578.032	170			

a. Predictors: (Constant), government ownership, investor's knowledge of shareholder rights, legal enforcement of shareholder rights, corporate governance practices, free cash flow, and bank performance

b. Dependent variable: Minority shareholder rights protection

The coefficients (Table 7.13) showed that several factors improved the protection of minority shareholder rights. The factors are bank performance (beta = 0.812 with significance at 0.001 levels), free cash flow (beta = 0.87 with significance at 0.10 levels), and investor's knowledge of shareholder rights (beta = 0.119 with significance at  $p\text{-value} < 0.05$  levels).

Table 7.13 indicated that several independent variables have a negative relationship with minority shareholder rights protection. They are corporate governance practices (beta = -0.283 and significant at  $p\text{-value} < 0.05$ ) and government ownership (beta = -

0.439). Corporate governance practices (beta =  $-0.283$ ) are significant at p-value  $< 0.05$  levels. Enhancing corporate governance practices (beta =  $-0.283$ ) were necessary to improve the protection of minority shareholder rights.

Table 7.13 also displayed this study indicating that no multicollinearity exists because for all variables tolerance was more than 0.10 and VIF less than 10. This finding indicates all variables are valid for statistical analysis.

**Table 7.13 Coefficients of the government ownership model**

		Coefficients <sup>a</sup>							
		Unstandardised coefficients		Standardised coefficients		Collinearity statistics			
Government ownership model		B	Std error	Beta	t	Sig.	Tolerance	VIF	
2	(Constant)	-1.017	1.104		-.921	.358			
	Government ownership	-.439	.381	-.060	-1.151	.251	.921	1.086	
	Investor's knowledge of shareholder rights	1.080	.535	.119	2.018	.045*	.711	1.407	
	Legal enforcement of shareholder rights	.154	.348	.051	.443	.658	.189	5.289	
	Corporate governance practices	-.862	.341	-.283	-2.529	.012*	.197	5.087	
	Bank performance	.734	.048	.812	15.299	.000*	.873	1.145	
	Free cash flow	.000	.000	.087	1.748	.082**	.989	1.011	
a.		Dependent variable: Minority shareholder rights protection							
b.		* is significant at 0.05 levels and ** is significant at 0.10 levels							

#### 7.4 The comparison of the four ownership models

Table 7.14 presented comparative relationships and the determinant factors of the four ownership models on the protection of minority shareholder rights. The overall results show dispersed ownership as significantly contributing the highest improvement to minority shareholder rights protection (beta = 0.549 and significant at p-value  $< 0.05$  levels).

The other ownership models were not deemed to support the protection of minority shareholder rights. For example, government ownership (beta = 0.060) has an insignificant positive relationship with the protection of minority shareholder rights. Foreign ownership (beta = -0.316) and family ownership (beta = -0.498) were significant negatives correlated with the protection of minority shareholder rights. (significant at p-value < 0.05 levels).

**Table 7.14 Comparison of four ownership models**

Independent variables	Family ownership model (beta)	Government ownership model (beta)	Foreign ownership model (beta)	Dispersed ownership model (beta)
Family ownership	-.498*			
Government ownership		0.060		
Foreign ownership			-0.316*	
Dispersed ownership				0.549*
Investor's knowledge of shareholder rights	0.047	0.119**	0.096**	0.117*
Legal enforcement of shareholder rights	0.067	0.051	0.023	-0.021
Corporate governance practices	-0.168**	-0.283*	-0.207**	-0.220*
Bank performance	0.948*	0.812*	0.569*	0.633*
Free cash flow	0.337*	0.087**	0.121*	0.314*
Adjusted R square	0.747	0.597	0.640	0.809
F-test	80.853*	40.46*	48.536*	115.975*

a. Dependent variable: Minority shareholder rights protection

b. \* Significant at 0.05 levels and \*\* significant at 0.10 levels

High promotion of investor's knowledge of shareholder rights was found in government ownership (beta = 0.119, p-value < 0.05 levels) and dispersed ownership (beta = 0.117, p-value < 0.05 levels). However, low promotion of investor's knowledge of shareholder rights was addressed by foreign ownership (beta = 0.096,

p-value < 0.05 levels). Family ownership was an insignificant positive correlated (beta = 0.047) with investor's knowledge of shareholder rights. There were also no significant differences between the relationship between legal enforcement of shareholder rights and minority shareholder rights in every model.

Surprisingly, as Table 7.14 shows, weak corporate governance practices were found in all ownership types because corporate governance practices have a significant negative correlation with the protection of minority shareholder rights in every model. For example, government ownership provided the weakest corporate governance practices (beta = -0.283, p-value < 0.05 levels). The other ownership types did not appear to be much different from government ownership because the results showed a negative correlation of corporate governance practices was associated with dispersed ownership (beta = -0.220, p-value < 0.05 levels), foreign ownership (beta = -0.207, p-value < 0.10 levels), and family ownership (beta = -0.168, p-value < 0.10 levels).

Interestingly, Table 7.14 revealed the bank performance of every model produces extremely positive correlations with minority shareholder rights protection. For example, the highest bank performance was found in family ownership (beta = 0.948, p-value < 0.05 levels), followed by government ownership (beta = 0.812, p-value < 0.05 levels), dispersed ownership (beta = 0.633, p-value < 0.05 levels), and foreign ownership (beta = 0.569, p-value < 0.05 levels).

In Table 7.14, free cash flow enhanced the rights of minority shareholders because all ownership models presented free cash flow providing a significant positive relationship with minority shareholder rights. The highest free cash flow was provided by family ownership (beta = 0.337, p-value < 0.05 levels), followed by dispersed ownership (beta = 0.314, p-value < 0.05 levels), foreign ownership (beta = 0.121, p-value < 0.05 levels), and government ownership (beta = 0.087, p-value < 0.10 levels).

Finally, Table 7.14 explained that the dispersed ownership model provided the best prediction of minority shareholder rights protection because the model provided the highest adjusted R square (0.809). The model also presented several factors that have a significant relationship with minority shareholder rights (significant at p-value < 0.05 levels) which were dispersed ownership, investor legal protection in respect to

investor's knowledge in shareholder rights, corporate governance practices, bank performance, and free cash flow. By testing the significant factors, such as investor legal protection with respect to investor's knowledge of shareholder rights, corporate governance practices, bank performance, and free cash flow in the other ownership models (such as family, government, and foreign ownership model), these factors also provided a significant relationship with the protection of minority shareholder rights (at least significant at p-value < 0.10 levels). However, the family ownership model provided no significant results in legal protection with respect to investor's knowledge in shareholder rights.

In conclusion, the results of this study suggested the determinant factors supporting minority shareholder rights are dispersed ownership and investor legal protection with respect to investor's knowledge of shareholder rights, corporate governance practices, bank performance, and free cash flow.

**Section 2: The statistical test of the relationship between the factors that determine the protection of minority shareholder rights (ownership types, investor legal protection, corporate governance practices, free cash flow, and bank performance).**

This section provides the results of the investigation of the determinant factors of minority shareholder rights protection identified in the previous analyses: ownership types, investor legal protection, corporate governance practices, free cash flow, and bank performance. The research results were provided in seven sections.

- (i) The relationship between bank ownership types and corporate governance practices (7.5)
- (ii) The relationship between bank ownership types and bank performance (7.6)
- (iii) The relationship between bank ownership types and minority shareholder rights protection (7.7)
- (iv) The relationship between investor legal protection and:
  - corporate governance practices
  - minority shareholder rights protection
  - bank performance

→ free cash flow

(7.8)

(v) The relationship between corporate governance practices and:

→ bank performance

→ minority shareholder rights protection

(7.9)

(vi) The relationship between bank performance and minority shareholder rights protection (7.10)

(vii) The relationship between free cash flow and minority shareholder rights protection (7.11).

The results of the relationship test of this section related to research questions 2 to 8 and hypotheses 2 to 21. Research questions and hypotheses are shown in Table 7.15 (Summary of research questions and hypotheses) on the next page.

**Table 7.15 Summary of research questions and hypotheses**

Research questions	Hypotheses	Results
Q2. Which bank ownership types comply with good corporate governance practices?	Hypothesis 2: Family ownership has a negative relationship with corporate governance practices.	<i>Rejected hypothesis</i>
	Hypothesis 3: Government ownership has a negative relationship with corporate governance practices.	Accepted hypothesis
	Hypothesis 4: Foreign ownership has a negative relationship with corporate governance practices.	Accepted hypothesis
	Hypothesis 5: Dispersed ownership has a positive relationship with corporate governance practices.	Accepted hypothesis
Q3. What is the relationship between bank ownership types and bank performance?	Hypothesis 6: Family ownership has a positive relationship with bank performance.	Accepted hypothesis
	Hypothesis 7: Government ownership has a negative relationship with bank performance.	<i>Rejected hypothesis</i>
	Hypothesis 8: Foreign ownership has a positive relationship with bank performance.	<i>Rejected hypothesis</i>
	Hypothesis 9: Dispersed ownership has a positive relationship with bank performance.	Accepted hypothesis
Q4. Which bank ownership types have enhanced minority shareholder rights protection?	Hypothesis 10: Family ownership has a negative relationship with minority shareholder rights protection.	Accepted hypothesis
	Hypothesis 11: Government ownership has a negative relationship with minority shareholder rights protection.	Accepted hypothesis
	Hypothesis 12: Foreign ownership has a negative relationship with minority shareholder rights protection.	Accepted hypothesis
	Hypothesis 13: Dispersed ownership has a positive relationship with minority shareholder rights protection.	Accepted hypothesis
Q5. Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?	Hypothesis 14: Investor legal protection has a positive relationship with corporate governance practices.	Accepted hypothesis
	Hypothesis 15: Investor legal protection has a positive relationship with minority shareholder rights protection.	Accepted hypothesis
	Hypothesis 16: Investor legal protection has a positive relationship with bank performance.	Accepted hypothesis
	Hypothesis 17: Investor legal protection has a positive relationship with free cash flow.	<i>Rejected hypothesis</i>
Q6. Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?	Hypothesis 18: Corporate governance practices have a positive relationship with bank performance.	Accepted hypothesis
	Hypothesis 19: Corporate governance practices have a positive relationship with minority shareholder rights protection.	Accepted hypothesis
Q7. Does good bank performance result in good minority shareholder rights protection?	Hypothesis 20: Bank performance has a positive relationship with minority shareholder rights protection.	Accepted hypothesis
Q8. Does free cash flow support minority shareholder rights protection?	Hypothesis 21: Free cash flow has a positive relationship with minority shareholder rights protection.	Accepted hypothesis

## **7.5 The relationship between bank ownership types and corporate governance practices**

The results of the relationship test between bank ownership types and corporate governance practices are related to research question 2 and the test of hypotheses 2 to 5. Research question 2 (Table 7.15) proposes:

*Which bank ownership types comply with good corporate governance practices?*

In order to respond to the research question, the results of the test of hypotheses 2 to 5 were as follows.

### **7.5.1 Test of hypothesis 2**

Hypothesis 2 is:

*Family ownership has a negative relationship with corporate governance practices.*

### **Test results**

The results (Table 7.16) suggested hypothesis 2 is rejected because family ownership has a significant positive correlation with corporate governance practices (significant at  $p\text{-value} < 0.01$  levels). The results explained family ownership significantly enhanced corporate governance practices.

**Table 7.16: Correlations between family ownership and corporate governance practices**

Correlations			
		Family ownership	Corporate governance practices
<b>Family ownership</b>	Pearson correlation	1	.214*
	Sig. (1-tailed)		.002
	N	173	171
<b>Corporate governance practices</b>	Pearson correlation	.214*	1
	Sig. (1-tailed)	.002	
	N	171	171

\*Correlation is significant at the 0.01 level (1-tailed).

### 7.5.2 Test of hypothesis 3

Hypothesis 3 is:

*Government ownership has a negative relationship with corporate governance practices.*

#### Test results

The results (Table 7.17) supporting hypothesis 3 are accepted because a significant negative correlation was found between government ownership and corporate governance practices (significant at p-value < 0.01 levels). The results suggested that government ownership is significantly inhibited by corporate governance practices.

**Table 7.17: Correlations between government ownership and corporate governance practices**

<b>Correlations</b>			
		<b>Government ownership</b>	<b>Corporate governance practices</b>
<b>Government ownership</b>	Pearson correlation	1	-.221 <sup>*</sup>
	Sig. (1-tailed)		.002
	N	173	171
<b>Corporate governance practices</b>	Pearson correlation	-.221 <sup>*</sup>	1
	Sig. (1-tailed)	.002	
	N	171	171

\*Correlation is significant at the 0.01 level (1-tailed).

### 7.5.3 Test of hypothesis 4

Hypothesis 4 was addressed as:

*Foreign ownership has a negative relationship with corporate governance practices.*

#### **Test results**

Hypothesis 4 is accepted because the results, as shown in Table 7.18, indicated that foreign ownership has a significant negative relationship with corporate governance practices (significant at p-value < 0.01 levels). The findings explained that foreign ownership inhibits corporate governance practices.

