THAI INSTITUTE OF DIRECTORS ASSOCIATION

สมาคมส่งเสริมสถาบันกรรมการบริษัทไทย

CORPORATE GOVERNANCE REPORT OF THAI LISTED COMPANIES 2003

THAI INSTITUTE OF DIRECTORS ASSOCIATION

SUPPORTED BY

THE OFFICE OF THE SECURITIES AND EXCHANGE COMMISSION
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Thai Institute of Directors Association (Thai IOD)

Established in December 1999, the Thai IOD is a membership organization that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

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PREFACE

This report, Corporate Governance Report of Thai Listed Companies 2003 is the third report presenting the findings of the Thai Institute of Directors Association (Thai IOD) annual corporate governance baselining study. The first two studies were conducted in 2001 and 2002 and the results were presented in the reports titled Strengthening Corporate Governance Practices in Thailand. The two reports were well accepted and played a key role in boosting awareness of the Thai listed companies on corporate governance during the past two years.

The reports were also recognized by the Thai regulatory agencies as the very first comprehensive reports providing a roadmap for improving corporate governance. The National Corporate Governance Committee chaired by the Prime Minister has also endorsed the survey results and recommend that the Thai IOD expand the scope of the study to cover all companies listed on the SET and announce the company ranking according to their corporate governance performance to recognize good governed companies and urge improvement in poorly rated companies.

The evaluation criteria of this 2003 study was based on the criteria jointly developed by the Thai IOD and McKinsey & Company Thailand in 2001 with some adaptations to improve the objectivity in evaluating companies. The Sasin Graduate Institute of Business Administration of Chulalongkorn University was commissioned to conduct the evaluation and compile the report.

The evaluation made in this report is based solely on publicly available information, and reflects the corporate governance assessment only from the general shareholders perspective not an insightful assessment as conducted by rating agencies. Nevertheless, the report still provides a valuable representation of governance practices among Thai companies, and can be used as a benchmarking tool for Thai firms to improve their corporate governance. Individual company results are not published in this report. However, companies striving to improve governance can contact the Thai IOD for their corporate governance assessment report and recommendations.

The Thai IOD would like to express its sincere gratitude to the Stock Exchange of Thailand and the Office of the Securities and Exchange Commission for their financial support to the project. We would also like to thank Mr. Prasarn Trairatvorakul, former Secretary-General of the SEC, Mr. Kittirat Na Ranong, President of the SET for their guidance and support. Our gratitude also go to Ms. Patareeya Benjapolchai, Executive Vice President of the SET and Mr. Chalee Chantanayingyong, Senior Assistant Secretary General, SEC for their contribution as members of the Steering Committee. Last but not least I would like to give credit to Ms. Pornkanok Wipusanawan, IOD's VP of Research & Policy who has been responsible for producing this report from its beginning.

I hope you will find this report interesting and useful.

Charnchai Charuvastr

President

CONTENT

I. Background and Objectives

On July 2, 1997, Thailand devalued its currency, marking the beginning of a financial crisis that spread throughout the Asia-Pacific region. Although most experts would agree that it is perhaps the worst economic crisis in the recent history of the nation, there are conflicting views surrounding the underlying causes of the crisis. However, there is general agreement that ineffective corporate governance was part of the problem.

Poor corporate governance practices created many problems, including overinvestment and excessive use of financial leverage to name but a few. Much of the excess borrowing went into projects of dubious benefit as well as unneeded and ill-advised diversification efforts. Moreover, much of the overinvestment and diversification activities also came at the expense of minority shareholders, with many companies in effect expropriating wealth from minority shareholders. Further, Thai companies typically relied on bank financing rather than capital market financing to secure funds for growth. To compound the governance difficulties at individual firms, financial institutions themselves were also suffering from poor governance practices in many cases.

Early assessments showed that many Thai firms were relatively deficient in professional management and governance compared to international standards and expectations. Reform efforts since the crisis have centered on improving company practices especially in the areas of accountability, responsibility, equitable treatment of shareholders, and transparency. The board of directors can be the main force for instilling and maintaining good corporate governance practices and must be held accountable for its roles. Therefore, the challenges of the task to improve governance are placed with firms' boards of directors.

To further strengthen corporate governance practices and accountability, the regulators rely on laws and regulations, institutional set-up, and market forces as three critical factors. These three factors blazed the path for reform efforts undertaken in Thailand. However, the implementation of laws, rules, and regulations remains the biggest challenge. On top of adopting international standards, institutions must be strengthened so that standards are properly applied. In addition to enhancing the effectiveness of the legal and regulatory framework, shareholders' rights must be strengthened. Likewise, the accountability of directors and liability of directors in instances of breach of fiduciary duty need to be enhanced as well.

