

Does Foreign Investment Really Improve Corporate Governance?

Evidence from Thailand

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Abstract

It is widely argued that foreign investment is a mechanism for improving corporate governance in emerging markets. This paper challenges this convention wisdom using firm-level data on 365 Thai firms listed on the Thai Stock Exchange. I construct a firm-specific index of the quality of corporate governance and use econometric methods to test the hypothesis that foreign investment has a positive effect. Endogeneity problems are addressed by using long-standing statutory limits on foreign ownership as an instrument for foreign investment. The results show that the form of foreign investment matters. When foreign industrial companies buy large stakes, there is no improvement in corporate governance; if anything the opposite is true. It appears that foreign industrial investors act as insiders: they favor weak corporate governance because it allows them to exploit minority shareholders. In contrast, purchases of minority stakes by foreign institutional investors lead to improvements in corporate governance. I also find that corporate governance is poorer for firms whose major foreign owner comes from a country with relatively weak governance institutions.

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1. Introduction

A popular view among policy makers is that foreign ownership positively influences firm performance and profitability. This view derives from the presumption that foreign investment is a conduit for technology, capital, managerial skills, training techniques and various intangibles that promote efficiency.¹ Recently, good corporate governance has been added to the list of potential benefits.² Surprisingly, however, there has been little systematic work on this relationship, especially for emerging market economies. This paper develops new evidence on the linkage. It shows that the effect of foreign investment on the quality of corporate governance is a good deal more complicated than commonly assumed and that its direction is sometimes contrary to what is conventionally supposed.

Theories predicting a positive effect of foreign investment on corporate governance view foreign investors as outside shareholders. Foreign equity investment—whether it is in the form of joint ventures, multinational subsidiaries, takeovers, or even institutional portfolio investment—results in foreigners becoming outside blockholders with the ability (through voting rights) and the incentive (through cash-flow rights) to monitor incumbent management and force changes in behavior that are in the interest of outside shareholders as a class (Shleifer and Vishny, 1986). In addition, insofar as foreign corporate practices are superior to those prevailing in the host economy, foreign ownership participation may provide information and encourage the adoption of superior practices in areas such as information disclosure, internal checks and balances, and accounting standards (OECD, 2002).

But do foreign investors always, in fact, act as minority investors seeking a better deal for outside shareholders? If they acquire a controlling stake in a domestic firm, they may then have the same incentive as other insiders to exploit minority shareholders. Ironically, the same sizeable ownership stake that positions foreign owners to monitor management can also give them an incentive to oppose governance reforms that undermine the position of the dominant blockholder. Since foreign companies often acquire management control when they invest in emerging market economies, it is at least conceivable that this perverse effect could be quite prevalent.³

¹ See, among others, Dunning and Pearce (1977), Globerman (1979), Blomstrom (1986), Harrison (1996), Doms and Jensen (1998), and Kimura and Kiyota (2004)).

² Since the quality of corporate governance is positively correlated with firm value (Black, 2002; Durnev and Kim, 2004; Klapper and Love, 2004), the link from foreign ownership participation to good governance and hence to high firm valuation seems to be a plausible direction of causality.

³ Moreover, in the case of Asian economies where hostile takeovers are rare and friendly negotiation is a customary way of doing business, foreign investors who become joint-venture partners tend to have personal ties with incumbent shareholders. The increase in value of equity holdings from monitoring thus may not generate sufficient motivation for foreign inside shareholders to press for more efficient behavior on the part of management. Rather,

Two theoretical arguments provide further grounds for questioning the existence of an unconditional positive relationship between foreign ownership and the quality of corporate governance. First, the entrenchment hypothesis of Morck, Shleifer, and Vishny (1988) predicts that more equity ownership by the manager worsens financial performance because managers with large ownership stakes may be so powerful that they do not have to consider other stakeholders' interest. This situation may apply to foreign owners, especially foreign industrial corporations, since they usually participate in the firm's management and operation.

Second, the theory of private benefits of control due to Bebchuk (1999) explains why foreign inside shareholders may not have an incentive to improve corporate governance. It is their position as large shareholders that provides them with potential private benefits—private in the sense that they are not shared among all the shareholders in proportion of the shares owned—that they can enjoy with relative ease if corporate governance is weak.⁴

Whether foreign ownership contributes to good corporate governance is ultimately an empirical question. Unfortunately, two obstacles have stymied empirical work in this area. First, it is difficult to measure the quality of corporate governance at the firm level. Previous work has relied on limited information on variables such as board size, the share of independent directors, the number of board meetings, shareholder activism, executive compensation, insider share ownership, and takeover defenses to proxy for the effectiveness of governance.⁵ These proxies capture only certain aspects of governance, and their validity as measures of overall corporate governance quality depends on the assumption that they are correlated with other governance practices.

The main contribution of this paper is the construction of a comprehensive corporate governance index. Unlike other measures of corporate governance commonly used in previous studies, this corporate governance index captures all major aspects of corporate governance: board structure, board responsibility, conflict of interest, shareholder rights, and disclosure and transparency. As many as 87 company attributes related to corporate governance are evaluated using information from various publicly-available sources such as company disclosure reports,

they might find it in their interest to cooperate with other larger blockholders to gain private benefits at the expense of small shareholders.

⁴ Private benefits may be in the form of outright transfers of assets out of the company for the benefit of those who control them (termed “tunneling” by Johnson, LaPorta, Lopez-de-Silanes, and Shleifer, 2000), unreasonably high compensation for directors who typically are the same people as or related to the controlling shareholders, or capital gains from trading stocks on insider information. The existence of private benefits of control is documented by Barclay, Holderness, and Pontiff (1993), Dyck and Zingales (2004) and Nenova (2003).

⁵ Board size was used by Yermack (1996); the ratio of independent directors by Klein (1998); executive compensation by Mehran (1995); number of board meetings by Vafeas (1999); insider ownership by Hermalin and Weisbach (1991); institutional ownership by Hartzell and Starks (2003); and anti-takeover provisions by Gompers, Ishii, Metrick (2003).

annual reports, company websites, and Stock Exchange of Thailand (SET) databases.⁶ The overall index is a weighted average of the scores given to the five components; higher scores indicate better governance practices. Using this method, I assess the corporate governance quality for each of 365 non-financial Thai firms listed on the SET in 2004, and for 315 companies in 2000.⁷ My index is positively correlated to alternative measures of corporate governance—such as the board of director independence, the number of board meetings, and the existence of employee stock option program—by construction. Also, the fact that this index is positively correlated to firm value, as well as minority shareholdings, further confirms the reliability of this index as a measure of the true quality of corporate governance.⁸

A second obstacle is the possibility of reverse causality running from the quality of corporate governance to the foreign ownership decision. To address this problem I exploit the law on foreign business in Thailand and use the foreign ownership limit as a potential instrument for actual level of foreign ownership. This foreign ownership limit specifies maximum foreign shareholdings allowed in individual Thai firms as a function of the type of business activities in which the firm is engaged. This ownership regulation can be regarded as exogenous for two reasons: 1) these foreign limits were adopted for reasons which are unrelated to the quality of corporate governance—such as national security, protection of culturally sensitive business, and a pursuit of primary economic goals at the time the law was issued;⁹ and 2) this foreign business law was established in 1972,¹⁰ since which time the Thai capital market and economy have evolved substantially. This foreign limit turns out to be a powerful instrument for actual foreign ownership, making it credible to assert that the association between foreign ownership and the governance measure is a causal relationship rather than simply a correlation.

⁶ To date, existing studies that measure firm-level corporate governance by constructing an index similar to the one used in this paper are Black, Jang, and Kim (2005) on Korea, Lefort and Walker (2005) on Chile, and Cheung et al. (2005) on Hong Kong. However, these studies rely on survey data, as opposed to publicly available data, in constructing their indexes. Problems with using survey data on corporate governance are discussed in the Data and Variables section.

⁷ In 2000, there were 381 companies listed on the SET. In 2004, 436 companies were listed on the SET, of which 66 were financial companies and 40 were companies under rehabilitation. In 2000, 381 companies were listed on the SET.

⁸ The firm value is measured using Tobin's q. A set of firm-specific variables are included as control variables in a regression of Tobin's q on the corporate governance index. Endogeneity is controlled for using "foreign ownership limit" discussed in the next paragraph of the main text.

⁹ The Foreign Business Law (1972) is believed to be part of an export-push policy of the Thai government during 1972 to 1992. This export-promotion was driven by the major balance of payments problems that Thailand faced in the 1960s resulting from a substantial increase in the importation of raw materials and machinery in the 1960s. Thus, under the Foreign Business Law (1972), a high ratio of foreign equity ownership in export-oriented sector was allowed, while foreign participation in non-tradable services was highly restricted (Thanadsillapakul, 2004).

¹⁰ Some slight modifications were made to the law in 1999 to adapt to changes in economic conditions.

In my baseline model I regress these measures of corporate governance, appropriately instrumented, on foreign ownership, controlling for firm characteristics such as size, age, performance, growth, exporter dummy, business-group dummies, and industry dummies. The results challenge the presumption that foreign investors are always effective outside monitors. I find that foreign ownership actually leads to worse corporate governance on average. This result is robust to controlling for various firm characteristics and endogeneity.

I then divide foreign ownership into foreign industrial and foreign institutional ownership on the presumption that foreign industrial owners are more frequently corporate insiders than are foreign institutional investors, since foreign industrial owners typically take on a significant ownership stake.¹¹ I find that foreign industrial ownership negatively and significantly affects the quality of corporate governance, and it is the dominance of this type of foreign ownership in the data that drives the result for aggregate foreign ownership. Evidently, foreign industrial owners favor weak corporate governance, because poor internal governance makes it easy for them, as inside investors with control over cash flow rights, to exploit minority shareholders. For institutional investors (financial institutions and the like), the story is different. These foreigners tend to hold minority stakes and hence press for governance reforms that strengthen the rights of minority investors. Apparently, the particular form that foreign investment takes matters importantly for its implications for the quality of corporate governance.

To further test the private-benefits-of control hypothesis, I examine abnormal returns on equity holdings using the three-factor Fama-French (1993) model. I regress the estimated abnormal returns on foreign ownership and other firm characteristics. I find that foreign industrial ownership is associated with lower abnormal returns even after controlling for endogeneity, suggesting that private benefits of control may indeed be extracted before the company profits are distributed to shareholders.

I also test whether the effects of foreign ownership on corporate governance are in part a function of the quality of corporate governance in the country that is the source of the foreign investment. I find that Thai firms owned by investors from countries with corporate governance ratings lower than Thailand have worse governance than their peers, but Thai firms owned by investors from higher ranking countries do not have better governance. This implies that bad governance is easier than good governance to be transferred across borders. This is consistent with a finding from a study of private benefits of control that the premium paid for control is

¹¹ Average holding by an individual foreign industrial owner (in the form of joint ventures or multinationals) is 34 percent, as opposed to 2.7 percent for an individual foreign institutional investor. About 87 percent of foreign industrial owners in the sample hold management and/or board positions.

higher when the acquirer is from a country that protects investors less “and thus is more willing or able to extract private benefits” (Dyck and Zingales, 2003).

Finally, motivated by a finding in La Porta, et al. (1998), I group countries by legal origin. Here, once again, I find little support for conventional wisdom: source countries whose legal origin is found to be associated with good governance do not appear to contribute disproportionately the quality of governance of Thai corporations.

This paper proceeds as follows. Section 2 describes the sample and the construction of the corporate governance index. Section 3 contains the empirical methodology. Section 4 presents summary statistics and the estimation results. Section 5 concludes the paper.

2. Data and Variables

This study uses firm-level data for 365 Thai firms in the non-financial sector. Only publicly traded companies listed on the Stock Exchange of Thailand (SET) are analyzed due to the absence of governance information for non-listed companies. However, limiting the sample to public companies should not be problematic since foreign investment in private firms is only fractional, and corporate governance issues such as principle-agency problems and expropriation from minority shareholders are potentially more severe when firms are large and publicly traded with numerous small shareholders forming the ownership structure. A private firm in Thailand is typically controlled by a single family who actively involves in all aspects of the firm. Thus, corporate governance problems and effective governance mechanisms can be vastly different between these public and private firms and should be investigated separately.

Construction of Corporate Governance Index

A contribution of this study is to construct quantitative measures of corporate governance—a Corporate Governance Index (CGI)—for as many as 365 of 436 Thai listed companies in 2004, and 315 of 381 companies in 2000.¹² This index runs from 0 to 100 with higher values indicating better corporate governance. I collect information for each company from publicly available sources including the mandatory Annual Disclosure Report (Form 56-1), company annual reports, corporate websites, the web-based SET Market Analysis and Reporting Tool (SETSMART), and the SET’s Director Database. Additional information such as corporate violations of the Stock Exchange rules is obtained from the Securities and Exchange Commission (SEC)’s database.

¹² Financial companies and newly listed companies are excluded from the sample.