**Table 7.18: Correlations between foreign ownership and corporate governance practices**

<b>Correlations</b>			
		<b>Foreign ownership</b>	<b>Corporate governance practices</b>
<b>Foreign ownership</b>	Pearson correlation	1	-.180*
	Sig. (1-tailed)		.009
	N	173	171
<b>Corporate governance practices</b>	Pearson correlation	-.180*	1
	Sig. (1-tailed)	.009	
	N	171	171
**Correlation is significant at the 0.01 level (1-tailed).			

#### **7.5.4 Test of hypothesis 5**

Table 7.15 presented hypothesis 5 as:

*Dispersed ownership has a positive relationship with corporate governance practice of shareholder rights.*

#### **Test results**

As Table 7.19 shows, there is a significant positive relationship between dispersed ownership and corporate governance practices (significant at p-value < 0.01 levels). The findings suggested dispersed ownership encourages corporate governance practices.

**Table 7.19: Correlations between dispersed ownership and corporate governance practices**

Correlations			
		Dispersed ownership	Corporate governance practices
<b>Dispersed ownership</b>	Pearson correlation	1	.174*
	Sig. (1-tailed)		.012
	N	173	171
<b>Corporate governance practices</b>	Pearson correlation	.174*	1
	Sig. (1-tailed)	.012	
	N	171	171

\*Correlation is significant at the 0.05 level (1-tailed).

## 7.6 The relationship between bank ownership types and bank performance

The results of this section are related to responses in research question 3 and the test of hypotheses 6 to 9. Research question 3 suggested:

*What is the relationship between bank ownership types and bank performance?*

In order to provide the answer for the research question, the test of hypotheses 6 to 9 were investigated as follows.

### 7.6.1 Test of hypothesis 6

Hypothesis 6 is:

*Family ownership has a positive relationship with bank performance.*

#### Test results

The results from Table 7.20 showed hypothesis 6 is accepted because family ownership has a significant positive relationship with bank performance (significant at

p-value < 0.01 levels). The results implied family ownership improves bank performance.

**Table 7.20: Correlations between family ownership and bank performance**

<b>Correlations</b>			
		<b>Family ownership</b>	<b>Bank performance</b>
<b>Family ownership</b>	Pearson correlation	1	.348**
	Sig. (1-tailed)		.000
	N	173	173
<b>Bank performance</b>	Pearson correlation	.348**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

### 7.6.2 Test of hypothesis 7

Hypothesis 7 is:

*Government ownership has a negative relationship with bank performance.*

#### Test results

The results (Table 7.21) presented in hypothesis 7 are rejected because government ownership has a positive relationship with bank performance. The results show that government ownership supports bank performance.

**Table 7.21: Correlations between government ownership and bank performance**

<b>Correlations</b>			
		<b>Government ownership</b>	<b>Bank performance</b>
<b>Government ownership</b>	Pearson correlation	1	.005
	Sig. (1-tailed)		.476
	N	173	173
<b>Bank performance</b>	Pearson correlation	.005	1
	Sig. (1-tailed)	.476	
	N	173	173

### 7.6.3 Test of hypothesis 8

Hypothesis 8 is:

*Foreign ownership has a positive relationship with bank performance.*

#### **Test results**

The relationship presented in Table 7.22 indicated that hypothesis 8 is rejected because foreign ownership has a significant negative correlation with bank performance (significant at p-value < 0.01 levels). The findings suggested foreign ownership reduces bank performance.

**Table 7.22: Correlations between foreign ownership and bank performance**

<b>Correlations</b>			
		Foreign ownership	Bank performance
<b>Foreign ownership</b>	Pearson correlation	1	-.719**
	Sig. (1-tailed)		.000
	N	173	173
<b>Bank performance</b>	Pearson correlation	-.719**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

#### 7.6.4 Test of hypothesis 9

Hypothesis 9 is:

*Dispersed ownership has a positive relationship with bank performance.*

#### Test results

The results, as shown in Table 7.23, indicate that hypothesis 9 is accepted because there was a significant positive correlation between dispersed ownership and bank performance (significant at p-value < 0.01 levels). The results reveal dispersed ownership significantly increases bank performance.

**Table 7.23: Correlations between dispersed ownership and bank performance**

<b>Correlations</b>			
		<b>Dispersed ownership</b>	<b>Bank performance</b>
<b>Dispersed ownership</b>	Pearson correlation	1	.322**
	Sig. (1-tailed)		.000
	N	173	173
<b>Bank performance</b>	Pearson correlation	.322**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

### **7.7 The relationship between bank ownership types and minority shareholder rights protection**

The results of this section are related to the response to research question 4 and the test of hypotheses 10 to 13. Research question 4 was provided as:

*Which bank ownership types have enhanced minority shareholder rights protection?*

In order to answer this research question, the test of hypotheses 10 to 13 were examined as follows.

#### **7.7.1 Test of hypothesis 10**

Hypothesis 10 is addressed as:

*Family ownership has a negative relationship with minority shareholder rights protection.*

### Test results

In Table 7.24, the results show that hypothesis 10 is accepted because family ownership has a negative correlation with minority shareholder rights protection. The findings of this study recommended family ownership inhibits the protection of minority shareholder rights.

**Table 7.24: Correlations between family ownership and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Family ownership</b>	<b>Minority shareholder rights protection</b>
<b>Family ownership</b>	Pearson correlation	1	-.035
	Sig. (1-tailed)		.325
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	-.035	1
	Sig. (1-tailed)	.325	
	N	173	173

### 7.7.2 Test of hypothesis 11

Hypothesis 11 is:

*Government ownership has a negative relationship with minority shareholder rights protection.*

### Test results

Table 7.25 illustrates that hypothesis 11 is accepted because government ownership has a negative relationship with minority shareholder rights protection. The results present that government ownership inhibits the protection of minority shareholder rights.

**Table 7.25: Correlations between government ownership and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Government ownership</b>	<b>Minority shareholder rights protection</b>
<b>Government ownership</b>	Pearson correlation	1	-.001
	Sig. (1-tailed)		.497
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	-.001	1
	Sig. (1-tailed)	.497	
	N	173	173

### 7.7.3 Test of hypothesis 12

Hypothesis 12 is described as:

*Foreign ownership has a negative relationship with minority shareholder rights protection.*

#### Test results

Table 7.26 compares the results obtained from the relationship test between foreign ownership and the protection of minority shareholder rights. The results show that hypothesis 12 is accepted because foreign ownership has a significant negative relationship with minority shareholder rights protection (significant at p-value < 0.01 levels). The findings suggested government ownership reduces the protection of minority shareholder rights.

**Table 7.26: Correlations between foreign ownership and minority shareholder rights protection**

Correlations			
		Foreign ownership	Minority shareholder rights protection
<b>Foreign ownership</b>	Pearson correlation	1	-.688**
	Sig. (1-tailed)		.000
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	-.688**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

#### 7.7.4 Test of hypothesis 13

Hypothesis 13 is proposed as:

*Dispersed ownership has a positive relationship with minority shareholder rights protection.*

#### Test results

The results obtained from Table 7.27 suggest hypothesis 13 is accepted because dispersed ownership has a significant positive association with minority shareholder rights protection (significant at p-value < 0.01 levels). The results explain that dispersed ownership enhances the protection of minority shareholder rights.

**Table 7.27: Correlations between dispersed ownership and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Dispersed ownership</b>	<b>Minority shareholder rights protection</b>
<b>Dispersed ownership</b>	Pearson correlation	1	.587**
	Sig. (1-tailed)		.000
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	.587**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

### **7.8 The relationship between investor legal protection and the factors:**

- (i) Corporate governance practices (7.8.1)
- (ii) Minority shareholder rights protection (7.8.2)
- (iii) Bank performance (7.8.3)
- (iv) Free cash flow (7.8.4).

The results of this section are examined to provide the answer for research question 5 and the test of hypotheses 14 to 17. Research question 5 was addressed as:

*Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?*

In order to respond to research question 5, the test of hypotheses 14 to 17 were examined as follows.

### 7.8.1 Test of hypothesis 14

Hypothesis 14 presented as:

*Investor legal protection has a positive relationship with corporate governance practices.*

#### Test results

The results of Table 7.28 described hypothesis 14 as accepted because investor legal protection has a significant correlation with minority shareholder rights (significant at p-value < 0.01 levels). The findings suggested investor legal protection significantly supported corporate governance practices.

**Table 7.28: Correlations between investor legal protection and corporate governance practices**

Correlations			
		Investor legal protection	Corporate governance practices
<b>Investor legal protection</b>	Pearson correlation	1	.862**
	Sig. (1-tailed)		.000
	N	173	171
<b>Corporate governance practices</b>	Pearson correlation	.862**	1
	Sig. (1-tailed)	.000	
	N	171	171

\*\*Correlation is significant at the 0.01 level (1-tailed).

### 7.8.2 Test of hypothesis 15

Hypothesis 15 is described as:

*Investor legal protection has a positive relationship with minority shareholder rights protection.*

### Test results

The results from Table 7.29 described hypothesis 15 as accepted because investor legal protection has a positive relationship with minority shareholder rights protection. The findings suggest investor legal protection supports the protection of minority shareholder rights.

**Table 7.29: Correlations between investor legal protection and minority shareholder rights protection**

Correlations			
		Investor legal protection	Minority shareholder rights protection
<b>Investor legal protection</b>	Pearson correlation	1	.100
	Sig. (1-tailed)		.096
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	.100	1
	Sig. (1-tailed)	.096	
	N	173	173

### 7.8.3 Test of hypothesis 16

Hypothesis 16 is:

*Investor legal protection has a positive relationship with bank performance.*

### Test results

In Table 7.30, the results suggest hypothesis 16 is accepted because investor legal protection has a significant positive association with bank performance (significant at p-value < 0.01 levels). It is apparent from the results that investor legal protection increases bank performance.

**Table 7.30: Correlations between investor legal protection and bank performance**

<b>Correlations</b>			
		<b>Investor legal protection</b>	<b>Bank performance</b>
<b>Investor legal protection</b>	Pearson correlation	1	.253**
	Sig. (1-tailed)		.000
	N	173	173
<b>Bank performance</b>	Pearson correlation	.253**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

**7.8.4 Test of hypothesis 17**

Hypothesis 17 is:

*Investor legal protection has a positive relationship with free cash flow.*

**Test results**

From the data in Table 7.31, it is indicated that hypothesis 17 is rejected. This is because investor legal protection has a negative relationship with free cash flow. The results suggested that investor legal protection inhibits free cash flow.

**Table 7.31: Correlations between investor legal protection and free cash flow**

<b>Correlations</b>			
		<b>Investor legal protection</b>	<b>Free cash flow</b>
<b>Investor legal protection</b>	Pearson correlation	1	-.083
	Sig. (1-tailed)		.138
	N	173	173
<b>Free cash flow</b>	Pearson correlation	-.083	1
	Sig. (1-tailed)	.138	
	N	173	173

**7.9 The relationship between corporate governance practices and the factors:**

- (i) Bank performance (7.9.1)
- (ii) Minority shareholder rights protection (7.9.2).

The results of this section seek to answer research question 6 and the test of hypotheses 18 to 19. Research question 6 was proposed as:

*Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?*

In order to answer the research question, the test of hypotheses 18 to 19 were investigated as follows.

**7.9.1 Test of hypothesis 18**

Hypothesis 18 is:

*Corporate governance practices have a positive relationship with bank performance.*

### Test results

Table 7.32 describes the results of the relationship test between corporate governance practices and bank performance. Hypothesis 18 is accepted because corporate governance practices have a significant positive correlation with bank performance (significant at p-value < 0.01 levels). It is apparent from the results that corporate governance practices promote bank performance.

**Table 7.32: Correlations between corporate governance practices and bank performance**

<b>Correlations</b>			
		<b>Corporate governance practices</b>	<b>Bank performance</b>
<b>Corporate governance practices</b>	Pearson correlation	1	.337**
	Sig. (1-tailed)		.000
	N	171	171
<b>Bank performance</b>	Pearson correlation	.337**	1
	Sig. (1-tailed)	.000	
	N	171	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

### 7.9.2 Test of hypothesis 19

Hypothesis 19 is:

*Corporate governance practices have a positive relationship with minority shareholder rights protection.*

### Test results

The relationship test between corporate governance practices and minority shareholder rights protection in Table 7.33 indicates that hypothesis 19 is accepted because corporate governance practices have a positive correlation with minority

shareholder rights protection. The results show corporate governance practices support the protection of minority shareholder rights.

**Table 7.33: Correlations between corporate governance practices and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Corporate governance practices</b>	<b>Minority shareholder rights protection</b>
<b>Corporate governance practices</b>	Pearson correlation	1	.095
	Sig. (1-tailed)		.109
	N	171	171
<b>Minority shareholder rights protection</b>	Pearson correlation	.095	1
	Sig. (1-tailed)	.109	
	N	171	173

### **7.10 The relationship between bank performance and minority shareholder rights protection**

The findings of this section respond to research question 7 and hypothesis 20.