As part of the effort to evaluate the current state of corporate governance in Thailand and set a platform from which to measure, several studies and reports document corporate governance activities of Thai firms. The first comprehensive evaluation of corporate governance was undertaken in 2001 by the Thai Institute of Directors Association and McKinsey & Company (Thailand), in collaboration with the Office of the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET), with partial funding by the World Bank. Using data from firms' annual reports and regulatory filings submitted in 2000, the study was the first attempt to identify the state of corporate governance practices among 133 of the largest Thai firms. The study notes some strengths of Thai firms, pointing to good or improving corporate governance practices already in effect:

- 76% of companies surveyed had a majority of non-executive directors;
- 68% of companies had boards with 25-50% independent directors; and
- 87% of firms allowed sufficient time at shareholders' meetings to allow shareholders to ask questions.

The study also presented examples of best practice in each of the five corporate governance categories which could be observed among Thai companies. Several key areas were also identified as opportunities for improvements, including mechanisms to give minority shareholders easier ways to make their voices heard (through cumulative voting, for example), improved disclosure, transparency, and communication, and greater regard for stakeholder groups including employees.

The second corporate governance baselining study was completed in 2002. Again under the sponsorship of the Thai Institute of Directors Association, in collaboration with the SEC and SET and with World Bank funding, the survey was expanded to cover more than 200 listed Thai firms, representing more than 80% of the total market capitalization of the Stock Exchange of Thailand. The study outlined significant improvements in shareholder rights, disclosure, reductions in conflicts of interest, compliance with new regulatory requirements, and effectiveness of the board. However, further improvements were needed in the areas of disclosure, transparency of ownership, and communication with investors.

The Corporate Governance Baselining study is now in its third year. This latest study is the most comprehensive, covering for the first time all firms listed on the Stock Exchange of Thailand. Moreover, the study period coincides with the Royal Thai government's "Year of Good Governance". In 2002, a National Corporate Governance Committee was established, chaired by the Prime Minister. The committee includes representatives from various ministries, the Bank of Thailand, and regulatory bodies such as the Office of the Securities and Exchange Commission and the Stock Exchange of Thailand. Industry representatives are also included through the participation of representatives from the Thai Chamber of Commerce (TCC), the Federation of Thai Industries (FTI), the Thai Bankers' Association, the Institute of Certified Accountants and Auditors of Thailand, the Listed Companies Association, the Association of Securities Companies, the Association of Investment Management Companies (AIMC), the Thai Investors' Association, and the Thai Institute of Directors Association. Since the onset of the Asian financial crisis, Thai firms and regulators are certainly paying increased attention to corporate governance.

This report presents the results and key findings from the latest assessment of corporate governance practices among more than 300 companies listed on the Stock Exchange of Thailand (SET). The research findings will be used to evaluate the improvement in corporate governance practices of companies analyzed in prior studies made in 2001 and 2002 as well as expand the survey to study all listed companies. The premise of the study is that corporate governance practices of companies in the sample are analyzed based on publicly disclosed information. This year, firms will be benchmarked against the five corporate governance criteria developed by the Organization for Economic Cooperation and Development (OECD) called Principles of Corporate Governance. The evaluation criteria will cover the five main OECD principles: the rights of shareholders, equitable treatment of shareholders, roles of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board. These five OECD criteria will also be mapped to match the fifteen SET corporate governance principles. In the end, the study and its findings will increase awareness and encourage adoption of best practices for corporate governance in Thailand.

The paper is organized as follows. The next section provides a summary of findings. Section III discusses the methodology used in this study. Section IV presents the empirical results of the study, based on 2002 data. Section V reports the results of the time-series and cross-sectional analyses of the data. Section VI presents recommendations to companies on how to improve their corporate governance score. Some recommendations are also directed at regulators who can assist companies in improving their scores.

II. Summary of Findings

The baselining study for this year examines the corporate governance practices at virtually all listed companies in Thailand, as shown by the distribution of companies in the table below. By making the sample size larger than previous years, the study provides Thai company managers, investors, regulators, and the general public with a more complete picture of the state of corporate governance in Thai companies. The focus on governance practices will continue and this study adds useful data to track the state and more importantly the improvement of governance practices in the Kingdom.

Profile of Firms in the 2003 Study

Types of Business	Number of Companies
Agribusiness & Food	42
Building & Property	43
Commerce & Services	70
Financial Services	62
Manufacturing	112
Market for Alternative Investment (MAI)	8
Total Companies	**337**

Using the OECD Principles as a framework for evaluation, the overall results are positive and encouraging. Although this year's study includes smaller and less active firms in the sample compared with the samples used in previous studies, the findings show improvements in many areas indicating that smaller Thai firms are also giving attention to corporate governance. The table below presents composite results for this year's study. The scores shown cover each of the five survey categories as well as the overall score for the entire survey sample. The study results are expressed in percentage terms, with possible scores ranging from zero to 100%.