Most previous studies constructing a governance index rely on survey responses from companies' administrators or executives.¹³ Although a questionnaire can be designed to acquire in-depth information on a company, self-evaluation of corporate governance is problematic because it touches upon issues very sensitive to the well-being of the company. Consequently, a low response rate and self-selection can be expected. Moreover, if firms with poor governance were to misreport, then these survey-based ratings would not measure the strength of governance at all. To circumvent these potential problems of survey-based governance rating, I use only public information available on each company, in the spirit as Cheung et al. (2005), to construct the governance index used in this study. This is a more comprehensive measure of the corporate governance practices of Thai companies since it incorporates all crucial elements of standard governance principles, applied to the case of Thailand.

There are a total of 87 questions. Of these, 76 questions are classified into five governance components: 1) Board Structure 2) Conflict of Interest 3) Board Responsibilities 4) Shareholder Rights, and 5) Disclosure and Transparency. The remaining questions capture specific firm attributes pertaining to corporate governance but the direction in which they affect the firms is uncertain a priori: for example, whether the chairman of the board of directors and the CEO are members of the controlling family; what percentage of the total shares of the firm are held by the chairman and the CEO; what percentage of the total shares are held by minority shareholders; whether the firm has consolidated companies. These elements are excluded from computation of the overall corporate governance index. However, their empirical correlations with the subindexes and the overall index will be examined to gain more insight into the pattern of corporate governance of Thai listed companies.

Scores are given to each of the governance items and grouped into five categories to create subindexes. The CGI is then computed as a composite index by taking a weighted average of the subindexes. Details on scoring and weighting schemes can be found in Appendix A.

The same method is used to construct the CGI for the year 2000 except that the number of applicable governance questions falls from 87 to 56. Almost half of the questions that dropped off concern the existence and quality of elements that cannot be assessed contemporaneously such as the information that existed on company websites during the year 2000. The rest are unavailable due to changes in disclosure standards and due to the implementation of corporate governance reforms that came in effect after year 2000. The reduced set of questions is used to calculate an

¹³ With an exception of Cheung et al. (2005) which uses only public information in constructing an index for 165 Hong Kong listed companies.

alternative CGI for 2004 that is comparable with the CGI for 2000 when performing panel data analysis. The two versions of the CGI for 2004 are strongly correlated.

Foreign Ownership Variables

Data on equity ownership is obtained mainly from the SET database, which provides a list of all shareholders owning at least 0.5 percent of each listed company. Classification of foreign shareholders into individual investors, industrial corporations, banks, and non-bank financial institutions, is based on the information in each company's Annual Disclosure Report (Form 56-1) and the foreign investors' website if available. Whether a foreign company is a joint-venture partner can also be determined using these sources. Data on foreign ownership classified by nation is obtained separately from the SET Market Analysis and Reporting Tool (SETSMART) database.

Control Variables

A number of firm-level variables that may affect the quality of corporate governance are included as control variables. Data on market capitalization, firm age, return on assets, sales growth, and industry classification are obtained from the Stock Exchange of Thailand (SET) database. Exporter information is extracted from Thailand Exporters Directory, Department of Export Promotion, Ministry of Commerce, Thailand, available at <http://www.thaitrade.com/go/home>. Family business groups and state enterprises are identified using ownership information from the SET database, a Brooker Group publication: *Thai Business Groups: A Unique Guide to Who Owns What*, and information on privately-owned companies from Department of Business Development, Ministry of Commerce available in Thai only at <http://www.dbd.go.th/regis/index.phtml> (see Appendix B for details on a construction of various types of ownership variables).

3. Model Specification

3.1 Baseline OLS Regression

To test hypotheses about the relationship between foreign ownership and corporate governance, a basic cross-sectional OLS regression model can be specified as:

$$CGI_i = \beta_0 + \beta_1 Foreign_i + \sum_{k=1}^K \gamma_k x_{ki} + \varepsilon_i \quad (1)$$

where CGI is the corporate governance index; β_0 is a constant; $Foreign$ is the percentage of total shares held by foreign residents; x is a vector of control variables; and ε denotes a standard i.i.d. disturbance. The subscript i is used to denote individual firms. Control variables include firm size (log of market capitalization), firm age (log of number of years since establishment), firm performance (return on assets), firm growth (percentage change in sales), an exporter dummy, a family-business-group dummy, a state-enterprise dummy, and industry dummies.

Potential endogeneity in the relationship between foreign ownership and corporate governance exists if corporate governance also determines foreign investment—the quality of corporate governance is an important factor for foreign investors in making investment decisions. Foreign investors could be attracted to firms that already have good governance standards than firms with poor governance, because they have less fear of expropriation by local shareholders, or because they know more about these firms due to the firms' superior information disclosure and transparency. There is also the possibility that some foreign investors are drawn to firms with bad corporate governance—new foreign owners may identify such firms as offering opportunities for them to come in, clean up the firm, and raise its value before selling for a profit. This has been the case for the takeovers of many Thai and Korean companies by overseas institutional investors after the outbreak of the East Asian crisis when the financial systems became paralyzed by debt burdens in form of non-performing loans (NPLs).

3.2 Instrumental Variables Approach

I exploit the distinctive rules governing foreign investment in Thailand to identify an appropriate instrument for foreign ownership. Firms registered in Thailand must comply with the foreign ownership restrictions imposed by the Foreign Business Act of Thailand. The Act divides business into three categories named List 1, List 2 and List 3. Business activities that fall under List 1 are most restricted to foreigner, followed by activities categorized under List 2 and List 3, respectively. Businesses not covered by this Act are open to full foreign ownership.¹⁴ A complete list of business activities under the three categories is provided in Appendix C.

The categorization of restricted business activities was based on reasons unrelated to corporate governance such as national security, protection of culturally sensitive sectors, and a

¹⁴ Under List 1, businesses are strictly prohibited to foreigners unless there is an exception contained in a special law or a treaty. Businesses under List 2 are those related to the national safety or security or affecting arts and culture, tradition, folk handicraft or natural resources and environment; minority foreign ownership is possible without permission and up to 60 percent foreign ownership is possible with ministerial approval. List 3 contains businesses that Thai nationals are not ready to compete with foreign operators; minority foreign ownership is possible without permission and majority foreign ownership is possible with permission from the Director General and a committee.

pursuit of macroeconomic policy at the time of establishment of the law.¹⁵ This, together with the fact that the law was put in place in 1972 and hence was not influenced by corporate governance of today's companies, substantiates the exogeneity of the foreign ownership limit and makes it a plausible instrument for actual foreign ownership.

Foreign ownership limit (*Flimit*) is also strongly correlated with the actual foreign ownership (correlation coefficient = 0.784, P-value = 0.000). To statistically examine the validity of *Flimit* as an instrumental variable, I conduct a Hausman overidentifying restrictions test on a two-stage least squared (2SLS) regression model, where in the first stage actual foreign ownership is regressed on *Flimit* as well as other independent variables from equation (1); in the second stage, the corporate governance measure is then regressed on the fitted value from the first stage and the control variables. The statistic obtained from the Hausman test is close to zero, which indicates that the null hypothesis that there is no correlation between the exogenous instrument and the error term from the second stage equation can not be rejected, supporting the null that *Flimit* is indeed exogenous to the regression system.

3.3 Panel Regression Models

A second aspect of my empirical strategy is to use a fixed effects model or a random effects model with panel data in an attempt to reduce omitted variables bias. The panel data model can be specified as:

$$CGI_{it} = \beta_0 + \beta_1 Foreign_{it} + \sum_{k=1}^K \gamma_k x_{kit} + \alpha_i + \varepsilon_{it} \quad (2)$$

where the α term denotes either the fixed or random effects.¹⁶

Choosing between fixed- and random-effects models is generally done by implementing a Hausman test which tests the null hypothesis that the α 's and the independent variables are uncorrelated. Under this null, the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator. Using a full model, the Hausman test rejects the null hypothesis ($\chi^2(11) = 86.63$), suggesting that the individual

¹⁵ See footnote 8.

¹⁶ The fixed effects model makes use of within-firm variation over time, while the random-effects model uses both between- and within-firm variations over time and treats firm-specific disturbance as a random draw from a zero-mean distribution assumed to be uncorrelated with the independent variables. Statistically, the fixed effects model always gives consistent results but may not be the most efficient model to run; the random effects model gives a more efficient estimator and should be used if it is statistically justified.

effects are correlated with the other variables in the model. Thus, fixed effects model is the more appropriate choice.¹⁷

4. Empirical Results

4.1 Governance of Thai Publicly-Listed Companies

Table 1 presents summary statistics for the CGI and the subindexes for the 365 sample companies in 2004. The overall CGI with unequal weights for the subindexes ranges from 25.75 to 90 with a mean score of 53.25 (on a scale from 0 to 100 with a larger number indicating better corporate governance). Summary statistics for the CGI with an equal weight given to each of the subindexes does not differ much from that of the overall CGI. The CGI calculated here is by and large consistent with the corporate governance ratings determined by the Thai Institute of Directors Association (Thai IOD); seven out of the ten non-financial companies with the highest CGI in 2004 are in the list of the top ten companies rated by the Thai IOD (which includes both financial and non-financial corporations).^{18,19}

As shown in Table 2, companies in the resource sector have the best corporate governance, with an average score of 67.84, followed by firms in the technology industry which has a mean index score of 57.65. The worst average scores belong to companies under rehabilitation; these firms were in the process of financial restructuring and were not compelled to hold an annual shareholder meeting nor required to meet the same disclosure standards as companies under normal conditions. Panel B of Table 2 shows that corporate governance quality improves with company size. This is not surprising given that larger companies have more resources to devote to improving their governance. They also may have more incentive to do so than smaller firms since they have a greater need to access external capital. The fact that large firms tend to be scrutinized more intensively than small firms might also motivate the top-tier firms to strive for the best governance practices.

¹⁷ Although a combination of panel and IV estimations would be optimal as to control both endogeneity and omitted variables bias, this combined method is not feasible because the instrumental variable, *Flimit*, is invariant over time.

¹⁸ With cooperation from the SET, the SEC, and McKinsey & Company in Thailand, and financial support from the World Bank, the Thai IOD initiated a program called “Baselining Corporate Governance Practices of Thai Listed Companies” in 2001. Under this program, the Thai IOD ranks Thai listed companies based on their corporate governance performance. Similar to my index, the Thai IOD index uses only publicly available information in their governance assessment. Their results in aggregate and a list of the top 50 companies are presented to the public while governance scores on individual companies remain confidential.

¹⁹ The top five companies according to the CGI in 2004 are the Petroleum Authority of Thailand (90.46) PCL, Banpu PCL (86.71), the Siam Cement PCL (86.34), Ratchaburi Electricity Generating Holding PCL (83.92), and the Bangchak Petroleum PCL (82.66). It is interesting to note that these top corporate governance companies all belong to the national resources sector, and four of them are state-owned enterprises.

Summary statistics for some attributes of the sample firms in 2004 are shown in Table 3. A typical board of directors consists of 8 to 15 directors. Three firms in the sample have only 5 directors, the smallest board size allowed by the SEC. Seven firms have 20 or more directors. Although the size of the board should not matter for corporate governance as much as the quality of the board, it is generally believed that a board composed of more than 12 directors is too large to have an effective decision-making and to encourage personal involvement in monitoring (Yermack, 1996). Thus, in scoring for corporate governance index, I award 1 point to a company if its board is composed of 5 to 12 directors and 0 if the board size is larger than 12.

Non-executive directors, especially independent ones, are a mainstay of good governance.^{20,21} Their presence forms a balance with executive directors to ensure that an individual person or group cannot unduly influence the board's decisions. Their independence further enables them to act objectively and to exercise independent judgment regarding tasks where there is a potential conflict of interest. In the sample data, non-executive directors make up about two-thirds of the board membership on average.²² About half of the companies in the sample have independent non-executive directors accounting for at least one-third of board membership (median statistics, not shown in the table). This is an improvement when compared with 21 percent of the sample firms with this attribute in 2000.²³

However, the separation of monitoring and management may be less clear than suggested by the ratio of non-executive directors—as many as 38 percent of the firms have the same individual acting as both the CEO and board chairman or vice chairman. The management-oversight role of the board is limited when the chairman of the board is also the leader of the

²⁰ A non-executive director is a member of the board of directors of a company who does not form part of the executive management team. A non-executive director is defined as an independent director if he or she is independent of any major shareholder or management, is not an employee of the company or its affiliation, and is not involved in a day-to-day operations of listed companies.

The SET has issued the “Code of Best Practices for Directors of Listed Companies” in October 1999 which provided guidelines for all board members concerning their behavior while holding director appointments. It does not require a minimum number of non-executive directors but it mandates that audit committee members, all of whom must be independent as defined by the SET, must be appointed as directors of the company.

²¹ For instance, the Cadbury Report (1992) states that “the Committee believes that the caliber of the non-executive members of the board is of special importance in setting and maintaining standards of corporate governance.” Higgs Review (2003) states “a board is strengthened significantly by having a strong group of non-executive directors with no other connection with the company. These individuals bring a dispassionate objectivity that directors with a closer relationship to the company cannot provide.”

