

CHAPTER V

Conclusions and Areas for Future Research

5.1 Conclusions

This thesis provides new empirical evidence on the effect of a large foreign shareholder in a low investor protection country, Thailand. This study tests whether corporate governance practices are transferable, especially in a low investor protection environment.

This thesis finds that the effect of a large foreign shareholder on shareholder value is not clear, as the only positive result is only with the firm's ROA. Moreover, the relationship between foreign ownership and shareholder value takes a cubic form, decrease in low level, increase in middle level, and decrease in very high level of ownership. This phenomenon imply that a foreign shareholder expropriate wealth at the very high ownership level.

Moreover, the empirical results show that a large foreign shareholder does not import good shareholder protection practices to a local company located in a low protection country. There is a negative impact from the presence of a large foreign shareholder from a high protection country on shareholder value. This result implies that a large foreign shareholder, especially from a high shareholder rights protection country; expropriates wealth from a local company.

This study also finds a negative relationship between firm performances with creditor rights index of a large foreign shareholder. The results seem not to support the argument of La Porta et al. (2000). The literature states that creditor rights protection cannot be transferred to other countries through cross border investments. Corporate assets will remain under the law of the countries where they are located.

Moreover, there is no reason why shareholders will protect the wealth of the creditors. Therefore, this practice may be imported to the local company indirectly by the force of foreign shareholders' creditors. A large foreign shareholder has to sustain his long term relationship with his creditor in home country. When he controls a local company, the managers are forced to fund the project by borrowing money from his creditors in home country. Consequently, the local company is forced by the creditors in home country to protect the rights of them.

With respect to accounting standard of a large foreign investor's country, there is a significant impact on stock liquidity and ROE. This results imply that a large foreign shareholder expropriate wealth from a local company. For example, he force managers to purchase materials from the parent company at very high price and does not disclose this transaction. Therefore, Firm performance will decrease. The local investors are not willing to finance the company.

Furthermore, there is a negative relation between the presence of a large foreign shareholder on the board members and shareholder value – firm value and stock liquidity. The results indicate that a large foreign shareholder expropriate wealth from a local company by involving in the board of directors.

The empirical issues from the corporate governance event in Thailand after financial crisis are investigated. First, the effect of foreign ownership on firm value is not different between pre and post promoted the good corporate governance practices by Thai authorities. This implies that the corporate governance promoted by Thai authorities is not successful. Because the role of foreign investors' influence on corporate governance should be lessen in an environment with good corporate governance – post the corporate governance promotion.

In conclusion from Thai market data, a large foreign shareholder, especially from a good governance country, does not import the good governance practices to a local company. He will expropriate from a local company to maximize his wealth if he can. Therefore, the results of this study do not support the argument of La Porta et al. (2000). Corporate governance practices of firms from a low protection country cannot improve by associating with good governance practices of a high investor protection country.

5.2 Areas for Future Research

This thesis provides a new aspect on the role of foreign investors on firms' governance by investigating the improvement of corporate governance through foreign ownership. While the evidence documented in this thesis is insightful, it remains interesting to empirically analyse several types of investment by foreign investors, e.g., cross-boarder acquisitions and international joint ventures. The event-study approach should yield empirical findings and insights supplementary to this thesis. In addition, this thesis employs a sample consisting of listed Thai firms. Replicating this thesis using a sample of firms from other countries known to have low investor protection should therefore represent an out-of-sample test and fruitful future research.