Survey Category	Maximum Score	Minimum Score	Average Score	Median Score
Rights of Shareholders	100.0%	33.3%	72.4%	73.3%
Equitable Treatment of Shareholders	90.0%	40.0%	69.2%	65.0%
Role of Stakeholders	100.0%	0.0%	43.2%	37.5%
Disclosure and Transparency	82.9%	37.8%	64.7%	64.8%
Board Responsibilities	81.0%	9.5%	44.7%	43.9%
Overall Score	**78.2%**	**40.9%**	**60.0%**	**60.2%**

The high scores show that many firms have effectively implementing good governance practices, making good governance principles part of their everyday business habits. These firms are also clearly and effectively communicating their actions and policies to investors. However, the wide range of scores both within and across the categories shows that the adoption of good governance practices is not as widespread as it could be. There are clearly some areas that require attention from both companies and regulators. The following highlights review the key results from the survey in each category.

First of all, Thai firms are taking steps to ensure shareholders' rights are protected, the first OECD Principle. To highlight just some of the findings, all firms offer ownership rights beyond just voting rights. More than 90% of companies give shareholders opportunities to be actively involved at the annual general meeting by questioning managers and proposing resolutions. In addition, more than three-fourths of firms show little evidence of cross-shareholding. However, less than forty percent of firms give their shareholders a complete profile of prospective directors in the shareholders' meeting notice or show detailed compensation for individual board members.

Concerning the second OECD Principle, Thai firms overall do an admirable job treating all shareholders equally and fairly, which is especially important for minority shareholders and foreign shareholders. The survey results show that all firms offer one share, one vote, which is required by law. There have been no non-compliance cases covering related-party transactions and virtually no instances of insider trading involving company directors or managers during the past two years. Thai firms also do an excellent job facilitating voting by proxy, with almost 100% of survey companies giving shareholders proxy voting forms. However, companies still have room to improve. Very few firms have implemented cumulative voting, one effective way for minority shareholders to influence board composition. Companies often do not provide sufficient advance notice for the general shareholder meetings. Many firms seem to be part of an economic grouping, where the parent company or controlling shareholder controls suppliers, customers, or similar businesses.

The third OECD Principle addresses firms' larger obligations to society. The survey shows that Thai firms perform the weakest in this area. Since stakeholders (such as shareholders, customers, suppliers, creditors, employees, government, and society) are affected by the decisions and policies of a business, firms should recognize, cooperate with, and try to meet their responsibilities to these diverse groups. Few Thai firms seem to be aware of their responsibilities to other stakeholder groups and environmental issues.

The fourth OECD Principle speaks to disclosure and transparency, such as disclosure of all important matters, operating performance, financial performance, ownership, and governance. All disclosures must be accurate, complete, and timely, using communication channels that get the information to shareholders in a convenient and cost-effective way. Thai firms have made great improvements in disclosure and transparency, yet the results were mixed overall. Virtually all firms disclosed management and director shareholdings, yet it can still be difficult to identify the real owners. Annual reports for Thai firms were thorough and largely complete, yet companies are not fully utilizing all available communication channels to get information to investors. The audit processes, including the board audit committee, the internal audit function and the external audits, are now firmly established practices at a significant majority of firms. However, ownership of Thai firms remains highly concentrated, occasionally compounded by cross-shareholdings. Fewer than ten percent of firms disclose the basis for board compensation. Very few firms have adopted accounting principles that fully match internationally recognized standards, preferring to use Thai accounting standards.

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The fifth and final OECD Principle examines the responsibility of the board of directors, calling for board members to be fully informed and to act with diligence and care, mindful of their responsibilities to shareholders and the firm. Overall, firms performed admirably in this section, especially in the role of the audit committee and the audit committee report. Nearly all firms have more than 50% of the board composed of non-executive directors. Independent directors are playing an increasing role on many boards, though more could be invited to join boards. Lastly, though no firms have more than 75% of its directors who have completed a director training course, a large number of company directors have been trained. To date, almost 1,000 people have gone through the Thai IOD's Director Certificate Program (DCP). This speaks well of the increasing level of professionalism of Thai boards, and the results are borne out by the survey.

Most importantly, the empirical analyses also show that companies that have good corporate governance scores tend to have better market performance. The result also holds even after controlling for other factors. This finding erases any doubt that corporate governance is too costly to implement. The implication of this finding is very significant because it means that investors also price good corporate governance into their decisions when they trade shares. All else equal, investors prefer firms that have good corporate governance to those that are not well-governed. In other words, it pays to be a "good" firm.