²² This average ratio of non-executive directors to total number of directors of the Thai companies is considered healthy by U.S. and U.K. standards. U.S. Business Roundtable (Deloitte & Touche Review) suggests that the majority of directors of a corporation should be non-executive directors. U.K. Hampel Committee advises a company to have at least one-third of the board consisting of non-executive directors for the board to be effective in the oversight role.

²³ The SEC and the SET require listed companies to appoint at least 2 independent directors. This requirement is in an absolute term regardless of the total number of the board members or the proportion of shares held by the public. The independent-director ratio of zero in the data reflects that companies had no disclosure on the independence of the board of directors.

executive team. Moreover, roughly 50 percent of the companies appointed a member of the controlling family to be the CEO. This is consistent with the notion that separation of management from ownership control is rare and hence that there is high probability of entrenchment by controlling shareholders.²⁴

Table 4 shows that the CGI and each of the five subindexes are positively correlated. The other variables in the correlation matrix are firm attributes that do not enter the calculation of the CGI. The negative correlations between the CGI and proxies for the extent to which ownership overlaps with monitoring and/or management of the firms (eg. the CEO or the Chairman is a controlling-family member, share ownership of the CEO and the Chairman) reinforce the notion of entrenchment by large shareholders. Consistent with this pattern, the relationship between “freefloat” shareholdings, i.e. minority shareholdings, and the CGI indicates that the more widely held a firm is, the better its corporate governance.²⁵

4.2 Regression Analysis

4.2.1 Does Foreign Ownership Improve Corporate Governance?

Table 6 Columns (1) through (3) report the set of results from cross-sectional OLS regressions using 2004 data. The inverse relationship between foreign ownership and governance already manifests themselves in these baseline regressions. The corporate governance measure is negatively correlated with aggregate foreign ownership conditional on firm size, and the coefficient estimate on foreign ownership is robust to controlling for other determinants of corporate governance including industry dummies (regressions 2 and 3). This negative relationship between the corporate governance measure and foreign shareholdings remains strong in pooled-data OLS estimation (regression 4) and in panel random-effects and fixed-effects estimations (regressions 5 and 6). The coefficient on foreign ownership increases in absolute value from -0.076 in the cross-sectional OLS regression to -0.166 in the panel fixed-effects regression.

To mitigate plausible endogeneity, I also report IV estimates (Table 7). The foreign ownership limit is used to instrument for actual foreign ownership in the first stage. The first-stage relationship between foreign limits and actual foreign ownership is strongly positive: foreign limit is significantly related to foreign ownership at over 99 percent confidence even when other controls are included. The F-test for foreign limit in the first-stage regression (F-

²⁴ Expropriation of minority shareholders by controlling shareholders is viewed as a primary agency problem in East Asia. See La Porta et al. (1999) and Claessens et al. (2000).

²⁵ The “freefloat” of a listed security is the proportion of shares available for purchase in the market by minority investors. See the SEC’s definition of “free float” at the end of Table A1, footnote 7.

statistic = 156.91 for regression 3) indicates that foreign limit is a strong instrument, suggesting that the IV estimates are unbiased.

The IV estimate yields a point estimate of -0.139 on foreign ownership in the second-stage regression which is significant at 99 percent confidence. Since foreign ownership is instrumented, we can assert a causal relationship that foreign investment adversely affects the quality of corporate governance of local firms. This IV estimate (Table 7, regression 3) is more negative than the analogous OLS estimate (Table 6, regression 3) when all controls are included, suggesting that the adverse effect of foreign ownership on corporate governance can generally be offset by the attractiveness of good governance to foreign investors when making investment decision.

For a robustness check, I replace firm-specific log market capitalization, return on asset, sales growth, and export propensity with their industry averages on a possibility that these control variables may be endogenously determined by the level of corporate governance.²⁶ In this regression, the coefficient on foreign ownership remains negative and statistically significant across all models except for a baseline OLS regression.²⁷

To further test the sensitivity of the results, I divide the sample into different sub-samples using thresholds on state ownership, firm size, and foreign participation.²⁸ I find that the negative effect of foreign ownership is more important for firms with small state ownership, high market capitalization, and large foreign participation. Since all these three criteria are associated with larger foreign ownership, this finding is consistent with the presumption discussed earlier that foreign owners may weaken corporate governance if they have the ability and the incentive to do so through their significant voting rights and cash-flow rights associated with their sizeable shareholdings.

4.2.2 Does the Type of Foreign Investor Matter?

The foreign ownership variable used so far is measured in aggregate. An interesting question to investigate is whether different types of foreign investors affect corporate governance differently. I create two dummy variables to capture relative importance of foreign industrial ownership and foreign institutional ownership: a “foreign industrial ownership dummy” that equals 1 if firm is a joint venture with foreign industrial partners who own at least 10 percent of

²⁶ Industry dummies are dropped in this regression.

²⁷ The absolute value of the coefficient on foreign ownership declines for the OLS, IV, pooled OLS, and random-effects models but increases in the fixed-effects model.

²⁸ The threshold for state ownership is 20 percent; market capitalization 9.6 billion baht (mean); foreign ownership 20 percent.

total shares, 0 otherwise; and a “foreign institutional ownership dummy” that equals 1 if firm is not an industrial joint venture and at least 10 percent of total shares is held by foreign institutional investors, 0 otherwise. There are 80 firms in the sample that fall in the former case, and 58 firms the latter case. The rest of the firms, which comprise a baseline group, either do not have substantial foreign ownership (median foreign ownership of this group = 2.9 percent; mean = 6.8 percent) or it is not clear which type of foreign investors dominates.

The two types of foreign ownership are significantly correlated to the measure of corporate governance but in the opposite directions (Table 8, regression 1): foreign industrial owners are associated with 3.6 points lower, while foreign institutional investors are associated with 6.3 points higher, than the baseline group. The negative coefficient of foreign industrial group remains significant at 99 percent confidence in all three specifications. The positive effect of the foreign institutional group weakens or disappears, however, when other firm characteristics are controlled for (regressions 2 and 3). The F-test on the null hypothesis that the coefficients of the two ownership dummies are not statistically different cannot be rejected at the 99 percent level in all three models, suggesting that foreign industrial owners and foreign institutional owners indeed affect the measure of governance differently.

An interpretation of this result is that foreign institutional investors use superior knowledge and ability combined with a greater incentive to discipline management, directors, and other insiders of companies to influence companies to establish more vigorous corporate governance mechanisms and to enhance information disclosure.²⁹ Foreign industrial owners, on the other hand, either lack these skills or are indifferent to the quality of corporate governance of the company, perhaps as long as the company continues to generate revenues for them. The fact that a single foreign industrial owner holds, on average, as high as 34 percent stake of its joint venture in Thailand (as opposed to 2.7 percent held by a typical foreign institutional investor),³⁰ and that they often directly involve in management and operation of the firm, make the result on foreign industrial ownership coincide with the *entrenchment effect* of large shareholdings (Morck, Shleifer and Vishny, 1988; Shleifer and Vishny, 1986; and Claessens, et al., 2002). According to

²⁹ However, not all foreign institutional investors behave this way as to bring good corporate governance to local companies. There is also a case that foreign institutional investors aim to make only short-term profits by purchasing financially distressed companies at a bargain prices during an economy-wide financial crisis and then selling their stakes when the economy is up and running again, cashing out before addressing governance problems and sometimes leaving the company with even more governance problems. Widely cited examples of this include the purchase and sale of Korean banks by U.S. private equity funds Newbridge Capital and Lone Star, earning a windfall profit of US\$1.2 billion and US\$4.4 billion, respectively, in less than four years investment span. Their executives now face criminal charges in Korea on suspicion of tax evasion and fraud. Warburg Pincus, another U.S. investment fund, was recently accused of insider trading stemming from the 2003 purchase of LG Card, a credit card company in Korea.

³⁰ Figures from 2004 data.

Shleifer and Vishny (1986), large investors can be so powerful that they may pursue their own interests, which need not correspond with the interests of other (minority) investors or employees in the firms.

The negative relationship between large foreign industrial ownership and governance can also be explained in the theoretical model of Bebchuk (1999) which predicts a positive relationship between the likelihood of having a large blockholder and the potential value of private benefits of control. This theory is supported by empirical evidence on Australian firms presented by Lamba and Stapledon (2002) using the value of related party transactions, and evidence on cross-country comparison by Dyck and Zingales (2003) using the difference in the price per share paid by an acquirer and the market price after the change in control, as a measure of private benefits of control. The theory implies that large shareholders, foreign and local alike, may oppose any positive change in corporate governance because their private benefits may be threatened once corporate governance—which protects minority investor rights—is strengthened. Moreover, given that Thailand has relatively weak rule of law, the existence of private benefits of control in Thailand is supported by empirical findings that the value of private benefits are negatively related to the quality of legal environment and the level of investor protection of a country (Dyck and Zingales, 2002; and Nenova, 2003).

The firm-level relationship between foreign direct investment (FDI) and governance found in this analysis also applies at the country-level. Li and Filer (2004) find a downward-sloping relationship between country-level FDI and their governance index for a sample of 48 countries. They conclude that investors prefer direct investment when investing in countries with poor governance institutions because it gives investors more control and thus better protection through personal connections. The firm-level investigation of this paper in turn explains why self-interested FDI does not help improve the overall corporate governance in local firms especially in the area of minority shareholder protection.

4.2.3 Evidence on Private Benefits of Control Hypothesis

Two methods have been used to quantify private benefits of control. The first method, first used by Barclay and Holderness (1989), measures the difference between the price per share paid by an acquirer in a takeover event and the market price per share after the change in control is announced.³¹ The second method, pioneered by Lease, McConnell, and Mikkelsen (1983),

³¹ The former reflects the cash flow benefits and the private benefits stemming from the acquiring party's controlling position, while the latter reflects only the cash flow benefits from non-controlling ownership. The difference between these two prices thus reflects the differential payoff accruing to the controlling shareholder.

relies on the existence of companies with multiple classes of stocks, with differential voting rights and calculates the voting premium as an estimate of the magnitude of the private benefits of control.

However, these methods do not apply in the case of Thai firms because, in Thailand, merger and acquisition activities have been rare and dual-class share structure is prohibited. Thus, in attempt to detect the private benefits of control, this paper alternatively looks at the “abnormal return” on equity holdings, which is the return in excess of the expected rate of return based on an asset pricing model. The logic is that, stock return (capital gain plus dividend per share) is the same for all shareholders of a company. These returns depend on many factors such as firm size, firm value, industry, profitability, growth prospect, and share liquidity. If the controlling shareholder did extract private benefits from the company, what would be left to be distributed among all shareholders would be less than otherwise. Lower profits could also depress stock prices resulting in small or even negative capital gain. Therefore, on average the abnormal returns should be lower for firms with larger private benefits being extracted, holding constant other determinants of stock returns.

I calculate abnormal returns using the CAPM and the three-factor Fama-French (1993) model. The estimated abnormal return is the constant, α , in the model:

$$\text{CAPM:} \quad R_t = \alpha + \beta_1 \times MKT_t + \varepsilon_t \quad (3)$$

$$\text{Three-Factor:} \quad R_t = \alpha + \beta_1 \times MKT_t + \beta_2 \times SMB_t + \beta_4 \times HML_t + \varepsilon_t \quad (4)$$

where R_t is the excess return over the risk-free rate of an individual stock in month t, MKT_t is the market return minus the risk-free rate, and SMB_t (small minus big) and HML_t (high minus low) are the month t returns on factor-mimicking portfolios that capture the size and book-to-market effects.

Columns 1 and 4 of Table 9 show the results from regressing abnormal returns, α , on the corporate governance measure (CGI) and control variables in OLS and IV estimations, respectively.³² As expected, abnormal returns increase with the quality of corporate governance after controlling for endogeneity, implying that good governance may indeed curb extraction of minority shareholders. Foreign industrial ownership, on the other hand, is negatively correlated with the abnormal returns (regressions 2, 3 and 4), supporting of the hypothesis that large foreign industrial owners extract private benefits.

³² I use “foreign ownership limit” as an instrument for the corporate governance measure in the IV regression. This foreign limit variable should be exogenous to the abnormal return estimation equation for the same reasons as previously argued in the case of the corporate governance equation.

4.2.4 Where Did Foreign Firms Go Wrong?

Regressions 1 to 5 in Table 10 Panel A are analogous to regression 3 in Table 8 except that the dependent variables are now the different components of the CGI. Since some foreign owners are not directly involved in monitoring, their scope for influencing the firm's corporate governance is more limited than foreign owners who have their representatives on the board of directors. Therefore, I also employ a "foreign director dummy" to capture the effect of foreign direct participation in monitoring on corporate governance (panel B).³³

The results show that firms with significant foreign industrial ownership tend to do poorly in the area of board structure and responsibilities. This area of governance is also problematic for firms that have one or more foreign nationals serve on the board of director. Since foreign directors are mostly elected to represent foreign industrial owners who are large shareholders, these results suggest that foreign industrial firms in Thailand, whether or not they are directly involved in monitoring, pay little attention to the function of the board of directors as a governance mechanism.

