CHAPTER VII

CONCLUSIONS AND LIMITATIONS

This study investigates the association between controlling shareholder characteristics (including *FF* and *FAM* firms) and accounting conservatism. Table 26 presents the summary results of hypothesis testing, the results show that greater ownership in *FAM* member in *FAM* firms is associated with less conservative earnings reports. Such results are consistent with less conservatism as a means of addressing the entrenchment effect arising form those with greater ownership's motivation to opportunistically manage higher earnings and expropriate wealth from minority shareholders. The result suggests that a greater level of *FAM* ownership is associated with less conservative earning reports where *FAM* firms have more incentive and capability to manipulate earnings (less conservative) in order to expropriate value from minority shareholders. In contrast, this study finds that greater ownership by *FF* members in *FF* firms leads to more conservative reporting of earnings. The result suggests that *FF* members are more like to forgo short-term benefits from being less conservative in reporting earnings because of the incentive to pass on their business to future generations and to protect the family's reputation.

This study also investigates CEO attributes in *FF* and *FAM* firms and conservatism, finding that founder CEOs, descendent CEOs and outsiders as CEOs in *FF* firms report more conservative earnings. The results suggest that founder and descendent CEOs in *FF* firms posses special expertise and have the intention of long-term presence. Hired outsiders as CEOs closely work with the Chairman (usually the founder or a descendant) and the board of directors who would like to ensure strategies and policy decisions are followed to achieve goals. In contrast, this study only finds that descendent CEOs in *FAM* firms report less conservative earnings because descendant CEOs limited more talented professional executives from running the firms and descendant CEOs might perform poorly. Therefore, descendant CEOs might manipulate earnings by using less conservative accounting.

Lastly, this study investigates controlling shareholders who are politically connected and accounting conservatism. This study finds that for politically connected *FF* firms, earnings reports become less conservatism. For *FAM* firms, the study shows no relationship between good and bad news timeliness and political connection.

The results are meaningful to various parties such as accounting standard setters, the Thai capital market policy makers, investors and listed companies. The results also indicate the importance of accounting conservatism for corporate governance in the Thai capital market. If the Thai capital market policy makers would like to improve financial reporting and corporate governance, it must recognize the importance of verification and the problems that conservatism's asymmetric verification requirement evolved to address. Asymmetric verifiability speeds up the recognition of losses and provides the board of directors and minority shareholders with a signal to investigate the reasons for those losses. Conservatism provides timely signals for investigating the existence of negative net present value projects and taking appropriate actions if they exist. Conservatism protects the shareholders option to exercise their property rights. Ball et al. (2000) note that timeliness and conservatism together capture much of the commonly concept of financial statements 'transparency'. In addition, conservatism also constrains overpayments to managers and other parties. The accounting standard setters can improve financial reporting more if it concentrates on accounting's core competence: providing verifiable conservative information that market participants can use both as inputs in their own valuation and as calibration for their own and others' unverifiable information.

This study is limited to using the family information provided in the company annual reports. This study excludes close relatives with different surnames because it is a bit more ambiguous and difficult to identify family relationships in Thailand.

Moreover, Faccio (2006) notes that politically connected firms also include companies with close relations to top officials (such as friend of a friend who's a member of parliament, minister, or head of state). Accordingly, close relationships among families are a bit more ambiguous and it is difficult to identify in Thailand because most politicians and controlling shareholder's management know each others. Therefore, this study is only able to focus on firms where at least one of the top directors currently sits in the national parliament, at least one large shareholders is a member of parliament, or has connection with a minister or head of state (including a relative, spouse, a child, a sibling or a parent). In addition, this study might not be able to trace the relationship beyond the surname and the family information provided in the company's annual report.