Research question 7 was addressed as:

*Does good bank performance result in strong minority shareholder rights protection?*

In order to respond to the research question, the test of hypothesis 20 was provided as follows.

#### **7.10.1 Test of hypothesis 20**

Hypothesis 20 is:

*Bank performance has a positive relationship with minority shareholder rights protection.*

## Test results

Table 7.34 describes the relationship between bank performance and minority shareholder rights protection that indicates hypothesis 20 is accepted. This is because bank performance provided a significant positive relationship with the protection of minority shareholder rights (significant at p-value < 0.01 levels). The findings recommended that bank performance enhances the protection of minority shareholder rights.

**Table 7.34: Correlations between bank performance and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Bank performance</b>	<b>Minority shareholder rights protection</b>
<b>Bank performance</b>	Pearson correlation	1	.740**
	Sig. (1-tailed)		.000
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	.740**	1
	Sig. (1-tailed)	.000	
	N	173	173

\*\*Correlation is significant at the 0.01 level (1-tailed).

### 7.11 The relationship between free cash flow and minority shareholder rights protection

The results of this section provide the answer for research question 8 and hypothesis 21. Research question 8 was submitted as:

*What is the relationship between free cash flow and minority shareholder rights protection?*

In order to provide the answer to the research question, the test of hypotheses 21 was provided as follows.

### 7.11.1 Test of hypothesis 21

Hypothesis 21 is:

*Free cash flow has a positive relationship with minority shareholder rights protection.*

#### Test results

As the results (Table 7.35) are presented, free cash flow has a positive correlation with minority shareholder rights protection. So hypothesis 21 is accepted. The findings indicate that free cash flow promotes protection of minority shareholder rights.

**Table 7.35: Correlations between free cash flow and minority shareholder rights protection**

<b>Correlations</b>			
		<b>Free cash flow</b>	<b>Minority shareholder rights protection</b>
<b>Free cash flow</b>	Pearson correlation	1	.091
	Sig. (1-tailed)		.116
	N	173	173
<b>Minority shareholder rights protection</b>	Pearson correlation	.091	1
	Sig. (1-tailed)	.116	
	N	173	173

## 7.12 Summary

The results of the analysis in this chapter addressed the investigation of the optimal ownership model that enhances the protection of minority shareholder rights (Section 1) and the relationship between the factors that determine the protection of minority shareholder rights, such as ownership types, investor legal protection, corporate governance practices, free cash flow, and bank performance (Section 2).

In Section 1, the investigation found that the dispersed ownership model is the optimal ownership model that would enhance minority shareholder rights protection in the Thai commercial banking sector. The optimal model also provided the determinant factors that enhanced the protection of minority shareholder rights. These factors are dispersed ownership, investor legal protection with respect to investor's knowledge of shareholder rights, corporate governance practices, bank performance, and free cash flow.

In the characteristics of the four ownership models on the protection of minority shareholder rights, the dispersed ownership model increases the protection of minority shareholder rights because the factors that enhance the protection of minority shareholder rights were dispersed ownership (significant at  $p$ -value  $< 0.001$  levels), investor's knowledge of shareholder rights (significant at  $p$ -value  $< 0.05$  levels), bank performance (significant at  $p$ -value  $< 0.000$  levels), and free cash flow (significant at  $p$ -value  $< 0.001$  levels). However, the dispersed ownership model showed corporate governance practices inhibit the protection of minority shareholder rights because they have a significant negative relationship with minority shareholder rights (significant at  $p$ -value  $< 0.05$  levels).

In the family ownership model, the factors that supported the protection of minority shareholder rights were bank performance and free cash flow (significant at  $P < 0.001$  levels). Nevertheless, the model identified the factors that inhibited minority shareholder rights protection as family ownership (significant  $p$ -value  $< 0.001$  levels) and corporate governance practices (significant at  $p$ -value  $< 0.10$  levels).

In the foreign ownership model, the factors that promoted minority shareholder rights protection are bank performance (significant at p-value < 0.001 levels), free cash flow (significant at p-value < 0.05 levels) and investor's knowledge of shareholder rights (significant at p-value < 0.10 levels). The factors that reduce the protection of minority shareholder rights are foreign ownership (significant at p-value < 0.001 levels) and corporate governance practices (significant at p-value < 0.10 levels).

In the government ownership model, the factors that increased the protection of minority shareholder rights are bank performance (significant at p-value < 0.001 levels), free cash flow (significant at p-value < 0.10 levels), and investor's knowledge of shareholder rights (significant at p-value < 0.05 levels). However, a significant negative relationship between the government ownership model and minority shareholder rights protection was found in corporate governance practices (significant at p-value < 0.05 levels).

The comparison of the models found the factors that improve the protection of minority shareholder rights are dispersed ownership, investor legal protection with respect to investor's knowledge in shareholder rights, bank performance, and free cash flow (at least they are significant at p-value < 0.10 levels). Surprisingly, concentrated ownership types including family, foreign, and government ownership inhibit the protection of minority shareholder rights. Corporate governance practices of all models also have a significant negative correlation with minority shareholder rights protection (at least they are significant at p-value < 0.10 levels).

In Section 2, the results of testing hypotheses 2 to 21 explained the relationship between the determinant factors (ownership types, investor legal protection, corporate governance practices, free cash flow, and bank performance) in order to explain the protection of minority shareholder rights in the Thai commercial banking sector. The results were as follows.

(i) The results of significance testing of the relationship between bank ownership types and corporate governance practices found that family ownership and dispersed ownership supported corporate governance practices. However, government ownership and foreign ownership inhibited corporate governance practices.

(ii) The results of the relationship test between bank ownership types and bank performance showed that family, government, and dispersed ownership encouraged bank performance. However, foreign ownership inhibited bank performance.

(iii) The results of the relationship test between bank ownership types and minority shareholder rights protection suggested that dispersed ownership enhanced the protection of minority shareholder rights. However, family, government, and foreign ownership inhibited the protection of minority shareholder rights.

(iv) The results of the relationship test between investor legal protection and the determinant factors (corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow) found that investor legal protection supported corporate governance practices, minority shareholder rights protection, and bank performance. Surprisingly, investor legal protection inhibited free cash flow.

(v) The results of the relationship test between corporate governance practices and several determinant factors (bank performance and minority shareholder rights protection) showed that corporate governance practices enhanced bank performance and minority shareholder rights protection.

(vi) The results of the relationship test between bank performance and minority shareholder rights protection suggested that good bank performance supported strong protection of minority shareholder rights.

(vii) The results of the relationship test between free cash flow and minority shareholder rights protection showed that high free cash flow increased strong protection of minority shareholder rights.

# CHAPTER 8

## Discussion of Research Results

### 8.1 Introduction

This chapter presents the discussion of the research results and explains the meaning and importance of the major findings and how they relate to similar studies. The discussion provided in this chapter also gives consideration to alternative explanations of the findings and discussion. This chapter presents discussion of the research results in seven sections. The sections are the discussion of the models used to develop minority shareholder rights in the Thai commercial banking sector (8.2), the optimal models (8.3), and the role of the other determinant factors of the models that controlled minority shareholder rights (8.4), the determinants of the protection of minority shareholder rights (8.5), the factors that encourage corporate governance practices (8.6), the factors that enhance corporate performance (8.7), and the factors that limit free cash flow (8.8).

### 8.2 Discussion of the models

The four models have components differentiated by ownership types and the impact of their determinant factors on minority shareholder rights. The models are as follows.

- Optimal ownership model (dispersed ownership model)
- Family ownership model
- Government ownership model
- Foreign ownership model.

### **8.2.1 The optimal ownership model (dispersed ownership model)**

The optimal model for explaining the protection of minority shareholder rights is a dispersed ownership model and its determinant factors. This model has the highest R square (0.809). The second ranked model is a family ownership model and its determinant factors (0.747); the third is a foreign ownership model and its determinant factors (0.640); and the fourth rank is a government ownership model and its determinant factors (0.597).

The results of the highest R square in the optimal ownership model showed the factors that enhance the strongest minority shareholder rights protection were dispersed ownership, investor legal protection, good corporate governance, cash, and firm performance.

The results are consistent with the literature review that addressed the separation between ownership and control and minimised agency problems that resulted in strong protection of minority shareholder rights. This research confirmed the findings from previous research that strong protection of minority shareholder rights allowed non-controlling shareholders to challenge the outsider system that controls the self-dealing behaviour of managers, and to extract a higher return from management. Dispersed ownership also encouraged an outsider system in which managers were appointed by the votes of non-block holders; that is, were endorsed by the votes of minority shareholders (Shleifer and Vishny, 1997). A legal environment that supported external investors who provided finance also promoted the development of a market that encouraged the growth of dispersed ownership (La Porta et al., 1997). This research also found that legal protection provided by corporate law in Thailand supports the rights of minority shareholders to create good corporate governance, effective monitoring, high disclosure standards, and high transparency.

### **8.2.2 Family ownership model**

The test of the family ownership model and associated factors in the model showed that family ownership had a significant negative relationship with minority shareholder rights (p-value at 0.05 levels). This result is consistent with the literature

review of this study that suggested the ineffectiveness of corporate governance was the result of the concentration of shares, such as those found in family ownership and individual block-holders running businesses for their own interests rather than protecting minority shareholder rights. The literature review also suggested families entrenched their power and ran a firm's business to meet objectives, such as satisfying their egos rather than focusing on shareholder interests. In Thailand, the literature confirmed that family-owned banks invested in inefficient projects, connected lending to relatives and friends, insider trading and denied transparency.

### **8.2.3 Government-ownership model**

The results of the government-ownership model showed government-controlling shareholders had an insignificant negative relationship (beta = -6%) with the protection of minority shareholder rights. This result is consistent with the literature review of this study that explained minority shareholder rights protection is weak because government ownership characterised by monopoly power, externalities, and distributional issues raised concerns and that private profit distributions may fail to address these concerns (Shleifer and Vishney, 1997, p. 767). Government ownership was also influenced by state political policies, infrastructure provision and social welfare policy. In Thai banking businesses, government enterprise banks used their controlling banks as one of their financial instruments to support political policies that were not focused on the benefits of minority shareholders, but rather the political policies were mostly directed by social interests and political objectives, such as poverty development, education, and village fund projects.

The results of this study showed that Thai government enterprise banks had an insignificant negative impact on minority shareholder rights. This insignificant result is consistent with the literature review of Chapter 3 that showed government-owned banks in Thailand were improved because the reform of financial regulations led to the improvement of corporate governance in the Thai banking sector.

#### **8.2.4 Foreign-ownership model**

This study finds that a foreign-ownership model has a significant negative relationship with the protection of minority shareholder rights. The results are consistent with the literature review of Chapter 3 that showed foreign ownership provided weak protection of minority shareholders because they entered the markets in the role of exploitation and expropriation of the assets of the firm. The literature review also described foreign controlling shareholders increasing insider control that created weak corporate governance through ineffective monitoring of management, poor transparency and disclosure.

### **8.3 The effects of the other determinant factors of the models on protection of minority shareholder rights**

The discussion of optimal ownership models explained why a dispersed ownership model provided the strongest support for the protection of minority shareholder rights. However, the roles of the other determinant factors (except ownership types) in the models have yet to be described. The following discussion explains the roles of the determinant factors on minority shareholder rights.

#### **8.3.1 The impact of corporate finance on the protection of minority shareholders**

According to the literature review of Chapter 2, addressed corporate finance indicators of this study are free cash flow and bank performance. The results of the four ownership models showed free cash flow and bank performance have a significant high positive relationship with minority shareholder rights. The importance of cash flow and bank performance are described as follows.

First, the literature review of Chapter 2 showed that cash flow was the detector of minority shareholder rights expropriation because managers expropriated cash for their own interests, such as paying remuneration and investing in inefficient projects rather than focusing on the benefits of minority shareholders (dividends). This finding was also consistent with the review of agency theory in Chapter 2 that suggested managers operating firms with insufficient cash flow can create a conflict of interest

between shareholders and managers over dividend payments. Strengthening minority shareholder rights protection can provide more cash flow because the rights give power to minority owners to control a manager's misdirected policy. This may result in better firm performance and higher dividend payments that become available due to the freed-up free cash flow (Claessens et al., 1999).

Second, the results of the models showed bank performance has a significant positive relationship with the protection of minority shareholder rights. The results are consistent with the literature review of Chapter 2 that suggested firm performance is a detector of minority shareholder rights expropriation. This is because the firm with high expropriation of assets can create weak corporate performance. For example, the literature review described the firm with high expropriation is mostly controlled by the controlling shareholders who used their control powers to maximise their own welfare and redistribute the wealth from minority shareholders.

### **8.3.2 The impact of investor legal protection on the protection of minority shareholder rights**

The effects of investor legal protection on minority shareholders in this study were provided in two parts. The first part described investors' knowledge of shareholder rights, and the second part presented legal enforcement of shareholder rights.

The findings of the models showed investors' knowledge of shareholder rights had a significant positive correlation with the protection of minority shareholder rights (p-value at 0.05 levels), and that the legal enforcement provided an insignificant negative association with minority shareholder rights. The findings were explained as follows.