Firms with foreign institutional investors outperform the other firms in the area of information disclosure (regression 5), which is not surprising given examples of many international institutional investors such as U.S.-based CalPERS, TIAA-CREFF, and Fidelity, who have been active in corporate governance issues and have been pressing for more transparency in companies in which they invested. These institutional investors intentionally choose firms with poor corporate governance, which provide opportunities for them to generate profits by reforming their corporate governance systems which will increase firm market values (Smith, 1996; Pinto, 2006).³⁴ Since we did not instrument for the ownership variables in this model, it is also plausible that firms with a high degree of transparency attract more foreign institutional investors.³⁵ Unfortunately, a lack of long time series data on corporate governance disallows us to test these two competing hypotheses.

³³ "Foreign director dummy" is equal to 1 if there exists at least one director of a foreign national on the board of directors; 0 otherwise.

³⁴ This pattern of institutional investors targeting poor corporate governance companies can be seen in CalPERS' Focus List of Corporate Laggards. In April 2005, the fund added AIG, AT&T, Delhi, Novell, and Weyerhaeuser to the list stating that "these five companies are now on our radar screen for their poor corporate governance and in many cases poor performance that has economically damaged shareowners." Rob Feckner, President of the CalPERS Board, declared, "we will press for needed reforms to restore long-term profitability and investor confidence." <http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2005/april/focus-list.xml> (last visited on September 30, 2006). Pinto (2006) also provides examples that reflect this pattern. Smith (1996) finds that 72 percent of firms targeted by CalPERS adopt proposed changes or make changes resulting in a settlement with CalPERS. Shareholder wealth increases for firms that adopt or settle and decreases for firms that resist.

³⁵ Since we have two endogenous variables (foreign industrial and institutional dummies) but only one instrument, it is infeasible to use the IV method here. One way to get around this problem is to assume that foreign industrial investors are the first movers; they get to decide first which firm to invest in and how much (up to the foreign limits

A closer look reveals that foreign industrial ownership companies are less likely to establish a specialized committee—in addition to a mandatory audit committee—to further strengthen the checks-and-balances systems of the companies (Table 11).³⁶ Only 9 percent of this type of firm has set up a nominating committee by the end of 2004, compared with 22 percent for the rest of the firms. And while 5 percent of the rest of the firms has advanced to establish a corporate governance committee, none of the firms with large foreign industrial owners bothered to follow suit.

The role of independent directors of these firms is also relatively limited, and their true independence is in doubt since most of them do not refer to SEC rules regarding the selection of independent directors. Overall, directors of foreign industrial ownership firms attend fewer meetings per year and have lower attendance rate. A significantly smaller percentage of directors of these firms has gone through the directors training programs offered by the Thai Institute of Directors (Thai IOD). However, this may be due to the fact that directors' training programs are currently offered only in Thai language which effectively limits non-Thai speaking foreign directors from obtaining this special training.

4.2.5 Country and Legal Origin of Foreign Funds

Common wisdom, at least in convergence of governance literature, is that governance practices spread from developed countries with good governance to other countries with poor governance. Implied by this claim is that firms in a poor governance country that are exposed to source countries that have good governance should have higher governance standards than other domestic firms, after controlling for firm characteristics. To test this hypothesis, I first identify the top 20 equity investors in Thailand by country based on the value of their total shareholdings. These major source countries are then divided into two groups based on their corporate governance ratings from the IMD's World Competitiveness Yearbook (2004): one group comprises of countries with governance ratings higher than Thailand; the other lower than Thailand. Table 12 shows that only three countries—Japan, India, and China—belong to the latter group.

The CGI is regressed on the “Good CG Country” and “Poor CG Country” dummies and other control variables analogous to regression 3 in Table 8. The result is quite striking: poor

of particular firms). Foreign institutional investors are residual investors who can invest only up to the foreign limits less foreign industrial holdings. However, this is a very strong and unrealistic assumption which would render the results unreliable.

³⁶ The Stock Exchange of Thailand requires all listed companies to set up an audit committee, which must compose of at least three independent directors, by the end of 1999.

governance seems to be successfully transferred to Thai local companies, whereas there is no evidence of transfer of good governance (Table 13, right-most panel). Since the three countries with the poorest governance rankings are all Asian, I investigate whether the practice of bad governance when investing in a country with relatively weak legal enforcement is inherently an Asian phenomenon. As shown in the middle panel of Table 13, the coefficient of the Asian dummy is substantially weaker than that of the dummy for Japan, India, and China (“Poor CG Country”) in the first panel, demonstrating that not all Asian investors have a negative influence on the corporate governance of Thai companies.

I also regress the CGI on dummies for individual source countries multiplied by their share holdings. I find that ownerships by Canada, the United States, the United Kingdom, Japan, India, and China are negatively correlated, while Sweden and Norway are positively correlated, to the quality of corporate governance (Table 12). This is surprising given that countries like Canada, the United States, and the United Kingdom have ranked well in their overall corporate governance practices. But, evidently, they do not apply their good governance when they do business abroad.

Next I use legal-origin classifications as in La Porta et al. (1998), who study the relationship between this variable and the level of investor protection, to divide source countries into four groups by their legal systems: English origin, German origin, French origin, and Scandinavian origin.³⁷ According to La Porta et al. (1988), English-law countries generally have the strongest, and French-civil law countries the weakest, legal protections of investors. German-law and the Scandinavian countries are in the middle of the range. These relative degrees of legal protection are used as an alternative measure of country-level corporate governance in the following analysis.

Similar to the preceding regressions, the CGI of Thai firms is regressed on the legal-origin dummies and other controls. The regression results are again not overwhelmingly favorable to the existence of governance transfer. Although the coefficients on English- and French-origin dummies have the anticipated signs (positive and negative, respectively), they are statistically insignificant. German and French origins, which were found to be in the middle of the governance spectrum according to La Porta et al. (1998), are both strongly correlated with the CGI but in the opposite direction. However, we should not generalize the result for Scandinavian origin since there are only three cases of companies with considerable investments from Scandinavian-law-origin countries.

³⁷ Thailand belongs to the English-common-law group.

A close look at the data reveals that the negative coefficient on German-origin dummy is driven primarily by Japanese direct investments in Thai firms in the form of joint ventures or multinationals. Despite having imported its legal system from the Western states, Japan is well-known for its prominent relationship-based governance system, where private relationships are means to do business and rules are taken at face value (Yasuda, 2005). This may explain why Japanese investors generally do not rely on standard corporate governance mechanisms such as the board of directors to secure their investments. In fact, Japanese investors, who understand this relationship-based world very well, tend to be careful about picking their partners who have good political connections with rent-seeking office holders in Thailand so as to facilitate the run of their business (Phongpaichit, 2003). This “exporting of corruption” from multinationals in advanced economies to developing countries is not rare. It is documented that many blue-chip, name-brand multinationals—Western or Asian alike—have routinely paid bribes to foreign officials in order to gain contracts or concessions which they would not otherwise have won, or to do so on more favorable terms (Hawley, 2000).³⁸

4.3 Capsule Case Studies

In this sector, I provide two case studies of Thai firms whose ownership structures underwent changes as a result of the acquisition of significant stakes by foreign investors—non-institutional investors in the first case and institutional investors in the second. An increase in foreign stakes in the former case was accompanied by a decline in a corporate governance measure, whereas the latter company saw an improvement in the quality of corporate governance after it sold significant stakes to foreign institutional investors.

Capsule Case Study One

Capetronic International (Thailand) Public Company Limited engages in the manufacture of computer monitors, LCD-TV, and printed board assemblies for monitors. It is an affiliated company of the Grande Holdings Group of Hong Kong. Before 2000, the Grande Holdings Group commanded only 15 percent of the company but by 2004 its ownership increased

³⁸ One example is that during the Suharto years in Indonesia, many multinationals—such as Merrill Lynch, Morgan Stanley, GE, Lucent, BP, Siemens, Mitsubishi, Sumitomo, and Hyundai—merrily invested in joint ventures with Suharto’s children and cronies. Typically they would give some equity, say 25 percent, free to one of the children, who wouldn’t even have to contract to perform any favors in exchange. More case-study examples can also be found in a report titled “*Privatization, Multinationals, and Corruption*” by David Hall (1999).

dramatically to 74 percent.³⁹ This change of ownership structure was accompanied by a decline in corporate governance measure: from a CGI of 55 in 2000 to 47 in 2004. This reflected the failure of its directors to actively participate in meetings and to increase company's transparency by encouraging more information disclosure. Average directors meeting attendance dropped from 67 percent to only 40 percent. Disclosure of information became slack after the foreign company took over majority stake: the company failed to disclose compensation and other benefits of individual directors, related party transactions with explanation, and an overall corporate group structure. The company also did not have a website, making it more difficult for outsiders to access information. Since Hong Kong is country with high-quality corporate governance (Table 12), this case study illustrates a situation when an investor from a country with superior governance does not stick to good governance practice when he conducts business in a country with lower governance standard.

Capsule Case Study Two

Advanced Agro Public Company Limited (AA) was founded in 1989 by the Dumnernchanvanit family, which controls a group of companies under the name Soon Hua Seng (or Kaset Rung Rung in Thai version) Group primarily involved in the rice, tapioca, maize, fertilizer, and pulp and paper industries. AA's main business is manufacturing of pulp and paper. In February 1995, the company became the first in the group to be listed on the Stock Exchange of Thailand. In September 1998, the StoraEnso Group of Finland bought 19.9 percent of capital worth \$ 80 million from the group. Later that year, Oji Paper Co. Ltd of Japan also acquired 5.53 percent of the company. These alliances with the overseas companies helped expand AA's export market into Europe and Japan and facilitated technology transfer through technical and managerial assistance from the alliance companies.

After AA became a publicly traded company, the Dumnernchanvanit family's shareholdings of AA declined over time. Through family members' and affiliated companies' shareholdings, the family controlled approximately 75 percent of the company in 1996, 46 percent in 2000, and merely 20 percent in 2004. Between the years 2000 and 2004, the company sold its significant stake to various foreign institutional investors. These include BNP Paribas Private Bank Hong Kong Branch (7.2 percent), State Street Bank and Trust Company (6.2 percent), UBS AG Hong Kong Branch (4.6 percent), and HSBC Private Bank, Suisse (4.6

³⁹ In 2004, the Grande Holdings Group held shares of the Capetronic International (Thailand) Public Co. Ltd under various related companies: the Grande Capetronic Holdings Limited (25.3 percent), the Grande Holdings Limited (24.5 percent), and the Grande (Nominees) LTD (24.6 percent).

percent). As a result, aggregate foreign ownership in AA increased from 30 percent to 64 percent during this period. Shareholdings by the StoraEnso Group of Finland and Oji Paper of Japan remained unchanged.

Corporate governance of AA also improved significantly during this period: its score on corporate governance measure rose from 43 in 2000 to 59 in 2004, which was one standard deviation above its industry average. This improvement in corporate governance were attributable mainly to enhanced disclosure and transparency: the company supplied detailed information items such as shareholdings meeting procedure, board of director meeting attendance, and audit committee meetings attendance, grouping of related major shareholders, and individual directors' and managers' shareholdings. An investor relations unit was established and several investor relations activities such as a road show and an open house were also introduced. The company appointed a new CEO who was a professional manager rather than a family member of the controlling family. The Chairman's stake in the company also decreased from 2.54 percent to only 0.001 percent. Evidently, these positive changes in corporate governance of the firm were due to the new foreign institutional owners who pressed for governance reforms that strengthen the rights of minority investors.

5. Conclusion

This paper has investigated the effects of foreign investment on corporate governance of listed companies using a new firm-level data set on Thailand. A comprehensive index was constructed from detailed company information to measure the corporate governance quality of each of the sample companies. Potential endogeneity problems were also directly addressed using an instrumental variables approach in which foreign ownership restriction on Thai business was employed as an instrument for actual foreign ownership.

The results of this paper challenge conventional wisdom. Foreign investment does not always contribute to improving governance of recipient firms in developing countries. I find evidence suggesting that foreign industrial investors have adverse effects on corporate governance of local firms. This negative effect is robust to the inclusion of various firm characteristics including industry, family-business, and state-enterprise dummies. Since a foreign industrial investor typically holds large ownership stake in a Thai firm, the negative effect of foreign industrial ownership on the quality of governance reflects the scope for using insider control to seek private benefits by keeping corporate governance weak. The positive correlation between the presence of large ownership blocks and expropriation of minority shareholders has

been asserted on both theoretical and empirical grounds, but only domestic large shareholders were concerned. This paper contributes to the literature by discovering that foreign (industrial) block shareholders can also be a source of poor corporate governance.

