

## CHAPTER 5

### SUMMARY OF THE STUDY

This thesis looks at corporate governance practices in Thailand during 2001-2002 and the relation between corporate governance index and company stock return. Corporate governance index data from 2001 was correlated with stock return information from 2001 and 2002. This thesis also analyzes how changes in company stock returns are affected by changes in governance practices. The previous chapter presents the operational and empirical analysis in detail, this chapter will summarize the results of this study.

#### **Summary**

After analyzing the current governance practices in Thailand, the corporate governance index of sample companies ranked between 14-20 points. The results of 2001 and 2002 investigations is almost the same as for companies in the sample groups. The governance practices of the sample companies show that most companies do not realize the benefits of corporate governance but perceive it as a measure required by law.

Looking at governance practices in Thailand during 2001-2002, some improvement was noted. Most sample companies follow best practice in the equal treatment of company shareholders and disclosing company financial information. Equitable treatment of shareholders is required and regulated by the SEC and SET in order to protect the rights of minority shareholders and the SEC participates in inspecting management insider trading. Sample companies perform well at disclosing company information. However few companies are willing to disclose information such as individual remuneration of management. Some improvement is necessary. Companies should provide more rights to shareholders such as those involving important changes in the area of remuneration. Shareholders do not have any benchmark for decision making on the appropriateness of directors' remuneration.

Another problem that can be observed from this study is that few companies realize the benefits of management ownership, by having an ESOP program to align management with shareholder interest. In terms of board responsibilities, companies in this study still lack an independent chairman. Boards did not set up any committees to decentralize their power, such as a compensation committee or a nomination committee. Another finding involves board structure. Few

company boards are comprised of over half non-executive directors. The study also finds that most of the sample companies do not have boards with over half independent directors.

The result of the fund manager survey indicates that institutional investors are interested in investing in companies that have dispersed and transparent ownership structure and are willing to pay attention to social and environmental concerns.

This study looked at whether or not corporate governance benefits the Thai capital market. The empirical test in Thailand indicates that corporate governance influences the stock return of a company. This result remains even after controlling for other factors which could affect stock returns. In an elementary investigation, this thesis tests the correlation between corporate governance and stock return of the same year. The study shows no relation between corporate governance index and stock's return. Because of asymmetric information in the capital market, the study then tests previous year information for governance index and current year stock return. Again no correlation was found. Both results may imply that governance has no influence on company stock returns. The study then tests by using governance index and stock return in the changing form in order to double-check for accuracy. The evidence shows a strong positive relationship between these two variables, indicating that positive changes in the level of governance in a company directly affects its stock price in the same way. This implies that companies that improved their governance practices over the year tended to have higher stock prices when compared with the previous year. This study concludes that governance influences company stock returns and investors benefit from corporate governance information when using it to make investment decisions.

In summary, the empirical test in Thailand indicates that corporate governance influences stock return and company value as shown by a positive change in the share price of companies who improved their governance practice over a year. This finding implies that the improvement of governance in Thailand benefits investors and that corporate governance can be used as a criteria in making investment decisions.