First, the results presented investors' knowledge of shareholder rights as associated with the protection of minority shareholder rights. This result is similar to the literature review that suggested the effective legal environment supports the protection of minority shareholder rights. This was because the laws determine the rights of shareholders that constrain the self-maximising behaviour of management. A strong legal environment also supports ownership diffusion that creates good monitoring of management.

Second, the results of the models showed law enforcement of shareholder rights has a negative correlation with the protection of minority shareholder rights. This result supports the literature review of this study that suggested the Asian developing countries have poor judicial processes that create ineffective legal enforcement, such as higher corruption, risk of expropriation, risk of contract repudiation, and weak accounting standards.

### **8.3.3 The impact of corporate governance practices in protecting minority shareholder rights**

The results of the four ownership models presented that corporate governance practices had a significant negative relationship with minority shareholder rights (p-value at 0.10 levels). This result provided strong support for recommendations for the Thai banking sector to improve its corporate governance practices with regard to the protection of shareholder rights. Some of the reasons to explain the results are as follows.

First, the literature review of Chapter 2 suggested the majority of Thai companies were ruled by controlling owners who acted with insider control and created a weak corporate governance system. The review of agency problems in this study also addressed the boards appointed by controlling owners that also failed to perform good corporate governance that supports adequate collective decision-making processes in companies, which frequently resulted in severe asset damage and even the total collapse of many large firms as well as minority shareholder rights entrenchment.

Second, the literature review of Chapter 3 argued that Thailand may fail to reform for good corporate governance practices as shown in Siamwalla (2001), who viewed the progression of good corporate governance as slow because the Stock Exchange of Thailand (SET) has been performing poorly. Corporations were also not concerned with the immediate reward from improving their corporate governance (Siamwalla, 2001, p. 41). Similarly, the literature review confirmed corporate governance practices in Thailand also did not support the creation of good firm performance as suggested in Chuanrommanee and Swierczek (2007) and Kanthapanit, Armstrong and Tipet (2011).

#### **8.4 The determinants of the protection of minority shareholder rights**

This section described the discussion of research results in the relationship test among the factors that determine minority shareholder rights protection in the Thai commercial banking sector.

##### **8.4.1 The effects of ownership type on the protection of minority shareholder rights**

The discussions of this study describe the research results of the relationship between four ownership types and minority shareholder rights. Four types of relationship were explained as follows.

###### **(i) The effect of family ownership on the protection of minority shareholder rights**

The findings of this study found family ownership had an insignificant negative relationship with minority shareholder rights protection. The explanation of this finding is provided in the following report.

The result of this study supports the literature review that suggested family ownership expropriates minority shareholder rights because controlling shareholders had the majority of voting rights in their companies and used their highest control rights to expropriate cash from minority shareholders. The literature review also suggested that the managers of family banks in Thailand pursued their own personal achievements by increasing their remuneration, salary, insider trading, inefficient project investment, and connected lending to relatives and friends. However, the results of this study showed there was an insignificant relationship between family ownership and the protection of minority shareholder rights. This was because the literature review of Chapter 3 argued that the recapitalisation in Thailand shifted the change of ownership structure into government- and foreign-owned banks. The removal of entry barriers with regard to the reform of financial regulations created more ownership diffusion in Thailand. The reform of corporate governance provided the implication

for this study that it encouraged family ownership to enhance the protection of minority shareholder rights.

**(ii) The effects of government ownership on the protection of minority shareholder rights**

This study finds government ownership has an insignificant negative relationship on the protection of minority shareholder rights.

The finding of this study is consistent with the agency theory that suggested high ownership concentration supports a conflict of interest between controlling owners and minority shareholders. In this case, the managers of government-owned banks were appointed by state-controlling owners and affiliated with various layers of governmental agencies. The literature review of Chapter 3 also recommended that government banks in Thailand were characterised by monopoly power, externalities, and distributional issues raising concerns about private profit distribution (Shleifer and Vishny, 1997, p. 767). The government also used its controlling banks as its financial instruments to support political policies that directed the cash of minority shareholders towards lending policies that contribute to the public sector. The expropriation further created low efficiency investment projects through high non-performing loans (NPLs) and even financial distress of the banks. However, the results of this study presented an insignificant relationship between government ownership and the protection of minority shareholder rights. This was because the literature review of Chapter 3 argued that the reform of good corporate governance after the financial crisis encouraged government ownership to enhance the protection of minority shareholder rights.

**(iii) The effects of foreign ownership on the protection of minority shareholder rights**

The finding of this study showed foreign ownership had a significant negative relationship with minority shareholder rights (p-value at 0.01 levels).

Although the literature review of this study described foreign ownership as increasing firm performance because it provided a better service for multinational customers, it has superior ability to diversify risks, superior technologies, and provide cross-subsidies from the parent banking organisations. However, the result of this study showed foreign ownership performed weak minority shareholder rights protection.

This finding is consistent with the literature review that argued foreign controlling shareholders extracted cash from minority shareholders by transferring private profits through their cross-holding firms. Corporate governance also appeared to have weak information disclosure and a lack of monitoring of management.

Finally, in addition to the Thai markets study, the literature review of this study suggested controlling foreign shareholders acted as insiders who denied good corporate governance with respect to the protection of minority shareholders. Similar evidence of expropriation suggested foreign-controlling shareholders supported private information that had traded on information before it was disclosed to the public.

#### **(iv) The effects of dispersed ownership on the protection of minority shareholder rights**

The finding of this study showed dispersed ownership had a significant positive relationship with minority shareholder rights (p-value at 0.01 levels).

The finding of this study is consistent with agency theory perspective that suggested dispersed ownership is managed by non-controlling shareholders and encouraged effective monitoring of management that created strong protection of minority shareholders. The system also defended the expropriation of minority shareholder rights caused by controlling shareholders who advanced their own interests to maximise their own welfare at the minority shareholders' expense.

This is because managers were appointed from non-controlling shareholders. Dispersed ownership also created benefits to minority shareholders through higher market value of shares and dividend yield because diffused ownership prevented the

creation of controlling shareholders who have more power over firms in excess of cash, and the use of pyramids and participation in management to transfer assets to their cross-holding companies.

#### **8.4.2 The effects of investor legal protection on minority shareholder rights**

The finding of this study revealed legal protection for investors had a positive relationship with minority shareholder rights.

The finding of this study showed strong investor legal protection improves the protection of minority shareholder rights. This result is similar to the literature review that suggested effective legal protection of a country encouraged the rights of shareholders addressed in the laws through its enforcement in the markets. The literature review of Chapter 3 also suggested the Thai laws defined the rights of shareholders supporting the power of minority shareholders to constrain the self-dealing behaviour of controlling shareholders that encouraged greater returns from their investment in the Thai banking sector. The reform of corporate governance standards in Thailand also promoted strong investor legal protection that is reflected as the factor that develops the design of corporate governance practices with regard to increasing the protection of minority shareholder rights. The laws in Thailand also encouraged the reform of financial regulations in Thailand after the 1997 financial crisis that promoted effective monitoring of management and information disclosure that contributed to the protection of minority shareholders rights. The law of Thailand after the crisis enforced a new financial regulation to reduce the entry barrier of a country that allowed more ownership diffusion, thus it encouraged the power of non-controlling shareholders to increase the monitoring of management and claim more dividends from the banks.

#### **8.4.3 The effects of corporate governance practices on the protection of minority shareholder rights**

This study finds corporate governance practices had a positive relationship with minority shareholder rights.

The finding of this study is consistent with the literature review that suggested good corporate governance practices enhanced effective monitoring of management that constrains the self-maximising behaviour of management. The literature review of Chapter 3 suggested the reform of corporate governance reduced the expropriation of minority shareholder rights because corporate governance encouraged good relationship management between controlling shareholders and minority shareholders in order to reduce agency problems. The reform suggested the issuance of corporate governance principles of shareholder rights and its equitable treatment in Thailand also covers most key points addressed by shareholder rights protection in Thai company law as the PLC Act B.E. 2535 (1992). The benefits of corporate governance on the protection of minority shareholder rights also represented in Thailand provided a good voluntary system based on capital market regulations.

#### **8.4.4 The effects of bank performance on the protection of minority shareholder rights**

The result of this study presented bank performance as a significant positive relationship with minority shareholder rights (p-value at 0.01 levels).

The finding of this study is consistent with the literature review that suggested corporate performance enhanced the protection of minority shareholder rights. This is because controlling shareholders expropriated the rights of minority shareholders by providing poor corporate performance. And good firm performance reflected a high quality of management that improves the wealth of shareholders, such as higher dividend payouts and higher share values.

#### **8.4.5 The effects of free cash flow on the protection of minority shareholder rights**

The finding of this study showed free cash flow had a positive relationship with the protection of minority shareholder rights.

The result of this study is supported by the literature review that suggested cash flow was related to the protection of minority shareholder rights because efficient cash

flow created more dividend provision for minority shareholders. This was because shareholders had the residual risk of success or failure of the investment and it compensated for the risks with specific shareholder rights, such as control rights and cash flow rights. Cash expropriation occurred when controlling shareholders used their high control rights to expropriate the cash flow rights of minority shareholders. The power of shareholder rights is reflected as the increase of cash flow to provide more dividend payments that were the important factors that reduced agency problems.

## **8.5 The factors that enhance corporate governance practices**

The research results of the previous chapter presented the relationship test of the factors that enhanced corporate governance practices. They are explained as follows.

### **8.5.1 The effects of bank ownership types on corporate governance practices**

This section describes the discussion of research results in the relationship test between bank ownership types and corporate governance practices.

#### **(i) The effects of family ownership on corporate governance practices**

The result of this study presented that family ownership had a significant positive relationship with corporate governance practices ( $p$ -value at 0.01 levels).

The finding of this study did not support the literature review that suggested family ownership supported the insider system that creates the self-dealing and poor corporate governance around the world. However, the result of this study suggested that family ownership improved corporate governance practices in the Thai commercial banking sector. The result is consistent with the literature review of Chapter 3 that argued that after the 1997 financial crisis, the reform of corporate governance and financial regulations in Thailand encouraged the controlling ownership to create good corporate governance in the Thai markets. Similarly, controlling shareholders also managed good corporate governance that enhanced firm performance. The outperforming of family businesses has been created through the

removal of the entry barrier in the Thai markets that encouraged more ownership diffusion that created better monitoring of management and its implications for good governance.

### **(ii) The effects of government ownership on corporate governance practices**

The finding of this study showed government ownership has a significant negative relationship with corporate governance practices (p-value at 0.01 levels).

The finding of this study is similar to the literature review that addressed government enterprises entering the market with the role of weak corporate governance because they want to use the banks as their financial instruments focusing on public benefits rather than engaging with the wealth of investors. The goal of lending money by government-owned banks was also influenced by government political assignments. The control system of government-owned banks is dictatorial because the managers of the banks were also appointed by government authorities without listening to any comments from small investors.

Finally, poor corporate governance of Thai government banks showed that the risk of project investment of state-owned banks depended on cronyism and political relationships. The following evidence showed Thai state-owned enterprise banks have been intervened by ministers as follows.

In 2004, there was high tension between the BOT and the Ministry of Finance over the reappointment of Viroj Nualkhair as the President of Krung Thai Bank, a state-owned bank that is also Thailand's largest commercial bank. The BOT alleged that Krung Thai Bank imprudently lent 46 billion Baht (about \$US1.1 billion) in the second quarter of 2001 and that Viroj should be held accountable for this lapse and blocked his reappointment to a second term. The Minister of Finance, who was the one who appointed Viroj, sided with Viroj and tensions between the BOT and the Ministry of Finance dragged on for weeks.

Eventually, Thaksin had to go along with the BOT's position in order to minimize political costs. This episode clearly showed the risks of political interference in state-owned banks.

(Sussangkarn and Vichyanond, 2007, p. 115)

This evidence reflected the nepotistic relationship between politicians and managers. Such a relationship also possibly creates the poor quality investment projects of the banks. This evidence also indicated a lack of good corporate governance practice in government-owned banks.

### **(iii) The effects of foreign ownership on corporate governance practices**

The finding of this study showed foreign ownership had a significant negative relationship with corporate governance practices (p-value at 0.01 levels).

The results of this study supported the literature review of Chapter 3 that addressed foreign banks entering Thai markets with the role of exploitation, which does not encourage the creation of good corporate governance. This was because the financial crisis removed the entry barriers that encouraged foreign investors to own the banks. The mode of entry of foreign banks also involved acquisitions and takeovers that had not reflected good corporate governance practices in the manner of the takeover of defence and accountability.

The exploitation by multinational banks also related to the study of interlocking directorates in Peng, Au and Wang (2001) who found multinational companies in Thailand had provided weak corporate governance because directors were appointed based on their connected relationship with ethnic Chinese directors. Foreign banks performed worse corporate governance than domestic banks because they focused on the wealth of controlling shareholders, responding with high overhead expenses, high directors' remuneration, higher operating costs, and less retaining profits.