A positive correlation between foreign institutional ownership and the measure of governance is also detected. Two plausible explanations for a correlation between foreign institutional investment and governance are: 1) foreign institutional investors tend to choose firms with higher governance standards to avoid being expropriated by large shareholders, and 2) foreign institutional investors have chosen firms with poor governance and then improved the governance system to increase firm value. Unfortunately, a lack of long time series data on corporate governance in this paper makes it impossible to distinguish between these two hypotheses for foreign institutional investors. This can provide a venue for future research.

This paper also finds that Thai firms owned by investors from countries with corporate governance ratings lower than Thailand are associated with worse governance than their peers, but the opposite is not true. This implies that bad governance practice is easy to be transferred, while good governance may be much more costly to be implemented in a country with relative weak governance institutions.

The results from this paper raise several issues for further research. To what extent can the results for Thailand be extended to other developing countries? It could be the case that foreign investors may vary their investment strategies when investing under different institutional environments. Legal enforcement in Thailand might be too weak, corruption too widespread, or the capital market not sufficiently developed, to support some forms of effective governance mechanisms that have been successfully used in countries with better institutions. An attempt to improve corporate governance may also take a while until its upshot becomes apparent. To understand the evolution of corporate governance in relation with the presence or absence of different types of investors, a longitudinal data set covering many years of governance data is required. Finally, this study has ignored plausible interaction effects between foreign ownership and other types of ownership structure such as domestic bank ownership, pyramid shareholdings by a family business group, and state ownership. Different types of ownership can influence corporate governance of a company differently and their co-existence may either lower or magnify the quality of corporate governance. These offer possible venues for further research.

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APPENDIX A: Construction of the Corporate Governance Index

In this appendix I describe in details the method used to score answers corresponding to corporate governance questions, and weighting schemes used in creating a composite governance index. A full set of questions is also provided at the end of this appendix.

Scoring Method

Most of the questions have binary (yes/no) answers. For these questions, I use an indicator variable that takes the value of 1 whenever the answer is associated with best practices, and 0 otherwise. The remaining questions have quantitative answers such as the number of independent directors on the board, average director meeting attendance, the number of securities law violations, etc. These answers are transformed into either 0-1 indicators or continuous values in the range of 0 and 1. For the former, I develop thresholds that are chosen in association with best practices in identifying good or poor governance. For instance, companies are assigned value of 1 if the proportion of independent directors in total directors is greater than 1/3, 0 otherwise. As another example, a company gets a score of 0 if the chairman of the board holds director or management positions in more than three (publicly held) companies, because time and productivity constraints can greatly reduce his ability to fully perform monitoring function in the company he chairs the board.⁴⁰

Quantitative questions for which answers are translated into continuous values from 0 and 1 are those generally believed to be positively correlated with the quality of overall governance. For instance, average director meeting attendance is scored as its ratio to the total number of meetings, since higher attendance rate implies higher accountability of the board of directors.

⁴⁰ A list of directors and their positions are available only for publicly held companies from the SET’s Director Database.

Most questions receive a maximum score of 1.⁴¹ There are two items, however, that are considered more important or more directly indicative of corporate governance quality of a company, namely, the records of violations of securities or corporation laws such as insider trading or failure to comply with disclosure regulations. I assign a maximum score of 3 to each of these items. Missing data are replaced by lowest scores in corresponding entries. Since a lack of corporate governance information should be correlated with poor corporate governance, this practice should not lead to large errors.

The full questionnaire and the calculation of scores are described in Table A1 below. Questions marked with * are those available only in year 2004 and excluded from the CGI 2000 calculations.

Weighting Schemes

I construct two versions of an overall Corporate Governance Index by applying two different weighting schemes to the five corporate governance categories; one gives equal weight to all categories, and the other assigns a weight based on the amount of information obtained in each category. For the latter, each category carries a weight as follows: board structure 20%; conflict of interest 25%; board responsibilities 20%; shareholder rights 10%; and disclosure and transparency 25%. This latter version will be used as a primary CGI variable in this paper.

⁴¹ A main question and its sub-questions if any comprise one question for the purpose of scoring.

Table A1: Structure of Corporate Governance Index

Code	Questions	Scoring Rule	Max. Score	Weight
A. BOARD STRUCTURE			6.00	20%
a1	What is the size of the board of directors?	1 if $5 \leq a1 \leq 12$; 0 otherwise	1.00	
a2	What is the size of executive board?	1 if $a2 \leq 12$; 0 otherwise	1.00	
a3	How many directors are also managers?	1 if $a3/a1 < 1/3$; 0 otherwise	1.00	
a4	How many directors are "independent"? ¹	1 if $a4/a1 > 1/3$; 0 otherwise	1.00	
a5	Does the firm state the definition of "independence" in the disclosure report? ¹	1 if $a5 = 1$; 0 otherwise	1.00	
a6	How many directors have attended director training programs by the Thai Institution of Directors Association? ²	1 if $a6/a1 > 1/2$; 0 otherwise	1.00	
B. CONFLICT OF INTEREST			8.00	25%
b1	Is the Chairman the same person as the CEO?	1 if $b1 = 0$; 0 otherwise	1.00	
b2	Is the Chairman "independent"?	1 if $b2 = 1$; 0 otherwise	1.00	
b3	How many public companies does the Chairman concurrently serve as a director or a manager?	1 if $b3 \leq 3$; 0 otherwise	1.00	
b4	Does an audit committee exist?	1/2 if $b4 = 1$; 0 otherwise	0.50	
b5	- chaired by independent director?	1/6 if $b5 = 1$; 0 otherwise	0.17	
b6	- role and responsibilities clearly stated?	1/6 if $b6 = 1$; 0 otherwise	0.17	
b7	- performance or meeting attendance disclosed?	1/6 if $b7 = 1$; 0 otherwise	0.17	
b8	Does a nominating committee exist?	1/2 if $b8 = 1$; 0 otherwise	0.50	
b9	- chaired by independent director?	1/6 if $b9 = 1$; 0 otherwise	0.17	
b10	- role and responsibilities clearly stated?	1/6 if $b10 = 1$; 0 otherwise	0.17	
b11	- performance or meeting attendance disclosed?	1/6 if $b11 = 1$; 0 otherwise	0.17	
b12	Does a remuneration committee exist?	1/2 if $b12 = 1$; 0 otherwise	0.50	
b13	- chaired by independent director?	1/6 if $b13 = 1$; 0 otherwise	0.17	
b14	- role and responsibilities clearly stated?	1/6 if $b14 = 1$; 0 otherwise	0.17	
b15	- performance or meeting attendance disclosed?	1/6 if $b15 = 1$; 0 otherwise	0.17	
b16	Does a corporate governance committee exist?	1/2 if $b16 = 1$; 0 otherwise	0.50	
b17	- chaired by independent director?	1/6 if $b17 = 1$; 0 otherwise	0.17	

b18	- role and responsibilities clearly stated?	1/6 if b18 = 1; 0 otherwise	0.17
b19	- performance or meeting attendance disclosed?	1/6 if b19 = 1; 0 otherwise	0.17
b20*	Does the firm have a policy that specifies a minimum number of independent directors?	1/3 if b20 = 1; 0 otherwise	0.33
	Does the firm discuss the following internal-control issues in the disclosure report?		
b21	1) Organizational and control environment	2/15 if b21 = 1; 0 otherwise	0.13
b22	2) Risk management	2/15 if b22 = 1; 0 otherwise	0.13
b23	3) Management control activities	2/15 if b23 = 1; 0 otherwise	0.13
b24	4) Information and communication	2/15 if b24 = 1; 0 otherwise	0.13
b25	5) Monitoring and evaluation	2/15 if b25 = 1; 0 otherwise	0.13

C. BOARD RESPONSIBILITIES

13.00 20%

c1*	Number of board meetings per year	1 if c1 > 4; 0 otherwise	1.00
c2*	Average director's meeting attendance	c2/c1	1.00
c3*	Average independent director's meeting attendance	c3/c1	1.00
c4*	Is there a board meeting solely for independent directors?	1 if c4 = 1; 0 otherwise	1.00
c5*	Number of audit committee meetings per year	1 if c5 >= 4; 0 otherwise	1.00
c6*	Average audit committee meeting attendance	c6/c5	1.00
c7	Is there at least one accounting expert on the audit committee?	1 if c7 = 1; 0 otherwise	1.00
c8	How many public companies does the chairman of audit committee serve as a director or manager?	1 if c8 <= 3; 0 otherwise	1.00
c9	Does the firm clearly distinguish the role and responsibilities of the board and management?	1/3 if c9 = 1; 0 otherwise	0.33
c10*	Does the firm disclose that directors evaluation system exists?	1/3 if c10 = 1; 0 otherwise	0.33
c11	Does the firm have an option scheme which incentivizes management?	1/3 if c11 = 1; 0 otherwise	0.33
c12	Has there been any legal dispute where the firm was claimed to be at fault during the past year?	1 if c12 = 0; 0 otherwise	1.00
c13	Has there been any sanction to the board, management, or other insider(s) for violations of Securities and/or Corporations laws in the last two years? ³	3*(1-c13)	3.00

D. SHAREHOLDER RIGHTS

8.00 10%

d1*	Does the firm hold an annual general shareholder meeting?	1 if d1 = 1; 0 otherwise	1.00
d2*	Does the firm employ one-share-one-vote rule?	1 if d2 = 1; 0 otherwise	1.00
d3*	Is cumulative voting allowed in electing directors?	1 if d3 = 1; 0 otherwise	1.00
d4*	Is voting by mail allowed?	1 if d4 = 1; 0 otherwise	1.00
d5*	How many days in advance does the firm send out a notice of general meetings to shareholders?	d5/14	1.00
d6*	Is proxy voting allowed?	1 if d6 = 1; 0 otherwise	1.00

d7	Does the firm disclose a dividend policy?	1/3 if d7 = 1; 0 otherwise	0.33
d8	What is the minimum dividend (as percentage of net profit) according to the dividend policy?	1/3 * d8/100	0.33
d9	Does the firm provide an explanation/rationale for setting dividend at the specified level?	1/3 if 1	0.33

E. DISCLOSURE & TRANSPARENCY

17.00 25%

Does the firm disclose the following information in the disclosure report?

e1	1) Board meeting attendance of individual directors	1 if e1 = 1; 0 otherwise	1.00
e2	2) Board compensation and/or benefits of individual directors	1 if e2 = 1; 0 otherwise	1.00
e3	3) Director shareholdings	1 if e3 = 1; 0 otherwise	1.00
e4	4) Management shareholdings	1 if e4 = 1; 0 otherwise	1.00
e5	5) Related party transactions in details ⁴	1 if e5 = 1; 0 otherwise	1.00
e6	6) Corporate group structure	1 if e6 = 1; 0 otherwise	1.00
e7	7) Groupings of major shareholders who belong to the same family/economic unit	1 if e7 = 1; 0 otherwise	1.00
e8*	Does an investor relations unit exist?	1 if e8 = 1; 0 otherwise	1.00
e9*	Does the firm mention its investor relations activity carried out during the past year?	1 if e9 = 1; 0 otherwise	1.00
e10*	Does company website exist?	1 if e10 = 1; 0 otherwise	1.00
	Does company website contain the following information?		
e11*	1) Bio of directors	1/5 if e11 = 1; 0 otherwise	0.20
e12*	2) Business operation	1/5 if e12 = 1; 0 otherwise	0.20
e13*	3) Financial statements	1/5 if e13 = 1; 0 otherwise	0.20
e14*	4) Press release	1/5 if e14 = 1; 0 otherwise	0.20
e15*	5) Shareholding structure	1/5 if e15 = 1; 0 otherwise	0.20
e16*	6) Organization structure	1/5 if e16 = 1; 0 otherwise	0.20
e17*	7) Corporate group structure	1/5 if e17 = 1; 0 otherwise	0.20
e18*	8) Annual Report downloadable	1/5 if e18 = 1; 0 otherwise	0.20
e19*	9) Up-to-date information	1/5 if e19 = 1; 0 otherwise	0.20
e20*	10) English version	1/5 if e20 = 1; 0 otherwise	0.20
e21*	Does the firm publish Annual Report in English language (in addition to Thai language)?	1 if e21 = 1; 0 otherwise	1.00
e22*	Does the firm's Annual Report include a section devoted to corporate governance principles and implementations?	1 if e22 = 1; 0 otherwise	1.00
e23	How many times in the last two years has the firm been charged for failures to publish company reports within the specified period? ⁵	3-e23	3.00

OTHER INFORMATION

- h1 Is the Chairman a controlling family member?
- h2 The Chairman's shareholdings (% of total number of shares)
- h3 Is the CEO a controlling family member?
- h4 The CEO's shareholdings (% of total number of shares)
- h5 Is there a foreign national on the board of directors?
- h6 Does the firm have subsidiaries? ⁶
- h7 Does the firm issue corporate bonds?
- h8* Percentage shares classified as "free float" ⁷
- j1 Is the firm a foreign joint venture?
- j2 Foreign partner's shareholdings (% of total number of shares)
- j3 What is the nationality of the joint-venture partner?

Notes:

* Available only for the year 2004; excluded from CGI 2000 calculations.

1. According to the SET and the SEC, a director is defined as being "independent" if he/she meets the following qualifications:

1) Holding shares not more than 5 per cent of paid-up capital of the company, affiliated company, associated company or related company, which shall be inclusive of the shares held by "related persons". Related persons mean to include persons who have relationship with or are related to the company to the extent that they cannot perform their duties independently or in a flexible manner such as supplier, customer, creditor, debtor or person who has business relation that is material, etc.

2) Being a director who does not take part in the management of the company, affiliated company, associated company, related company or majority shareholder of the company.

3) Not being an employee, staff member or advisor who receives a regular salary from the company, affiliated company, associated company, related company or majority shareholder of the company; for example, the Chief Executive Officer of the company may not be a member of the Audit Committee because he is directly responsible for the management etc. In addition, he/she must have no direct or indirect benefit or interest in finance and management of the company, affiliated company, associated company or majority shareholder of the company.

4) Being a director who has no benefit or interest of the said nature during the period of 1 year before his appointment as a member of the Audit Committee except where the Board of Directors has carefully considered that such previous benefit or interest does not affect the performance of duties and the giving of independent opinions. In addition, he/she must not be a related person or a close relative of any management member or majority shareholder of the company.

5) Being a director whom is not appointed as a representative to safeguard interests of the company's directors, majority shareholders or shareholders who are related to the company's majority shareholders.

6) Being capable of performing duties, giving opinions or reporting the results of performance of work according to the duties delegated by the Board of Directors free and clear of the control of the management or the majority shareholders of the company including related persons or close relatives of the said persons.

2. The SEC and the SET strongly recommend that all directors of listed companies attend at least one directors training course offered by the Thai Institute of Directors Association (Thai IOD) to acquire formal knowledge about their role and responsibilities as well as to develop skills necessary for them to lawfully and effectively perform

their board functions. The Thai IOD's main training courses include the 5 ½ -day Director Certification Program (DCP) and the one-day Director Accreditation Program (DAP). More information can be obtained at the Thai IOD's website: <http://www.thai-iod.com/eng/>

3. To answer this question, I considered law enforcement actions in form of both criminal prosecutions and administrative sanctions by the SEC. A company is given a value of 1 under this question if it appears that during the last two years, director(s), management, or other insider(s) of the company was engaged in an unlawful business regarding takeover procedures, insider trading, dissemination of information, or failed to exercise his/her duties with care and honesty in order to preserve the interest of the company.

4. The SET rules require that if a listed company intends to enter into any transaction with connected persons, the listed company has to comply with the prescribed procedures. For example, if the volume of the connected transaction is not material, the listed company must disclose details of such transaction to the public. But if the volume of the transaction is substantial, the resolution from shareholders meeting must be obtained before entering into such transaction. Information that needs to be disclosed in case of connected transactions includes date when decision is made, relevant parties, explanation regarding the nature of asset or services being transacted, a total value and criteria used in determining the transaction total value, name, titles and shareholding in the listed company of connected persons, opinions of the board of directors concerning the decision to enter the transaction, and opinions of the audit committee that may be different from those of the board of directors, etc.

According to the SET, "connected person" is defined as follows:

(1) the management, major shareholders, controlling persons or persons to be nominated as the management or controlling persons of a listed company or a subsidiary company including related persons and close relatives of such persons.

(2) any juristic person having a major shareholder or a controlling person as the following persons of a listed company or a subsidiary: (a) the management (b) major shareholder (c) controlling person (d) person to be nominated as the management or a controlling person, and (e) related persons and close relatives of persons from (a) to (d).

(3) any person whose behavior can be indicated as an acting person or under a major influence of persons from (1) to (2) when making decision, determining policy, handling management or operation; or other persons the Exchange deems as having the same manner.

5. Failure to file required reports to the SET is considered a criminal violation. Documents required by the Thai public company law to be disclosed by listed company within a specified period are, for example, annual report, audited financial statements, reviewed quarterly reports, and report on the change in beneficial ownership of the company.

6. Under the accounting standards on consolidation of financial statements used in Thailand, the term "subsidiary" is defined as an entity that the parent company holds more than 50% of the total shares of the entity. It should be noted that, companies that are controlled or indirectly held by the parent company are not considered subsidiaries under this definition.

7. The "freefloat" of a listed security is the proportion of shares available for purchase in the market by investors. In principal, it is that part of shares not held by strategic shareholders and not held as treasury stock. The Research Department of the SEC defines strategic shareholders and estimates the free float under a set of guidelines. Strategic shareholders are defined as holders of shares for the purpose of company management or for business strategy. The following shareholders are considered as strategic shareholders:

- 1) Government, state-owned enterprises, and government agencies
- 2) Board members, managers or officials on the top four positions ranking down from the manager, including their related persons
- 3) Shareholders that hold shares in the proportion of more than 5%, with exception to the following groups of shareholders: securities companies, life-insurance
- 4) Companies, insurance companies, mutual funds, and contractual saving funds
- 5) Shareholders who have controlling power of the company
- 6) Shareholders whose shares are subjected to silent period

APPENDIX B: Construction of Ownership Variables

Data on equity ownership for individual firms is obtained mainly from the SET database, which provides a list of all shareholders owning at least 0.5 percent of a listed company. I classify these major shareholders into four main groups: 1) Thai family-business group, 2) Thai non-family-business investors, 3) Thai government, and 4) foreign investors. Each group is further divided into subcategories as illustrated in Table 5.

To determine whether an individual or corporation belongs to a Thai family-business group, I consult a publication titled *Thai Business Groups: A Unique Guide to Who Owns What* (Brooker Group, 2002) which provides comprehensive business and personal profiles of the 150 largest business families in Thailand. Additional information is collected from Department of Business Development, Ministry of Commerce for use in identifying ultimate owners of Thai non-listed corporations that are shareholders of listed companies in the sample.

Following Wiwattanakantang (2000), I describe a company as having a controlling shareholder if the largest shareholder(s) holds more than 25 percent of the firm's shares directly or indirectly.⁴² There were 43 companies in which a single foreign investor held more than 25 percent of the total shares; 36 of those companies were foreign multinational corporations. The family-business-group and the state-enterprise dummies have a value of 1 if a company is controlled by a family and by the Thai government, respectively; 0 otherwise. In 2004, about 47 percent of the sample companies were controlled by family business groups and 7 percent by the Thai Government.

The ownership pattern of Thai non-financial listed companies by type of the largest shareholder is presented in Table B2 below. The evidence is consistent overall with a survey of Thai ownership structure in 1996 by Wiwattanakantang (2000). Thai family business groups held the largest stake in more than 70 percent of the non-financial firms in the Thai stock market before the Asian crisis of 1997. However, this pattern has been changing over time as the family business groups either have given up their control to other types of investors or de-listed their companies from the stock market.

⁴² As noted in Wiwattanakantang (2001), under the Public Limited Companies Act, at or above 25 percent shareholdings, a shareholder has sufficient voting rights to do the following: 1) nullify any corporate decisions, 2) demand to inspect the business operation and the financial condition of the company, as well as the conduct of the board, 3) call an extraordinary general meetings at any time, and 4) submit a notion to the court demanding for the dissolution of a company if s/he believes that further company operations will bring only losses, and that the company has no chance of recovery. Since deviation from one-share-one-vote rule is not allowed in Thailand, voting rights are proportional to the number of shares owned by a shareholder.

Table B1: Summary Statistics of Shareholdings by Type of Shareholders, 2004

Type of Shareholders	Mean Shareholdings (N = 350)	Std. Dev.	Min	Max
Thai family business group	33.9	26.7	0.0	99.0
<i>individuals</i>	18.1	22.0	0.0	93.8
<i>corporations</i>	15.8	22.1	0.0	99.0
Thai Government	5.6	15.7	0.0	94.2
<i>State/State enterprises</i>	4.0	12.8	0.0	94.2
<i>Crown Property Bureau</i>	1.6	8.7	0.0	80.5
Other Thai investors	21.5	20.2	0.0	97.9
<i>individuals</i>	13.3	15.7	0.0	87.8
<i>corporations</i>	5.4	12.5	0.0	97.9
<i>banks</i>	0.6	3.0	0.0	35.8
<i>non-bank financial institutions</i>	2.0	3.5	0.0	25.0
<i>unidentified¹</i>	0.2	0.7	0.0	7.6
Foreign investors	16.1	19.9	0.0	88.4
<i>individuals</i>	1.4	4.4	0.0	40.0
<i>corporations</i>	7.8	16.1	0.0	75.0
<i>banks</i>	2.6	6.4	0.0	72.2
<i>non-bank financial institutions</i>	4.2	8.9	0.0	80.4
<i>government</i>	0.1	1.1	0.0	15.5
Unidentified¹	0.0	0.3	0.0	3.1

Notes: ¹ Shareholdings under this category is unidentifiable because the shares were held under the Thailand Securities Depository Co., Ltd as a nominee for Thai or foreign investors.

Table B2: Identification of the Largest Shareholder, 1996, 2000, and 2004

Type of Shareholder	1996		2000		2004	
	No. of firms	%	No. of firms	%	No. of firms	%
Total	353	100.00	311	100.00	350	100.00
Thai family business group	264	74.79	216	69.45	220	62.86
Thai Government	18	5.10	19	6.11	29	8.29
State/State enterprises	11	3.12	12	3.86	20	5.71
Crown Property Bureaus	7	1.98	7	2.25	9	2.57
Other Thai investors:	31	8.78	23	7.40	46	13.14
<i>individuals</i>	7	1.98	5	1.61	16	4.57
<i>corporations</i>	21	5.95	14	4.50	25	7.14
<i>financial institutions</i>	3	0.85	4	1.29	5	1.43
Foreign investors:	40	11.33	50	16.08	52	14.86
<i>individuals</i>	3	0.85	0	0.00	1	0.29
<i>corporations</i>	31	8.78	36	11.58	42	12.00
<i>financial institutions</i>	6	1.70	14	4.50	9	2.57
Unidentified investors	0	0.00	3	0.96	3	0.86

APPENDIX C: The Three Lists of the Foreign Business Act of 1999.

List 1

The businesses not permitted for aliens to operate due to special reasons:

- (1) Newspaper business, radio broadcasting or television station business
- (2) Rice farming, farming or gardening.
- (3) Animal farming
- (4) Forestry and wood fabrication from natural forest
- (5) Fishery for marine animals in Thai waters and within Thailand specific economic zones.
- (6) Extraction of Thai herbs.
- (7) Trading and auctioning Thai antiques or national historical objects.
- (8) Making or casting Buddha images and monk alms bowls.
- (9) Land trading

List 2

The businesses related to the national safety or security or affecting arts and culture, tradition, folk handicraft or natural resource and environment.

Group 1: The businesses related to the national safety or security

- (1) Production, selling, repairing and maintenance of:
 - (a) Fire arms, ammunition, gun powder, explosives.
 - (b) Accessories of firearms, ammunition, and explosive
 - (c) Armaments, ships, aircrafts or military vehicles.
 - (d) Equipment or components, all categories of war materials.
- (2) Domestic land, waterway or air transportation, including domestic airline business.

Group 2 : The businesses affecting arts and culture, traditional and folk handicraft:

- (1) Trading antiques or art objects being Thai arts and handicraft.
- (2) Production of carved wood.
- (3) Silkworm farming, production of Thai silk yarn, weaving Thai silk or Thai silk pattern printing.
- (4) Production of Thai musical instruments.
- (5) Production of goldware, silverware, nielloware, bronzeware or lacquerware.
- (6) Production of crockery of Thai arts and culture.

Group 3: The businesses affecting natural resources or environment:

- (1) Manufacturing sugar from sugarcane;
- (2) Salt farming, including underground salt;
- (3) Rock salt mining;
- (4) Mining, including rock blasting or crushing;
- (5) Wood fabrication for furniture and utensil production

List 3

The business which Thai national are not yet ready to compete with foreigners:

- (1) Rice milling and flour production from rice and farm produce
- (2) Fishery, specifically marine animal culture.
- (3) Forestry from forestation.
- (4) Production of plywood, veneer board, chipboard or hardboard.