#### **(iv) The effects of dispersed ownership on corporate governance practices**

The finding of this study showed dispersed ownership had a significant positive relationship with corporate governance practices (p-value at 0.05 levels).

The finding of this study supports the literature review of this study that suggested the dispersed ownership system represented the power of minority shareholders that established a good corporate governance system through the creation of effective management monitoring responding to high information disclosure, transparency, firm performance, and investor protection. This was because corporate governance represents the rules and practices that govern the relationship between managers and minority shareholders. Good corporate governance of dispersed ownership also reflected low agency problems because effective corporate governance refers to the system that establishes a good relationship between controlling shareholders and minority shareholders.

#### **8.5.2 The effects of investor legal protection on corporate governance practices**

The finding of this study presenting legal protection for investors had a significant positive relationship with corporate governance practice of shareholder rights (p-value at 0.01 levels).

The result of this study is similar to the literature review that suggested stronger investor legal protection enhanced corporate governance. This was because legal determinants encouraged the issuance of the codes in corporate governance and enforcement. However, in the literature review, codes of corporate governance are not the law but defined as a set of 'best practices' that are related to a voluntary system. However, the voluntary system is consistent with the law because the codes appear to have been imposed by the adoption of company laws. The codes are also issued under legitimating pressures. For example, the literature review of Chapter 3 suggested the reform of corporate governance in Thailand created the issuance of corporate governance principles of shareholder rights and equitable treatment in Thailand that cover most key points addressed by Thai law, as a company law PLC Act B.E. 2535 (1992).

Similarly, in Asian developing countries the literature review of Legitimacy theory in Chapter 2 (2.3.2) also recommended the issuance of corporate governance codes that were supported by legitimating reasons. For instance, Vietnam's corporate governance codes were adopted from the Law on Enterprises intended to regulate private enterprises (Article 9), and the State Owned Enterprise Law for state-owned enterprises. In Singapore, corporate governance codes were extracted from the Company Act Section 157. Malaysia's codes were adopted from the *Company ACT 1965* and its Code on Corporate Governance. The Philippines's codes were created from the Corporation Code, and Indonesian corporate governance codes were adopted from the *Indonesian Company Law 2005*.

The creation of corporate governance codes indicated that the various legal systems of the countries have strongly and positively impacted on different performances of corporate governance in each country, and the issuance of codes was also directed by legitimating pressures.

## **8.6 The factors that enhance bank performance**

The findings of the study suggested three factors encourage bank performance. The factors are bank ownership type, investor legal protection, and corporate governance practices. This section presents a discussion of the literature review that described the impact of these factors on bank performance in the Thai commercial banking sector.

### **8.6.1 The effects of bank ownership types on bank performance**

The discussions of this section described the research results regarding the effects of ownership type on bank performance.

#### **(i) The effects of family ownership on bank performance**

The finding of this study showed family ownership had a significant positive relationship with bank performance (p-value at 0.01 levels).

The findings of this study do not support the literature review that suggested family ownership promoted the insider dealing of controlling owners that resulted in poor firm performance. However, the literature review of Chapter 3 argued that after the 1997 financial crisis, the reform of financial regulations impacted to reduce family controlling shareholders. The recapitalisation of the banking sector encouraged high capital inflow that improved bank performance through the reduction of NPLs. The reform of corporate governance and accounting standards also constrained the self-dealing behaviour of controlling shareholders, thus it forced the banks to provide more independent directors and auditors who enhanced the effective monitoring of management and the good quality of information disclosure that also impacted on good firm performance.

#### **(ii) The effects of government ownership on bank performance**

The finding of this study presented government ownership as having an insignificant positive relationship on bank performance. These findings presented government ownership as having a very low positive correlation with bank performance of about 0.5 per cent in beta correlation, which is not strong enough to support the conclusion that government ownership really does improve bank performance. The explanation was provided as follows.

The findings of the insignificant relationship between government ownership and firm performance in this study are consistent with the literature review that showed government ownership did not support firm performance. Government banks therefore were involved with connected lending that related to political influences that resulted in poor firm performance. However, the results suggested that Thai government banks have positive correlations to bank performance. This was because the literature review of Chapter 3 suggested the reform of financial regulations in Thailand after the 1997 crisis encouraged the injection of financing funds to the Thai commercial banking sector that also increased capital adequacy ratios to cover the bad debts of government enterprise banks. The decrease of NPLs of the banks also provided implications of the study that supported the enhancement of bank performance.

**(iii) The effects of foreign ownership on bank performance**

The finding of this study showed foreign ownership had a significant negative correlation with bank performance (p-value at 0.01).

The result of this study did not support the literature review that suggested the entry of foreign banks improved bank performance because foreign banks encouraged high capital investment and modern technology that provided good quality information systems and operational efficiency. However, the literature review of this study argued that foreign controlling owners exhibited poor corporate governance because they entered the markets during the 1997 financial crisis with the role of exploitation that supports the stealing of the profits of a company through rent seeking. In Thailand, foreign controlling shareholders seek private benefits from higher overhead expenses. This resulted in declining profits and poor firm performance. This evidence provided the implication of controlling foreign shareholders that supports poor firm performance in the Thai commercial banking sector.

**(iv) The effects of dispersed ownership on bank performance**

The result of this study presented dispersed ownership as having a positive relationship with bank performance.

This finding is consistent with the literature review that described dispersed ownership as representing an outsider system that is managed by non-controlling shareholders. The system also exercised a low degree of control over a firm where the managers were appointed by focusing on their professional ability to develop good firm performance rather than based on a personal relationship as found in concentrated ownership. This indicated that dispersed ownership has the incentive to enhance firm performance. Companies with a dispersed ownership structure also created a better performance than concentrated ownership because dispersed ownership encouraged the high confidence of investors to raise funds for the firm. Good governance of dispersed ownership exhibited high disclosure standards, transparency, and the effective monitoring of management that also supports high firm performance.

### **8.6.2 The effects of investor legal protection on bank performance**

The result of this study suggested investor legal protection had a significant positive relationship with bank performance (p-value at 0.01). The explanation for this result is described as follows.

The finding of this study supports the literature review that addressed strong investor legal protection as enhancing firm performance. This was because strong legal protection encouraged the external finance provision as it promoted the confidence of investors in order to raise funds for a company. The increase of capital adequacy also supported the improvement of firm performance. Strong investor legal protection also provided the enforcement of good corporate governance practices in the firm that controls the self-dealing behaviour of managers. The law also increased the powers of minority shareholders to participate in management monitoring and create more opportunity to sue directors who expropriated minority shareholders rights. The legal determinants thus encouraged better firm performance because they reduced cash expropriation and the self-interested investment in poor return projects by managers.

### **8.6.3 The effects of corporate governance practices on bank performance**

The result of this study presented corporate governance practices as having a significant positive correlation with bank performance (p-value < 0.01 levels). This finding showed high bank performance is provided by good corporate governance practices. There are several reasons provided why good corporate governance improved bank performance as follows.

The findings of this study support the literature review of Chapter 2 that suggested good corporate governance contributed to the improvement of firm performance. This was because the main objectives of corporate governance are to develop the quality of companies' board governance and increase the accountability of companies to shareholders, while maximising firm performance. Good corporate governance also created effective monitoring of the structure of a firm's board of directors and their accountability to shareholders. Good governance also encouraged firms to increase their performance by reducing the self-dealing of managers.

### **8.7 The effects of investor legal protection on free cash flow**

The result of this study found investor legal protection had an insignificant negative correlation with free cash flow.

This finding of this study is not supported in the literature review that suggested strong investor legal protection enhances free cash flow. The literature review recommended strong investor legal protection encouraging the rights of minority shareholders to monitor management and constrain the self-interest of managers not to expropriate the cash of a company. However, the literature review of Chapter 3 argued that the legal system in Thailand has a weakness in its bankruptcy law and it therefore needs to be reformed (refer to Chapters 3, 3.4.2 Reform of financial regulations in the Thai banking sector). The bankruptcy law involves the protection of creditor rights because it referred to the regulations that limit collateral and the solvency of a company. Before the 1997 financial crisis, Thailand's bankruptcy law presented a lack of financial liquidation because the law encouraged financial distress by providing low restrictions in collateral guarantee and solvency. This evidence is therefore an implication of investor legal protection in Thailand that inhibited cash flow in the Thai banking industries.

### **8.8 Summary**

Discussions of the research results provided in this chapter explained how the controlling factors affected the improvement of minority shareholder rights. In general, the conclusions drawn from the results found in this study were consistent with literature reviews based on previous studies and applications.

The discussion of this chapter consisted of seven sections. The first three sections described the ownership models for minority shareholder rights protection. For example, the first section introduced the four ownership models to explain the protection of minority shareholder rights in the Thai commercial banking sector. The second section explained the optimal models for the protection of minority shareholder rights. The third section described the role of other determining factors of the models that controlled minority shareholder rights.

The last four sections described the discussion of research results with regard to the enhancement of several determinant factors that related to the protection of minority shareholder rights. The fourth section described the determinants of the protection of minority shareholder rights which explained the relationship between the protection of minority shareholder rights and the following factors: ownership type, investor legal protection, corporate governance practices, bank performance and free cash flow. The fifth section described the discussion of the factors (bank ownership type and investor legal protection) that encourage corporate governance practices. The sixth section explained the factors: bank ownership type, investor legal protection and corporate governance practices that enhance corporate performance, and the final section discussed the factor (investor legal protection) that limits free cash flow.

The implications and conclusions drawn from this discussion are presented in the final chapter that includes the contribution of this study to the relevant theories and the application of protection for minority shareholder rights.

# CHAPTER 9

## Conclusions and Further Research

### 9.1 Introduction

This chapter described the thesis conclusions and further research that could be pursued. The first section presented the keys finding of overall results and the implications of the study. The second section presented the contributions to knowledge of minority shareholder rights protection. The final section described the limitations of the study and opportunities for future study.

### 9.2 Key findings and implications

This study developed 8 research questions in response to the aims of this study to explain the improvement of minority shareholder rights in the Thai commercial banking sector. The key findings of the study were summarised from the results based on 8 research questions.

### 9.3 The optimal ownership model of minority shareholder rights protection

The optimal ownership model was developed to answer research question 1:

*Research question 1: What is the optimal model for explaining the protection of minority shareholder rights in the Thai banking sector?*

The optimal ownership model was determined by a comparative study of the four ownership models (family, government, foreign, and dispersed ownership) in order to find which ownership models provided the best explanation for the protection of minority shareholder rights. The optimal ownership model was found to be the dispersed ownership model represented by the equation:

$$\text{Minority Shareholder Rights Protection} = \beta_0 + \beta_1 (\text{Dispersed}) + \beta_2 (\text{Legal}) + \beta_3 (\text{CG}) + \beta_4 (\text{BP}) + \beta_5 (\text{FCF}) + E$$

where ‘dispersed’ is dispersed ownership, ‘legal’ is investor legal protection measured by investor’s knowledge in shareholder rights and legal enforcement of shareholder rights, ‘CG’ is corporate governance practices, ‘BP’ is bank performance, ‘FCF’ is free cash flow, and ‘E’ is error.

### **9.3.1 Key findings of the optimal ownership model**

The model of dispersed ownership achieved the highest adjusted R square value (80.90%). The 5 statistically significant factors that contributed to minority shareholder rights were (1) dispersed ownership; (2) investor legal protection with regard to investors’ knowledge in shareholder rights; (3) corporate governance practices; (4) bank performance; and (5) free cash flow. The results of the study had implications in two ways.

### **9.3.2 The implications for the Thai commercial banking sector**

The implications of the investigation were that a bank ruled by non-controlling shareholders, such as occurs in a dispersed ownership system, provides the strongest protection of minority shareholder rights because dispersed ownership supports the improvement of investor legal protection with regard to investors’ knowledge of shareholder rights, bank performance and free cash flow.

However, the results of this study found a negative relationship between the protection of minority shareholder rights and several factors, such as corporate governance practices and investor legal protection with regard to law enforcement of shareholder rights. These findings implied that the expropriation of minority

shareholder rights is caused by poor corporate governance practices and weak legal enforcement of shareholder rights. Enhancing corporate governance practices and legal enforcement of shareholder rights are essential to develop the protection of minority shareholder rights in the Thai commercial banking sector.

The findings of this study also presented bank performance as having been reported as the highest correlation with the protection of minority shareholder rights at 66.30% of the beta value, and bank liquidity (measured by free cash flow) also provides a strong relationship with the protection of minority shareholder rights (31.40% of the beta value). This finding implied that the development of strong minority shareholder rights could enhance firm performance and financial liquidity.

In summary, the implications of the overall results advised that one way of improving the development of minority shareholder rights protection of the Thai banking sector is to create new corporate governance practices criteria which are more closely linked to the development of bank performance and free cash flow, for example, minority shareholders should have the right to monitor management in order to develop bank performance and financial liquidity.

### **9.3.3 The implications for theories of minority shareholder rights protection**

The optimal ownership model presented as the dispersed ownership model implied the explanation of several theories of minority shareholder rights protection as follows.

Firstly, the findings of the dispersed ownership model, as the optimal model, support the argument for the separation between ownership and control advocated by Agency theory because the findings confirmed that higher separation between ownership and control improved the protection of minority shareholder rights (Clarke, 2004). The findings of the dispersed ownership model, had a significant positive correlation with free cash flow and bank performance (p-value < 0.05 levels). This result implied that the rise of sourcing funds from outsider investors increases the capital development and cash flow of the firm, which supports high bank performance.

Secondly, the result indicates a significant positive relationship between dispersed ownership and the protection of minority shareholder rights (p-value at 0.05 levels). The findings of the dispersed ownership model support the explanation of agency theory that the separation between ownership and management reduces the conflict of interest between shareholders and management.

The result also showed that a dispersed ownership model was significantly and positively associated with the protection of minority shareholder rights, free cash flow, and bank performance (p-value at 0.05 levels). These findings support the contention that the agency problem of a separation between ownership and management also enhances strong minority shareholder rights protection.

Next, the findings of the optimal ownership model support the explanation of legitimacy theory that suggests that ethical practices in management protect shareholders in corporations (Suchman, 1995). This is because the results showed minority shareholder rights protection is improved when a firm provides strong investor legal protection with regard to investors' knowledge of shareholder rights. However, the result of a negative relationship between the protection of minority shareholder rights and investor legal protection with regard to legal enforcement suggested that the Thai capital markets need to develop stronger investor legal enforcement.

Next, the findings of the optimal model support the explanation of stakeholder theory on the development of accountability because this study found a significant negative relationship between corporate governance practices and the protection of minority shareholder rights which are reflected as poor stakeholder relationships between management and minority shareholders. The results suggested enhancing corporate governance practices in order to develop good stakeholder relationships is a necessary development for Thai capital markets.

Finally, the findings of a negative relationship between corporate governance practices and the protection of minority shareholder rights implied the Thai capital market needs to develop new criteria for the corporate governance framework in order to improve the protection of minority shareholder rights.

## **9.4 Bank ownership types and their impact on the development of minority shareholder rights protection**

The characteristics of bank ownership types enhanced the development of minority shareholder rights protection because the findings showed several ownership types increase corporate governance practices and bank performance. There were 3 reasons that explained the impact of the characteristics of bank ownership types on the protection of minority shareholder rights as follows.

### **9.4.1 Key findings of the relationship between bank ownership types and corporate governance practices**

The relationship between bank ownership types and corporate governance practices was investigated under research question 2 and presented as:

*Research question 2: Which bank ownership types comply with good corporate governance practices?*

This study found that dispersed ownership has a positive relationship with corporate governance practices. However, other concentrated ownership structures, such as family, government, and foreign ownership, were negatively related to corporate governance practices.

### **Implications for the Thai commercial banking sector**

The implications of this study suggested that the development of capital markets into a widely held ownership system could enhance good corporate governance practices.

### **9.4.2 Key findings of the relationship between bank ownership types and bank performance**

The relationship between bank ownership types and bank performance is examined to respond to research question 3 described as:

***Research question 3:** What is the relationship between bank ownership types and bank performance?*

This study found several ownership structures, for example, family, government, and dispersed ownership, have a positive relationship with bank performance. However, foreign ownership has a negative correlation with bank performance.

### **Implications for the Thai commercial banking sector**

The implications of the findings addressed by the discussion in Chapter 8 suggested that foreign ownership resulted in poor bank performance because the banks had weak corporate governance practices. This may be the clue to transferring cash and profits to their parent companies (Ananchotikul, 2007). Ananchotikul (2007) also concluded that foreign banks have cross-holding management from their parent corporations overseas that may support the expropriation of minority shareholder rights by stealing profits and cash from minority shareholders that are conveyed to large shareholders overseas.

#### **9.4.3 Key findings of the relationship between bank ownership types and minority shareholder rights protection**

The key findings of the relationship between bank ownership types and minority shareholder rights protection are responded to in research question 4 described as:

***Research question 4:** Which bank ownership types have enhanced minority shareholder rights protection?*

This study found dispersed ownership supports strong minority shareholder rights protection. In contrast, concentrated ownership governed by other controlling owners inhibits the protection of minority shareholder rights.

## **Implications for the Thai commercial banking sector**

The implications of this finding suggest the development of the ownership structure of the Thai banking markets into widely held shareholdings will increase the protection of minority shareholder rights.

### **9.4.4 Implication for theories**

The results of the effect of bank ownership type on the development of minority shareholder rights protection (9.4) showed that the results support agency theory and showed that an increase in the separation between ownership and control can create good corporate governance practices in the capital markets.

## **9.5 Key findings of the relationship between investor legal protection and its impact on the development of minority shareholder rights protection**

The investigations of the effects of investor legal protection on corporate governance practices of shareholder rights, minority shareholder rights, bank performance, and free cash flow, are in response to research question 5.

*Research question 5: Does good investor legal protection encourage better corporate governance practices, minority shareholder rights protection, bank performance, and free cash flow?*

Key findings of this study were summarised in three sections as follows.

### **9.5.1 Key findings of the relationship between investor legal protection and corporate governance practices**

The key finding of this section presented that legal protection has a positive relationship with corporate governance practices.

## **Implications for the Thai commercial banking sector**

The literature review addressed corporate governance practices contained in company and securities laws. The implication of the results of this study was that the effectiveness of the Thai company and securities laws encouraged the creation of good corporate governance practices in Thai capital markets.

### **9.5.2 Key findings of the relationship between investor legal protection and minority shareholder rights protection**

The finding of this study was that strong investor legal protection has a positive relationship with minority shareholder rights protection.

#### **Implications for the Thai commercial banking sector**

The literature review of this study described how minority shareholder rights protection is achieved under company and securities laws. The implications of the results confirmed that Thailand provides effective company and securities laws that support the protection of minority shareholder rights.

### **9.5.3 Key findings of the relationship between investor legal protection and bank performance**

The results of this study confirmed that investor legal protection has a positive relationship with bank performance.

#### **Implications for the Thai commercial banking sector**

Bank performance is protected in terms of compliance with financial regulations monitored by the Bank of Thailand (BOT). These results implied the financial regulations improve investor legal protection in the Thai commercial banking sector that also enhances bank performance.

#### **9.5.4 Key findings of the relationship between investor legal protection and free cash flow**

This study found investor legal protection has a negative relationship with free cash flow.

#### **Implications for the Thai commercial banking sector**

The literature review addressed free cash flow as liquidity assets that were determined under bankruptcy law and collateral law (La Porta et al., 1998; Dallas, 2004). The negative results of the relationship between investor legal protection and free cash flow implied Thailand is required to improve bankruptcy law and collateral law in order to limit solvency of the Thai commercial banks, and on the other hand, effective laws that can support the increase of financial liquidity in the Thai commercial banking sector.

#### **9.5.5 Implication for theories**

The results of the relationship between investor legal protection and its impact on the development of minority shareholder rights protection (9.5) suggested that investor legal protection has a positive relationship with the protection of minority shareholder rights. This finding supported the legitimacy theory because investor legal protection encourages the construction of a legal system in relation to develop legitimating reasons for good corporate governance to benefit the protection of minority shareholder rights (Suchman, 1995). Strong investor legal protection is the determinant of the external finance (La Porta et al., 1998) because the findings showed legal protection increases corporate performance and cash flow.

#### **9.6 Key findings of corporate governance practices and their impact on the development of minority shareholder rights protection**

Key findings of this section are responded to in research question 6 provided as:

**Research question 6:** *Do good corporate governance practices encourage better bank performance and minority shareholder rights protection?*

The results of this study found good corporate governance practices have a positive relationship with bank performance and the protection of minority shareholder rights.

### **Implications for the Thai commercial banking sector**

The findings of this study implied corporate governance encouraged effective monitoring of management and the minimisation of conflicts of interest between controlling shareholders and minority shareholders. Reducing agency problems also enhanced firm performance and the protection of minority shareholder rights.

### **Implication for theories**

Good corporate governance supported the agency theory that explained that the effective monitoring of management reduced agency problems.

## **9.7 Key findings of the relationship between corporate finance factors and minority shareholder rights protection**

This study investigated how the roles of corporate finance factors available in bank performance and free cash flow affected minority shareholder rights protection.

### **9.7.1 Key findings of the relationship between bank performance and minority shareholder rights protection**

The key findings of this section are addressed in the research question 7 presented as:

**Research question 7:** *Does good bank performance result in strong minority shareholder rights protection?*

The results of this study found bank performance has a positive relationship with the protection of minority shareholder rights.

### **Implications for the Thai commercial banking sector**

The implications of this investigation advised that the Thai commercial banking sector should develop the protection of minority shareholder rights that are closely linked to the improvement of bank performance.

#### **9.7.2 Key findings of the relationship between free cash flow and minority shareholder rights protection**

The key findings of this section are responded to in research question 8 presented as:

*Research question 8: Does free cash flow support minority shareholder rights protection?*

The key finding of this study presented bank performance as having a positive relationship with minority shareholder rights.

### **Implications for the Thai commercial banking sector**

The implications of this study suggested the Thai commercial banking sector needs to provide a sufficient cash flow in order to maintain good dividend payments and the stability of bank performance whereby they are supporting the protection of minority shareholder rights.

#### **9.7.3 Implications for theories**

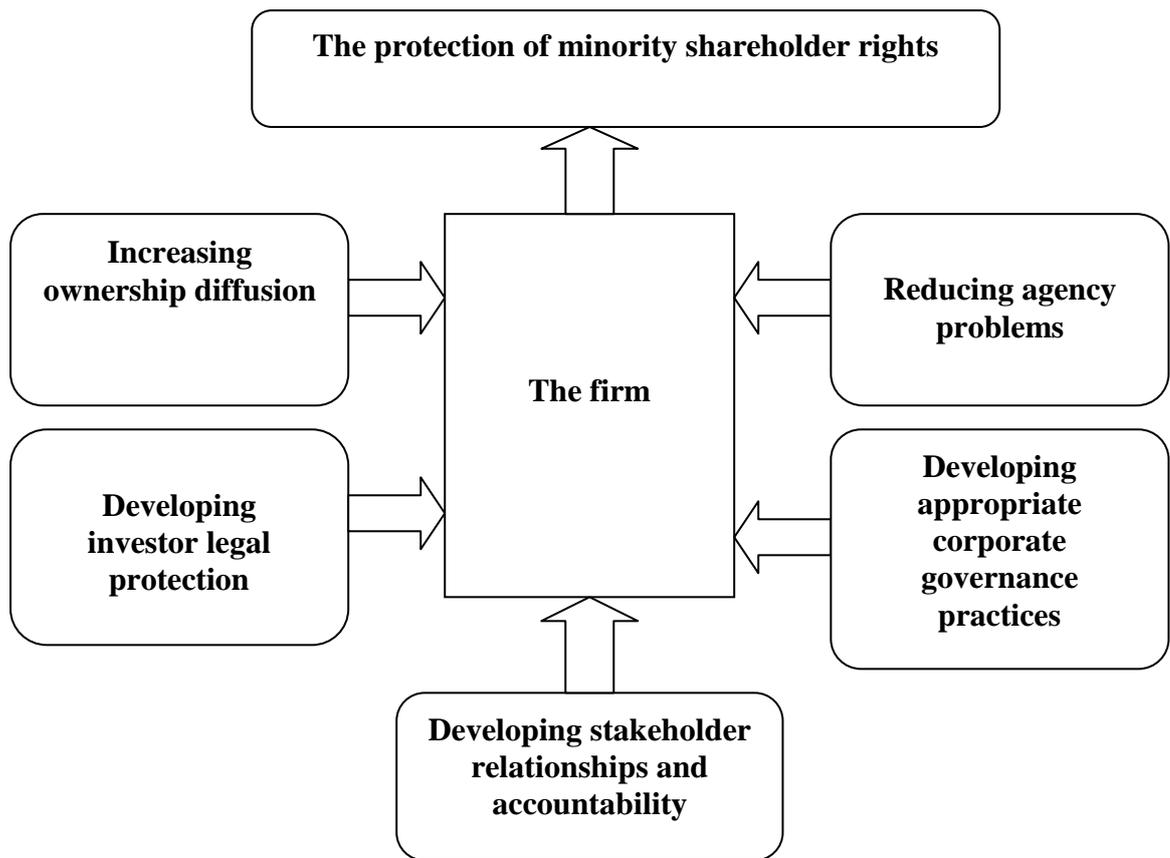
The results showed the protection of minority shareholder rights had a positive relationship with bank performance and cash. The results reflect one way of minimising agency problems. This evidence indicates that managers are able to increase corporate performance and cash by protecting the rights of shareholders. Managers cannot operate banks through self-interest that results in poor investments.

## **9.8 Contribution to the knowledge of minority shareholder rights protection**

The contribution to knowledge of minority shareholder rights protection is described in two ways. The first contribution to knowledge was the theoretical framework that identified the variables that contribute to the development of minority shareholder rights protection in Thailand. The second contribution to knowledge is described as the suggestions for the protection of minority shareholder rights in the Thai commercial banking sector. The two contributions to knowledge are described as follows.