- (5) Production of lime.
- (6) Accounting service business.
- (7) Legal service business.
- (8) Architecture service business.
- (9) Engineering service business.
- (10) Construction, except for:
 - (a) Construction rendering basic services to the public in public utilities or transport requiring special tools, machinery, technology or construction expertise having the foreigners' minimum capital of 500 million Baht or more.
 - (b) Other categories of construction as prescribed by the ministerial regulations.
- (11) Broker or agent business, except:
 - (a) Being broker or agent for underwriting securities or services connected with future trading of commodities of financing instruments or securities.
 - (b) Being broker or agent for trading or procuring goods or services necessary for production or rendering services amongst affiliated enterprises.
 - (c) Being broker or agent for trading, purchasing or distributing or seeking both domestic and foreign markets for selling domestically manufactured or imported goods in the manner of international business operations having the foreigners' minimum capital 100 million Baht or more.
 - (d) Being broker or agent of other category as prescribed by the ministerial regulations.
- (12) Auction, except:
 - (a) Auction in the manner of international bidding not being the auction of antiques, historical artifacts or art objects which are Thai works of arts, handicraft or antiques or having the historical value.
 - (b) Other categories of auction as prescribed by the ministerial regulations.
- (13) Internal trade connected with native products or produce not yet prohibited by law.
- (14) Retailing all categories of goods having the total minimum capital less than 100 million Baht or having the minimum capital of each shop less than 20 million Baht.
- (15) Wholesaling all categories of goods having minimum capital of each shop less than million Bath.
- (16) Advertising business.
- (17) Hotel business, except for hotel management service
- (18) Guided tour.
- (19) Selling food or beverages.
- (20) Plan cultivation and propagation business.
- (21) Other categories of service business except that prescribed in the ministerial regulations

Table 1: Summary Statistics of Overall Corporate Governance Index (CGI) and Subindexes, 2004

Variable	Mean	Std. Dev.	Min	Max	No. of Obs
Overall CGI	53.25	11.19	25.75	90.46	365
Overall CGI 2	52.52	10.86	23.86	86.46	365
<i>Subindexes:</i>					
A: Board Structure	56.49	19.86	16.67	100.00	365
B: Conflict of Interest	38.86	14.57	10.42	100.00	365
C: Board Responsibilities	62.73	13.60	18.46	91.15	365
D: Shareholder Rights	42.96	15.39	0.00	64.94	365
E: Disclosure & Transparency	61.58	17.21	23.53	100.00	365

Notes: Overall CGI = weighted averaged of the subindexes (20%, 25%, 20%, 10%, 25%, respectively)
Overall CGI 2 = weighted averaged of the subindexes (equal weight)

Table 2: CGI by Industry and by Size, 2004

Panel A: CGI by Industry^a					
Industry	Mean	Std. Dev.	Min	Max	No. of Obs
Agro & Food Industry	50.65	9.59	26.06	80.27	41
Consumer Products	46.84	8.73	25.75	62.47	36
Industrials	51.98	10.22	31.79	72.82	43
Property & Construction	55.08	11.24	32.76	86.34	67
Resources	67.84	14.79	37.42	90.46	16
Services	53.17	10.54	33.70	76.09	78
Technology	57.65	11.51	31.47	79.26	41
MAI ^b	54.23	6.98	40.74	69.72	21
Rehab ^c	45.39	9.06	30.35	62.45	19
All	53.28	11.30	25.75	90.46	362

Panel B: CGI by Size^a					
Market Capitalization (in million Baht)	Mean	Std. Dev.	Min	Max	No. of Obs
less than 500 ^d	47.20	8.22	26.06	64.19	81
between 500 and 1,400	51.61	8.87	25.75	76.09	93
between 1,400 and 4,000	53.05	10.73	31.47	80.27	95
greater than 4,000	60.46	12.59	34.68	90.46	93
All	53.28	11.30	25.75	90.46	362

Notes: ^a Shown in this table is the statistics of the CGI with unequal weights. The number of observations slightly drops from the previous table due to companies with missing industry profile in the data set.

^b The "Market for Alternative Investment (MAI)" was established under The Securities Exchange of Thailand Act. Its purpose is to create new fund-raising opportunities for innovative business with high potential growth as well as a greater range of investment alternatives. It officially commenced operations on June 21, 1999.

^c Companies under rehabilitation.

^d A company must have a minimum paid-up capital of 300 million baht to list on the SET, and 20 million baht for the MAI.

Table 3: Board of Directors and Other Characteristics of the Thai Listed Companies, 2004

Firm Attributes	Mean	Std. Dev.	Min	Max	No. of Obs
Size of the board of directors	10.89	2.95	5	25	365
Percentage of directors who are non-executive	65.41	18.19	14.29	100.00	365
Percentage of directors who are independent	33.47	10.38	0.00	73.33	365
Number of public companies served by the Chairman ^a	2.16	1.80	1	10	365
Number of public companies served by the chairman of the audit committee ^a	2.20	1.78	1	10	365
The Chairman's shareholding (%) ^b	6.91	12.85	0.00	74.85	365
The CEO's shareholding (%) ^b	7.62	13.01	0.00	96.61	365
Free float shareholding (%) ^c	38.06	17.05	2.24	100.00	319

Percentage of the sample firms of which:

- Chairman or Vice Chairman is also the CEO	38.03%
- Chairman is a controlling family member	49.72%
- CEO is a controlling family member	48.50%
- nominating committee exists	18.67%
- remuneration committee exists	22.93%
- corporate governance committee exists	3.47%
- capital structure includes corporate bonds	13.87%

Notes: ^a Consider only director or management positions at Thai listed companies concurrently held by the Chairman, the Vice Chairman or the CEO.

^b This includes shareholdings by spouse and children under 20 years old.

^c Free float shareholding is essentially shareholding of minority investors. See the SEC's definition of "free float" at the end of Table A1, footnote 7.

Table 4: Correlation Matrix

	CGI	CG A	CG B	CG C	CG D	CG E	Q1	Q2	Q3	Q4
(CG_A) Board Structure	0.655**									
(CG_B) Conflict of Interest	0.731**	0.337**								
(CG_C) Board Responsibilities	0.673**	0.259**	0.369**							
(CG_D) Shareholder Rights	0.486**	0.176**	0.214**	0.326**						
(CG_E) Disclosure	0.779**	0.269**	0.433**	0.450**	0.355**					
(Q1) Chairman is a controlling family member	-0.272**	-0.146**	-0.423**	-0.098	-0.039	-0.136**				
(Q2) CEO is a controlling family member	-0.119*	-0.016	-0.196*	-0.003	-0.077	-0.098	0.310**			
(Q3) Chairman's shareholding	-0.121*	0.020	-0.271**	0.001	-0.118*	-0.063	0.506**	0.238**		
(Q4) CEO's shareholding	-0.108**	0.028	-0.155**	0.004	-0.154**	-0.124*	0.067	0.505*	0.304**	
(Q5) Freefloat shareholding	0.150**	0.082	0.103	0.087	0.054	0.159**	-0.009	0.074	-0.082	-0.108

Note: * and ** indicate the significance level of the correlation coefficients at 5% and 1%, respectively.

Table 5: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	No. of Obs
CGI 2004 (1 to 100)	53.25	11.19	25.75	90.46	365
Foreign Ownership (%)	17.86	20.37	0.00	94.40	364
Foreign Limits (%)	44.40	16.50	10.00	100.00	364
Log(Market Capitalization)	21.25	1.67	16.56	26.91	365
Log(Age)	3.26	0.66	1.39	4.87	366
Return on Assets (%)	8.42	15.14	-73.67	54.28	362
Sales Growth (% change)	0.31	1.37	-0.92	21.76	319

Table 6: Foreign Ownership and Corporate Governance

Dependent Variable: CGI

	Cross-Sectional Regressions (2004)			Panel Regressions (2000 & 2004)		
	OLS			Pooled OLS	Panel Random	Panel Fixed
	(1)	(2)	(3)	(4)	Effects	Effects
Foreign Ownership	-0.006 (0.025)	-0.073*** (0.025)	-0.076*** (0.028)	-0.105*** (0.020)	-0.109*** (0.020)	-0.166*** (0.061)
Log(Market Capitalization)		3.421*** (0.347)	2.504*** (0.428)	2.310*** (0.285)	2.446*** (0.273)	5.810*** (0.540)
Log(Age)			-1.788* (1.025)	-1.438** (0.722)	-1.375** (0.698)	-
Family-Business-Group Dummy			-2.185* (1.256)	-1.858** (0.794)	-1.983** (0.834)	-
State-Enterprise Dummy			7.162*** (2.871)	-0.515 (1.870)	-0.670 (1.781)	-
Return on Assets			0.087* (0.046)	0.028* (0.016)	0.025 (0.021)	-0.092* (0.048)
Sales Growth			-0.015 (0.202)	-0.010 (0.221)	-0.020 (0.181)	-0.011 (0.090)
Exporter Dummy			-0.797 (1.318)	-1.585* (0.873)	-1.600* (0.884)	-
Constant	53.45*** (0.74)	-18.10 (7.14)	11.54 (10.36)	27.53*** (6.32)	-	-59.52*** (14.63)
Industry Dummies	No	No	Yes	Yes	Yes	Yes
Observations	361	361	312	600	600	600
R ²	0.000	0.243	0.385	0.314	0.343	0.414
F-test on H ₀ : β ₁ = 0	p = 0.827	p = 0.004	p = 0.007	p = 0.000	p = 0.000	p = 0.008

Notes: Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

Table 7: Foreign Ownership and Corporate Governance, IV Regressions

	Cross-Sectional IV (2004)		
	(1)	(2)	(3)
1st Stage: Foreign Ownership Regression			
Foreign limits	0.768*** (0.051)	0.772*** (0.048)	0.739*** (0.059)
Log(Market Capitalization)		2.988*** (0.478)	4.049*** (0.664)
Log(Age)			3.650** (1.488)
Family-Business-Group Dummy			-4.046** (1.927)
State-Enterprise Dummy			-7.589* (3.970)
Return on Assets			0.047 (0.067)
Sales Growth			-0.518 (0.658)
Exporter Dummy			-1.072 (2.037)
Constant	-16.28*** (2.41)	-79.99*** (10.45)	-113.15*** (15.38)
Industry Dummies	No	No	Yes
Observations	360	360	311
R ²	0.389	0.450	0.478
F-test on H ₀ : β ₁ = 0	p = 0.000	p = 0.000	p = 0.000
2nd Stage: CGI Regression			
Foreign Ownership	-0.080* (0.042)	-0.075* (0.039)	-0.139*** (0.051)
Log(Market Capitalization)		3.450*** (0.362)	2.849*** (0.493)
Log(Age)			-1.761* (1.059)
Family-Business-Group Dummy			1.581 (1.329)
State-Enterprise Dummy			5.884* (3.073)
Return on Assets			0.088* (0.046)
Sales Growth			-0.037 (0.209)
Exporting Dummy			-0.729 (1.307)
Constant	54.81*** (1.05)	-18.65** (7.33)	5.51 (10.50)
Industry Dummies	No	No	Yes
Observations	360	360	311
R ²	0.000	0.246	0.377
F-test on H ₀ : β ₁ = 0	p = 0.057	p = 0.056	p = 0.007

Notes: Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

Table 8: Foreign Industrial versus Institutional Investors, 2004

Dependent Variable: CGI 2004

	Number of Incidences	OLS		
		(1)	(2)	(3)
Foreign Industrial Ownership Dummy ^a	80	-3.648*** (1.318)	-4.350*** (1.232)	-4.527*** (1.328)
Foreign Institutional Ownership Dummy ^b	58	6.265*** (1.694)	1.841 (1.554)	2.552* (1.540)
Log(Market Capitalization)			3.094*** (0.336)	2.094*** (0.405)
Log(Age)				-1.813* (0.985)
Family-Business-Group Dummy				-2.253* (1.209)
State-Enterprise Dummy				7.771*** (2.679)
Return on Assets				0.075* (0.044)
Sales Growth				0.052 (0.195)
Exporter Dummy				-0.750 (1.297)
Constant		53.11** (0.701)	-11.76* (6.960)	20.33** (8.692)
Industry Dummies		No	No	Yes
Observations		361	361	312
R ²		0.071	0.263	0.407
F-test on H ₀ : $\beta_1 = \beta_2$		p = 0.000	p = 0.000	p = 0.000

Notes: ^a Foreign Industrial Ownership Dummy assumes a value of 1 if firm is a joint venture with a foreign industrial partner and its foreign partner owns at least 10% of the firm; 0 otherwise.

^b Foreign Institutional Ownership Dummy assumes a value of 1 if firm is not a foreign industrial joint venture and its foreign institutional ownership is at least 10% of the firm; 0 otherwise.

Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

Table 9: Foreign Ownership and Abnormal ReturnsDependent Variable: Abnormal Returns (α)

	OLS			IV	
	(1)	(2)	(3)	(4)	(5)
Corporate Governance Index (CGI)	0.027 (0.020)			0.291** (0.147)	
Foreign Industrial Ownership (%)		-0.049*** (0.016)			-0.030* (0.018)
Foreign Industrial Ownership Dummy			-1.636*** (0.548)		
Foreign Institutional Ownership Dummy			1.744 (1.190)		
Family-Business-Group Dummy	-2.182** (0.971)	-2.799*** (1.041)	-2.529*** (0.904)	-3.033*** (1.078)	-2.415*** (0.846)
State-Enterprise Dummy	-3.191** (1.470)	-4.771*** (1.775)	-4.211*** (1.505)	-6.344** (2.501)	-4.060*** (1.436)
Log(Market Cap)	0.483** (0.210)	0.666*** (0.212)	0.487*** (0.165)	-0.401 (0.426)	0.473** (0.205)
Log(Years Listed)	1.791*** (0.474)	2.000*** (0.500)	1.966*** (0.462)	2.318*** (0.589)	1.916*** (0.445)
Leverage Ratio	0.212 (0.327)	0.212 (0.315)	0.177 (0.200)	0.226 (0.318)	0.192 (0.310)
Intangible Assets/Sales	-3.409 (3.040)	-3.070 (2.686)	-4.525 (3.092)	-4.732* (2.540)	-4.296 (2.723)
Fixed Assets/Sales	-0.770** (0.378)	-0.747* (0.378)	-0.308* (0.170)	-0.068 (0.262)	-0.322* (0.188)
Sales Growth (5yr)	1.454 (0.890)	1.546* (0.902)	1.546* (0.921)	1.675 (1.201)	1.532* (0.389)
EBIT/Sales	2.218** (0.994)	1.803* (0.984)	1.990** (0.944)	1.483 (1.119)	1.871* (1.028)
Share Turnover	0.012** (0.005)	0.009** (0.004)	0.009*** (0.004)	0.009** (0.005)	0.010** (0.005)
Industry Dummies	Yes	Yes	Yes	Yes	Yes
Observations	293	296	303	292	295
R ²	0.283	0.302	0.289	0.116	0.300

Notes: Abnormal return (α) is the constant from the three-factor Fama-French (1993) model (see text for details).

Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

Table 10: Foreign Participation and Components of CGI, 2004

	Dependent Variable:				
	Subindex A Board Structure	Subindex B Conflict of Interest	Subindex C Board Responsibilities	Subindex D Shareholder Rights	Subindex E Disclosure
PANEL A:					
Foreign Industrial Ownership Dummy ^a	-8.501*** (2.717)	-2.538 (1.941)	-5.594*** (1.914)	-3.032 (2.358)	-3.081 (1.936)
Foreign Institutional Ownership Dummy ^b	1.759 (3.295)	1.718 (2.432)	3.223 (2.134)	1.955 (1.941)	3.722* (2.162)
Control Variables and Constant	Yes	Yes	Yes	Yes	Yes
Observations	313	313	313	313	313
R ²	0.176	0.259	0.154	0.147	0.446
F-test on H ₀ : $\beta_1 = \beta_2$	p = 0.006	p = 0.108	p = 0.000	p = 0.048	p = 0.009
PANEL B:					
Foreign Director Dummy ^c	-5.028** (2.324)	0.280 (1.674)	-3.001* (1.687)	-1.382 (1.827)	0.025 (1.827)
Control Variables and Constant	Yes	Yes	Yes	Yes	Yes
Observations	313	313	313	313	313
R ²	0.156	0.252	0.123	0.138	0.433
F-test on H ₀ : $\beta_1 = 0$	p = 0.031	p = 0.876	p = 0.076	p = 0.450	p = 0.989

Notes: ^a Foreign Industrial Ownership Dummy assumes a value of 1 if firm is a joint venture with a foreign industrial partner and its foreign partner owns at least 10% of the firm; 0 otherwise.

^b Foreign Institutional Ownership Dummy assumes a value of 1 if firm is not a foreign industrial joint venture and its foreign institutional ownership is at least 10% of the firm; 0 otherwise.

^c Foreign director dummy is equal to 1 if there exists at least one director of a foreign national on the board of directors; 0 otherwise.

All regressions in this table include industry dummies and other control variables analogous to Table 8 Column 3; results are omitted.

Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

Table 11: Corporate Governance Characteristics of Firms Owned by Foreign Industrial Investors, 2004

	Firms w/ Foreign Industrial Ownership (N = 87)	All Others (N = 288)	Tests of Means
<u>Corporate governance items</u>			
Disclosure of individual directors attendance at board meetings	77%	79%	
Disclosure of individual directors compensation	57%	62%	
Disclosure of individual directors shareholdings	91%	96%	
Disclosure of management shareholdings	89%	93%	
Disclosure of related party transactions in details	62%	64%	
Chairman of the board of directors is a different person from the CEO	62%	61%	
Percentage of directors who are independent	32%	34%	
Percentage of directors who are also managers	33%	35%	
Percentage of directors who have attended directors training programs	18%	42%	***
Average number of board meetings in a year	5.3	6.9	***
Average directors attendance at board meetings	75%	83%	***
Average independent directors attendance at board meetings	83%	88%	*
Average audit committee meeting attendance	92%	95%	
Existence of nominating committee	9%	22%	***
Existence of remuneration committee	17%	25%	
Existence of corporate governance committee	0%	5%	**
State definition of "independence" of directors in the disclosure report	17%	34%	***
Existence of an accounting expert on the audit committee	49%	59%	
Existence of company website	77%	85%	*
Incidence of violation of SEC disclosure rules	2%	9%	
<u>Other information</u>			
Chairman of the board of directors is a controlling-family member	51%	49%	
CEO is a controlling-family member	23%	54%	***
Average Chairman's shareholdings	3%	8%	***
Average CEO's shareholdings	3%	9%	***
Existence of a foreign director	63%	17%	***
Freefloat (minority) shareholdings	31%	40%	***

Note: *, **, *** indicate t-test significant at the 10%, 5%, and 1% level, respectively.

Table 12: Country-Level Corporate Governance Ratings^a, 2004

	Coefficient from regressing CGI on source country ownership ^b	Governance Ranking in Whole Sample ^c	Average Governance Rating	Ethical Practices	Credibility Of Managers	Corporate Boards	Shareholder Value	Social Responsibility	Adaptability	Customer Satisfaction	Bureaucracy	Bribing And Corruption	Rights And Responsibilities Of Shareholders	Financial Institutions Transparency	Insider Trading	Legal Regulation Of Financial Institutions	Investment Protection Schemes
Finland	+ 0.04	1	7.78	7.97	7.85	6.95	7.23	6.78	7.45	7.66	6.09	9.38	8.52	8.25	8.19	8.62	8.03
Denmark	- 3.66	2	7.75	7.81	7.55	6.95	6.90	7.69	7.38	7.57	6.41	9.12	8.48	7.79	8.55	8.52	7.78
Australia	- 0.61	3	7.43	7.92	6.58	7.00	7.21	6.66	7.74	7.68	5.11	8.44	8.49	8.21	7.84	8.00	7.12
Singapore	- 0.05	4	7.41	7.46	7.33	6.93	6.52	6.67	6.90	7.48	5.95	8.54	7.71	7.67	7.95	8.49	8.19
Canada	- 0.24***	5	7.31	7.97	7.23	6.70	7.30	6.90	7.13	8.06	4.89	7.47	7.97	7.56	7.03	8.25	7.85
Sweden	+ 1.23***	9	6.85	7.46	6.00	5.39	6.45	7.10	7.46	7.50	4.85	7.47	7.97	6.90	6.68	7.86	6.77
Hong Kong	- 0.10	10	6.84	6.67	6.94	6.67	6.67	5.65	7.65	7.76	5.45	6.88	6.86	7.41	6.35	7.67	7.10
USA	- 0.18**	13	6.65	6.95	6.35	5.42	6.32	5.83	7.86	7.59	4.51	6.63	7.49	7.23	6.02	7.13	7.77
Norway	+ 0.46***	14	6.63	7.67	6.30	5.85	6.04	7.15	5.85	6.56	4.56	7.48	7.93	7.74	5.40	7.89	6.38
Netherlands	+ 0.01	15	6.61	7.44	6.48	5.90	6.05	6.44	6.41	6.63	3.80	6.76	7.19	6.99	7.24	7.82	7.34
Malaysia	- 0.06	16	6.58	7.10	6.96	6.47	6.53	6.55	6.84	7.63	4.82	4.06	7.31	6.94	6.10	7.64	7.11
Switzerland	+ 0.37	17	6.51	7.19	6.39	5.32	6.10	5.84	5.97	6.58	4.52	7.50	7.47	6.37	6.44	7.68	7.70
Taiwan	+ 0.01	20	6.33	6.72	6.76	6.36	6.13	6.34	8.00	7.66	4.70	4.89	6.70	5.75	5.42	5.91	7.23
Belgium	- 0.09	21	6.32	6.97	6.90	5.93	6.20	6.53	6.13	7.07	2.41	5.29	6.90	6.85	6.97	6.88	7.40
Germany	+ 0.29	24	6.10	7.01	5.69	5.26	5.84	5.78	5.45	5.83	2.10	6.38	7.52	6.59	7.39	7.26	7.24
France	+ 0.36	28	6.06	6.90	6.29	5.36	5.51	6.29	5.22	5.97	2.77	6.17	6.52	6.40	6.84	7.10	7.46
UK	- 0.13*	29	6.03	6.81	5.63	5.88	5.88	5.33	5.88	6.65	2.51	6.83	7.01	6.46	6.79	6.44	6.25
<i>Thailand</i>	n.a.	34	5.69	6.34	6.16	5.69	5.91	5.84	6.40	7.30	3.93	2.99	6.29	5.93	4.11	6.34	6.47
Japan	- 0.24***	38	5.53	6.15	6.31	4.79	5.12	5.92	5.49	8.10	2.87	5.44	4.57	4.44	6.91	5.06	6.31
India	- 0.47***	40	5.41	5.72	6.45	5.66	5.63	5.15	6.29	6.25	2.86	1.75	6.50	6.53	4.69	6.03	6.28
China	- 0.80*	47	4.86	5.17	5.35	5.72	5.17	5.59	4.61	6.57	1.57	1.17	6.04	3.98	3.81	6.07	7.20
Observations	313																
R ²	0.442																

Source: IMD, World Competitiveness Yearbook, 2004.

Notes: ^a These corporate governance ratings were drawn from the “Government Efficiency” and “Business Efficiency” criteria in the IMD, World Competitiveness Yearbook (2004). Higher scores indicate better corporate governance quality.

^b This regression is analogous to Table 8 Column 3 with foreign ownership dummies replaced by individual source countries’ shareholdings (%). Results on control variables are omitted. Robust standard errors in parentheses. *, ** and *** indicate significance at 10%, 5% and 1% level, respectively.

^c There are a total of 60 economies covered in the publication. Included in this table are the 20 largest foreign investors in Thailand in 2004. Country ranked 1 has the best corporate governance; and 60 worst corporate governance.

Table 13: Origins of Foreign Funds and Institutional Transfers

Dependent Variable: CGI 2004

Corporate Governance of the Largest Source Country ^a			Asian vs. Non-Asian Source Country ^b			Law Origin of the Largest Source Country ^{c,d}		
	Number of incidences	OLS		Number of incidences	OLS		Number of incidences	OLS
Good CG Country Dummy	112	-1.022 (1.290)	Asian Dummy	86	-2.594* (1.402)	English-Origin Dummy	107	0.364 (1.346)
Poor CG Country Dummy	34	-6.246*** (1.914)	Non-Asian Dummy	60	-1.818 (1.697)	German-Origin Dummy	30	-5.326*** (1.727)
						French-Origin Dummy	9	-0.071 (2.780)
						Scandinavian-Origin Dummy	3	11.168*** (2.059)
Constant		12.719 (8.173)	Constant		10.393 (8.215)	Constant		19.51* (10.28)
Control Variables		Yes	Control Variables		Yes	Control Variables		Yes
Observations	313		Observations	313		Observations	312	
R ²	0.383		R ²	0.371		R ²	0.397	
F-test on H ₀ : β ₁ = β ₂	p = 0.015		F-test on H ₀ : β ₁ = β ₂	p = 0.701		F-test on H ₀ : β ₁ = β ₂ = β ₃ = β ₄	p = 0.000	

Notes: ^a Good (Poor) CG Country Dummy assumes a value of 1 if the largest source country ranks higher (lower) than Thailand in the corporate governance rating; 0 otherwise. See Table 10 for rankings of the corporate governance of source countries relative to that of Thailand.

^b Asian source countries include China, Hong Kong, India, Japan, Malaysia, Singapore, and Taiwan. Non-Asian countries include Australia, Belgium, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the United States.

^c The law origin dummies have value of 1 if shareholders from countries within the respective law origin collectively own more than 10 percent of the total shares in a sample company; 0 otherwise.

^d In this sample, “English-law-origin” countries include Australia, Canada, Hong Kong, India, Ireland, Israel, Malaysia, Pakistan, Singapore, South Africa, Sri Lanka, United Kingdom, and United States; “French-law-origin” includes Belgium, France, Indonesia, Italy, Jordan, Mexico, the Netherlands, Philippines, Portugal, and Spain; “German-law-origin” includes Austria, Germany, Japan, South Korea, Switzerland, and Taiwan; “Scandinavian-law-origin” includes Denmark, Finland, Norway, and Sweden.

All regressions in this table include industry dummies and other control variables analogous to Table 8 Column 3; results are omitted.

Robust standard errors in parentheses.

*, ** and *** indicate significance at 10%, 5% and 1% level, respectively.