The implications of the theories are described in the development of the optimal ownership model of this study. This study found the dispersed ownership model provided the best explanation for the protection of minority shareholder rights. This result showed the convergence of knowledge in related theories (such as the separation of ownership and control, agency theory, legitimacy theory, stakeholder theory, and corporate governance) that explains how minority shareholder rights are protected under: (1) the increase of separation between ownership and control; (2) minimising agency problems; (3) strong investor legal protection; (4) developing stakeholder relationships and accountability; and (5) the development of corporate governance practices in the markets.

The theoretical framework of this study was based on the findings from the investigation of the five determinant factors as mentioned above. The following model in Diagram 9.1 describes a theoretical model of protection for minority shareholder rights in Thailand. The findings of the optimal ownership model found that enhancing minority shareholder rights protection also creates a significant positive relationship with greater firm performance and financial liquidity (at 0.05 significant levels). The management of a corporation could enhance minority shareholder rights protection by reducing agency problems, increasing ownership diffusion, developing strong investor legal protection, enhancing good stakeholder relationships and accountability, and creating appropriate corporate governance practice frameworks in the markets. These factors also increased firm performance and free cash flow.



**Diagram 9.1:** Theoretical model of minority shareholder rights protection in Thailand

## 9.9 Suggestions for developing the protection of minority shareholder rights

The suggestions for the protection of minority shareholder rights in the Thai commercial bank markets are drawn from the implications of this study that are responded to in research questions 2 to 8. The contributions to knowledge are suggested as follows.

### 9.9.1 Suggestions for ownership structure development

The reform of financial regulations in Thailand shifted the ownership structure for more ownership diffusion. Family-owned banks were dramatically reduced after the 1997 financial crisis. The reform of corporate governance in Thailand encouraged family-owned banks to create better corporate governance practices than foreign- and government-owned banks. This is suggested for future studies.

### **9.9.2 Suggestions for the development of investor legal protection**

Strong investor legal protection encourages the development of minority shareholder rights protection, corporate governance practices, and bank performance. The findings of this study showed that Thailand provides effective laws with respect to company and securities law that address most definitions of minority shareholder rights protection in the Thai capital markets. Investors also had an expansive knowledge of the law. However, bankruptcy and collateral law may be less effective in Thailand because the findings of this study found a negative relationship between investor legal protection and financial liquidity (free cash flow). The suggestions are that improving legal enforcement may create stronger minority shareholder rights protection in Thailand.

### **9.9.3 Suggestions for the development of corporate governance practices**

The findings of research question 6 of this study addressed laws that create good corporate governance practices. Good governance also encourages the protection of minority shareholder rights. However, the Thai commercial banking sector provides weak corporate governance practices because the investigation of the optimal ownership model found corporate governance practices were negatively associated with the protection of minority shareholder rights. The implications of the optimal ownership model suggested that the Thai commercial banking sector needs to develop corporate governance practices that are closely linked to the enhancement of bank performance and bank financial liquidity, such as providing minority shareholder activism in monitoring management in order to improve bank performance and its financial liquidity.

### **9.9.4 Suggestions for the development of corporate finance**

The results of this study suggested that management operated banks by enhancing bank performance and financial liquidity and that this benefitted the improvement of the protection of minority shareholder rights.

### **9.10 Limitations of the study**

The major limitations of the study are related to the methodology. One aspect was the response rate and the implications this had for the data collection because the response rate was below 50%. This may have biased the results in favour of those companies which were committed to shareholder rights protection or who already had a dispersed ownership structure. However, a future study may need to increase the response rate.

The other limitations were the validity of the data with regard to ‘investor’s knowledge of shareholder rights’ that had dummy scores that were problematic for factorial analysis. A future study may need to develop appropriate methods to measure this factor. The privacy data of respondents was also limited to disclose the respondents’ profiles. This was because the disclosure of the respondents’ profiles may matter with Thai privacy law sections 34, 37, and 58 of the 1997 Constitution law.

### **9.11 Opportunities for further research**

The theoretical model of minority shareholder rights protection presented in Diagram 9.1 is based on investigations in the Thai commercial banking sector, and the model provides explanations for the specific areas of study in the Thai commercial banking markets. The opportunities for future study are to test the theoretical model of minority shareholder rights protection in different industries and overseas countries. Future research also needs to examine different levels of dispersion of shareholders related to corporate governance and the protection of minority shareholder rights.

Secondly, the theoretical model of minority shareholder rights protection can explain the protection of minority shareholder rights for 80.90% based on adjusted R square value of the model. This result indicated there are unexpected determinant factors affecting 19% of the variance that has yet to be explained. This was because the theoretical framework of this study suggested only internal corporate governance mechanisms for the study. The future study may need to find more external corporate governance factors to develop the protection of minority shareholder rights.

In summary, the limitations of the study and opportunities for future study provided in this section may encourage researchers around the world to investigate the protection of minority shareholder rights in the future.

### **9.12 Summary**

The key findings of this study directed the implications of theories and practice based on the protection of minority shareholder rights in the Thai commercial banking sector. The implications of the research contributed to the knowledge of the development of minority shareholder rights protection which is described in theoretical frameworks and practical frameworks. The limitations of the study suggested further research is essential to develop the protection of minority shareholder rights in the world.

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## Appendix A

### Questionnaire

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*‘The analysis of corporate governance practices and their impact on minority shareholder rights in the Thai banking sector’*

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#### Questionnaire

Thank you for agreeing to complete this survey. It will take 30 minutes and the results may contribute to the future stability of the Thai capital market.

#### Part 1 Ownership profile

##### 1.1 What is your currently position?

Please circle your answer

Position	Answer	
	Yes	No
Chief Executive Officer of bank	<u>Yes</u>	<u>No</u>
Directors of bank	<u>Yes</u>	<u>No</u>
Independent directors of bank	<u>Yes</u>	<u>No</u>
An member of auditor committee of bank	<u>Yes</u>	<u>No</u>
Investment manager of financial institution	<u>Yes</u>	<u>No</u>
A shareholder of bank	<u>Yes</u>	<u>No</u>
A controlling shareholder of bank (Voting greater than 25%)	<u>Yes</u>	<u>No</u>

Others, please specify.....

What is your main investment bank? *(Please tick one box only)*

-  ACL BANK PUBLIC COMPANY LIMITED
-  BANGKOK BANK PUBLIC COMPANY LTD
-  BANK OF AYUDHYA PUBLIC COMPANY LTD.
-  **CIMB THAI**  
சிமீபிஎம் CIMBT THAI PUBLIC COMPANY LTD.
-  KASIKORNBANK PUBLIC COMPANY LTD.
-  KIATNAKIN BANK PUBLIC COMPANY LIMITED
-  KRUNG THAI BANK PUBLIC COMPANY LTD.
-  SIAM COMMERCIAL BANK PUBLIC COMPANY LTD.
-  THANACHART BANK PUBLIC COMPANY LTD.
-  THE SIAM CITY BANK PUBLIC COMPANY LTD.
-  **TISCO** TISCO BANK PUBLIC COMPANY LIMITED.
-  **TMB** TMB BANK PUBLIC COMPANY LIMITED

**Part 2: Are the shareholders of your bank able to... (Please tick your answer)**

No.	Statement	YES	NO	Do not know
2.1	vote for general resolutions at shareholders' meeting			
2.2	vote for significant resolutions in the shareholders' meeting			
2.3	form a quorum for shareholder's meeting			
2.4	require the directors to call an emergency shareholders' meeting			
2.5	amend the company's memorandum of association or Articles of Association			
2.6	dismiss directors			
2.7	submit proposals for consideration at the shareholders' meeting			
2.8	approve the company offering the sale of shares at a price lower than the registered par value			
2.9	compel the company to take action against a director for operating a business that has a conflict of interest			
2.10	approve the remuneration for the directors			
2.11	approve the increase or decrease of the capital of company			
2.12	approve the issuance of debentures			
2.13	approve a resolution for an amalgamation			
2.14	approve a resolution dissolving the company			
2.15	remove the liquidator and auditor			

2.16 Have your bank's shareholders ever taken any of the above actions (2.1 – 2.15)?

YES                       NO

**If yes, Please tick which ones:**

2.1     2.2     2.3     2.4     2.5     2.6     2.7     2.8  
 2.9     2.10     2.11     2.12     2.13     2.14     2.15

2.17 Were there any occasions when shareholders were prevented from taking any of the above actions (2.1 – 2.15)?

YES  NO

If yes, Please tick which ones:

2.1  2.2  2.3  2.4  2.5  2.6  2.7  2.8

2.9  2.10  2.11  2.12  2.13  2.14  2.15

**Part 3** To what extent do you think that the following measures provide legal enforcement for minority shareholders?

**Scales Assessment:**

Enforcement very low	Enforcement low	Enforcement quite low	Neither high nor low	Enforcement quite high	Enforcement high	Enforcement very high
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

**Please circle your answer**

No.	Statement	Scales						
3.1	The right to vote for general resolutions at shareholders' meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.2	The right to vote for significant resolutions in the shareholders' meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.3	The right to a quorum for shareholder's meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.4	The right to require the directors to call an emergency shareholders' meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.5	The right to amend the company's memorandum of association or Articles of Association	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.6	The right to dismiss directors	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.7	The right to make proposals for consideration at the shareholders' meeting	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
3.8	The right to approve the company offering the sale of shares at a price lower than the registered par value	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>



**Part 4: Corporate governance practice of minority shareholder rights.**

The following scale definitions are proposed to use for question 4.1 and 4.2. Please read the scale definitions below and indicate your level of satisfaction with them by ticking the appropriate box and following the guideline below:

**Scales Assessment:**

Very Dissatisfied	Strongly Dissatisfied	Dissatisfied	Neither satisfied nor dissatisfied	Satisfied	Strongly satisfied	Very satisfied
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

**4.1 How satisfied are you with the rights of shareholders?**

No.	Statement	Scales						
4.1	to be involved in the operation of the company through shareholders' meeting.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2	to appoint directors of their choices.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.3	to access information.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.4	to object to disposal of the bank's shares	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.5	to protection by independent directors	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.6	to apply to the court to cancel shareholder resolutions.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.7	to appoint another person to vote on their behalf (proxy vote).	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.8	to request the appointment of an inspector (20% of total shares sold in a company or at least one-third of the total number of shareholders).	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.9	to sue directors who do not comply with their fiduciary duties by conflict of interests, inside-trading, or distributing misleading information.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

## 4.2 Shareholders meeting practice assessment

Have you attended a shareholders' meeting of your bank?

YES (please complete question 4.2.1 – 4.2.10)

NO (Please go to comments at 4.3)

To what extent does the meeting encourage... ?

No.	Statement	Scales						
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.1	high quality communication.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.2	shareholders to monitor the share register.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.3	monitoring of shareholders' activities.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.4	monitoring of voting patterns.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.5	high standards of corporate governance.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.6	a good and thorough knowledge of the relevant company law.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.7	a comfortable meeting atmosphere and procedure.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.8	the submission of questions from shareholders	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.9	executives to inform shareholders of any changes in a company legislation and regulation.	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
4.2.10	executives to respond of shareholders questions	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>

## 4.3 Please give your comment.

Why don't you attend shareholders' meeting?

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**Thank you for your cooperation**

## Appendix B

### Ethical Approval Letter



**VICTORIA  
UNIVERSITY**

**A NEW  
SCHOOL OF  
THOUGHT**

# MEMO

TO Prof. Anona Armstrong  
CICGR  
City Flinders Campus

DATE 01/06/2009

FROM Prof. Michael Muetzelfeldt  
Chair  
Faculty of Business and Law Human Research Ethics  
Committee

SUBJECT Ethics Application – HRETH 09/29

Dear Prof. Armstrong,

Thank you for resubmitting this application for ethical approval of the project:

**HRETH 09/29**                    The analysis of corporate governance practices and their impact on minority shareholder rights in the Thai banking sector.

The proposed research project has been accepted and deemed to meet the requirements of the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)', by the Chair, Faculty of Business & Law Human Research Ethics Committee. Approval has been granted from 01/06/2009 to 31/10/2009.

Continued approval of this research project by the Victoria University Human Research Ethics Committee (VUHREC) is conditional upon the provision of a report within 12 months of the above approval date (by **31/10/2009**) or upon the completion of the project (if earlier). A report proforma may be downloaded from the VUHREC web site at: <http://research.vu.edu.au/hrec.php>

Please note that the Human Research Ethics Committee must be informed of the following: any changes to the approved research protocol, project timelines, any serious events or adverse and/or unforeseen events that may affect continued ethical acceptability of the project. In these unlikely events, researchers must immediately cease all data collection until the Committee has approved the changes. Researchers are also reminded of the need to notify the approving HREC of changes to personnel in research projects via a request for a minor amendment.

If you have any queries, please do not hesitate to contact me at [Michael.Muetzelfeldt@vu.edu.au](mailto:Michael.Muetzelfeldt@vu.edu.au).

On behalf of the Committee, I wish you all the best for the conduct of the project.

**Prof. Michael Muetzelfeldt**  
Chair  
Faculty of Business & Law Human Research Ethics Committee

## Appendix C

### INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

#### You are invited to participate

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You are invited to participate in a research project entitled **'The analysis of corporate governance practices and their impact on minority shareholder rights in the Thai banking sector'**

This project is being conducted by a student researcher 'Mr.Chinnapat Kanthapanit' as part of PhD study at Victoria University under the supervision of Professor Anona Armstrong and Dr.John Tippet from the Faculty of Business and Laws.

#### Project explanation

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The aim of the research project is to improve corporate governance practices in Thailand and particularly to address the rights of minority shareholders. This study analyses the corporate governance changes which have taken place in Thailand and whether the new corporate governance guidelines are producing changes in the ways in which the banking sector responds to minority shareholders.

The problem of Thai financial crisis 1997 showed that Thai commercial banks, by producing excessive borrowing and lending over the decades, were caught in a moral dilemma. During the period of rapid growth they lent money toward low performance projects, and accumulated high risks connected with lending to their friends and relatives (Charumilind, Kali & Wiwattanakantang 2006). A moral hazard problem arose because funds, diverted away from potential distribution to minority shareholders, also reflected a lack of minority shareholder rights in Thailand.

Minority shareholder rights protection has become an area of concern as part of the overall effort to improve corporate governance in Thailand (Nikomborirak 1999). In addition, the Organization for Economic Development (OECD) has identified various corporate governance challenges in Asia, the most serious of these being the expropriation of the rights of non-controlling shareholders or minority shareholders (OECD 2004). The literature review of corporate governance also indicates that the significant factors that influence minority shareholder rights are ownership structure, corporate governance practices, legal protection for investors, and financial performance (Claessens and Fan 2002).

This thesis is the first study to develop a new model for determining the impact of good corporate governance practices on the banking sector's approach to minority shareholder rights. In addition, there are unexplored issues associated with different ownership structures: types of family ownership, government ownership, widely held ownership, and foreign ownership. The thesis is also the first study to investigate institutional investors' views of corporate governance practices. The study of financial institutions' responses to institutional investors demands for good governance is significant because their responses many influence the direction of investment (Alba, Claessens & Djankov 1998). This has implication for the reputation of the Stock Exchange of Thailand (Stock Exchange of Thailand 2003).

This thesis is a significant study to find a model of corporate governance practices that will potentially strengthen minority shareholder rights. The knowledge gains will benefit the long-term competitiveness of the financial institutions because the financial institutions can choose an appropriate model that can strengthen their minority shareholders' rights. On the other hand, this model will provide strategic knowledge to improve a company's corporate governance practices. This will benefit future efforts to raise finance, and avoid financial liquidity problems. In addition, this thesis will provide a better understanding of governance policies and their impact on the attractiveness to institutional, overseas and public investors.

#### What will I be asked to do?

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- You are invited to complete a survey base on the checklist of ownership structure and management, corporate governance practices, and legal protection for investors
- The time taken to complete the survey questionnaire about 30 minutes

### What will I gain from participating?

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Your participation will contribute towards the development of a comprehensive framework in the analysing of corporate governance practices and minority shareholder rights in Thai banks which take into account their practicability, rights, and suitability to the Thai environment. The contribution of knowledge gain of this study will help the development of minority shareholder rights and good corporate governance practices in Thai banking sector. The study is expected to make a knowledge contribution to corporate governance study of Thailand.

### How will the information I give be used?

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Your information provided in the survey will be treated confidentially. Your information will remain confidential. Data will be aggregated in such a way that you would not be identified.

### What are the potential risks of participating in this project?

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Minimum risks have been identified from participating in this project. Throughout the exercise, if you feel uncomfortable or require some form of explanation; please feel free to raise the issue with the researcher. As indicated, you are free not to reveal any information that you think is too confidential to your company. However, you will not be identified as the source or author of any statement. Also, the statement or comment will not be used in a way which will enable you to be identified.

### How will this project be conducted?

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A survey research approach will be adopted in this project to meet the overall project objectives. A checklist and likert scale measurement will be developed to investigate banks' ownership types, minority shareholder rights, and corporate governance practices. The survey respondents will be selected using purposive sampling because they are the principle and accountable in the role of shareholders and executives in Thai commercial bank sector. The respondent of the study will be contacted by the research student as per the following procedures:

- A letter will be sent notifying the identified sample companies of the research about to be undertaken.
- Contact details will be given to the research student.
- The research student will contact the office of the company CEO and arrange the distribution of the questionnaire.
- Consent forms will be discussed, signed and collected.
- These forms will remain safe and secure locked away for the duration of the research.

### Who is conducting the study?

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The study is being conducted by Mr. Chinnapat Kanthapanit under the supervision of Professor Anona Armstrong (Phone: +61 3 99191315 or email [anona.armstrong@vu.edu.au](mailto:anona.armstrong@vu.edu.au)) and Dr. John Tippet (Phone: +61 3 99191058 or email [john.tippet@vu.edu.au](mailto:john.tippet@vu.edu.au)).

### INFORMATION TO PARTICIPANTS:

We would like to invite you to be a part of a study '**The analysis of corporate governance practices and their impact on minority shareholder rights in the Thai banking sector**', by Mr. Chinnapat Kanthapanit for his PhD study.

The aim of the project is:

- i. To determine the extent of compliance of banks with corporate governance standards in the banking sector.
- ii. To determine the relationship between ownership structures and minority shareholder rights.
- iii. To determine the relationship between the following corporate governance standards, and minority shareholder rights:
  - o Legal protection for investors
  - o Corporate governance practices
- iv. To determine the relationship between the performance of the banks and their response to minority shareholders.

## CERTIFICATION BY SUBJECT

I, .....of .....

I certify that I am at least 18 years old\* and that I am voluntarily giving my consent to participate in the study: **'The analysis of corporate governance practices and their impact on minority shareholder rights in the Thai banking sector'**, being conducted at Victoria University by Mr. Chinnapat Kanthapanit under the supervision of Professor Anona Armstrong and Dr. John Tippet.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by **Mr. Chinnapat Kanthapanit**, and that I freely consent to participate.

- A survey base on the checklist of ownership structure and management, legal protection for investors , and corporate governance practices.

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed:

Date:

Any queries about your participation in this project may be directed to the researcher, Professor Anona Armstrong at 61399191315 or email [anona.armstrong@vu.edu.au](mailto:anona.armstrong@vu.edu.au). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781

## Appendix D

### Letter of the Stock Exchange of Thailand (SET)



## ตลาดหลักทรัพย์แห่งประเทศไทย The Stock Exchange of Thailand

ที่พทท. ๑๕ /2552

๒ สิงหาคม 2552

เรื่อง ขอบความอนุเคราะห์ตอบแบบสอบถามงานวิจัยเพื่อการศึกษาาระดับปริญญาเอกเรื่องสิทธิของผู้ถือหุ้นส่วนน้อย  
ในธนาคารพาณิชย์ของไทย

เรียน กรรมการ กรรมการผู้จัดการ  
ธนาคาร บริษัทเงินทุน บริษัทหลักทรัพย์ บริษัทหลักทรัพย์จัดการกองทุน

สิ่งที่ส่งมาด้วย 1. จดหมายแนะนำตัวนายชินภัทร คันธพนิต ผู้วิจัย  
2. แบบแสดงความร่วมมือในการตอบแบบสอบถาม  
3. ข้อมูลเกี่ยวกับคณาจารย์คณาจารย์  
4. แบบสอบถาม

เนื่องด้วยนายชินภัทร คันธพนิต ตำแหน่งปัจจุบันอาจารย์ประจำสาขาการเงิน คณะการบัญชีและการ  
จัดการ มหาวิทยาลัยมหาสารคาม กำลังศึกษาระดับปริญญาเอกในมหาวิทยาลัยวิกตอเรีย แห่งรัฐวิกตอเรีย ประเทศ  
ออสเตรเลีย จะจัดทำวิทยานิพนธ์เรื่องสิทธิของผู้ถือหุ้นส่วนน้อยในธนาคารพาณิชย์ของไทย โดยมี  
วัตถุประสงค์ของวิทยานิพนธ์เพื่อพัฒนาการปฏิบัติในเรื่องการกำกับดูแลกิจการและการให้สิทธิแก่ผู้ถือหุ้นส่วนน้อย

ในการนี้ นายชินภัทร คันธพนิต ได้ขอความอนุเคราะห์ผ่านฝ่ายพัฒนาธรรมาภิบาลเพื่อตลาดทุน  
ตลาดหลักทรัพย์แห่งประเทศไทย มาซึ่งท่านเพื่อโปรดพิจารณาอนุเคราะห์ตอบแบบสอบถามดังมีรายละเอียดและเอกสาร  
ประกอบการพิจารณาตามแนบ โดยโปรดส่งข้อมูลกลับไปยัง นายชินภัทร คันธพนิต ได้โดยตรงที่ เลขที่ 182 หมู่ 5  
ต.กำแพงแสน อ.กำแพงแสน จ.นครปฐม 73140 ภายในวันจันทร์ที่ 31 สิงหาคม 2552

ทั้งนี้ นายชินภัทร คันธพนิต ได้รับรองว่าข้อมูลที่ได้รับจากท่านจะถือเป็นความลับและใช้เพื่อ  
วัตถุประสงค์ในการจัดทำวิทยานิพนธ์ครั้งนี้เท่านั้น นอกจากนี้จะได้ส่งวิทยานิพนธ์ฉบับเสร็จสมบูรณ์ให้  
ตลาดหลักทรัพย์ฯ เพื่อทราบและนำไปเผยแพร่ให้เกิดประโยชน์ในวงกว้างต่อไป กรณีต้องการข้อมูลเพิ่มเติมกรุณาติดต่อ  
นายชินภัทร คันธพนิต ได้ที่ dannychinny@hotmail.com และ chinnapat.kanthapanit@live.vu.edu.au

จึงเรียนมาเพื่อโปรดพิจารณา และขอขอบพระคุณในความอนุเคราะห์มา ณ โอกาสนี้

ขอแสดงความนับถือ

(นางรศ.นันทนา ตันตนาพานนท์)

ผู้อำนวยการ

ฝ่ายพัฒนาธรรมาภิบาลเพื่อตลาดทุน

ฝ่ายพัฒนาธรรมาภิบาลเพื่อตลาดทุน

โทร. 02-229-2604-7

Translated letter of the Stock Exchange of Thailand (SET)

Reference number of the issuing letter: 35/2552

6 August 2009

Attention: Request for answering the questionnaire of PhD thesis on minority shareholder rights in the Thai commercial banking sector

To: Directors and chief executive officers of banks, securities companies, and asset management companies

Attachment: 1. Introduction letter of Mr Chinnapat Kanthapanit (a researcher)  
2. Consent form  
3. Research information of the PhD thesis  
4. Questionnaire.

According to Mr Chinnapat Kanthapanit, his current position is lecturer in the finance department of the Faculty of Accounting and Management at Mahasarakham University. He is studying for a PhD at Victoria University, Victoria State, Australia. He is conducting his PhD thesis with regard to an investigation of the rights of minority shareholders in the Thai commercial banking sector. The purpose of the thesis is to develop corporate governance practices and the rights of minority shareholders.

In respect of the study, Mr Chinnapat Kanthapanit requested the Corporate Governance Center of the Stock Exchange of Thailand to support the study by submitting the questionnaire to you. Please provide your answers to the questionnaire that is enclosed with research information and related documents for your consideration. Please send your completed questionnaire back to Mr Chinnapat Kanthapanit by post to his address: 182 Mu5 Tumbon Kamphangsean, Kamphangsean district, Nakhonpathom 73140, before Monday 31 August 2009.

With regard to the research, Mr Chinnapat Kanthapanit confirms that your information will be classified and used for this PhD thesis only. The completed PhD thesis will be submitted to the Stock Exchange of Thailand for publication and will provide a contribution of knowledge to the public in the near future. In case, you require more information, please directly contact Mr Chinnapat Kanthapanit at [dannychinny@hotmail.com](mailto:dannychinny@hotmail.com) and [chinnapat.kanthapanit@live.vu.edu.au](mailto:chinnapat.kanthapanit@live.vu.edu.au)

This letter is submitted to you for consideration and thank you for your cooperation.

Kind regards

(Mrs Ratwalee Anuntananon)  
Director of Corporate Governance Center

## Appendix E

### Certificate of Attendance in Research Conference

*13<sup>th</sup> International Business Research Conference*

22 – 24 November 2010

Venue: Novotel Hotel on Collins, Melbourne, Australia

Date: 24 November 2010

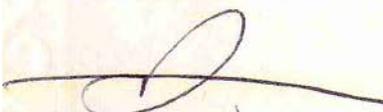
### *Certificate of Attendance*

**Certified that Mr. Chinnapat Kanthapanit from  
Victoria University, Australia**

*has*

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