THAI INSTITUTE OF DIRECTORS ASSOCIATION

สมาคมส่งเสริมสถาบันกรรมการบริษัทไทย

STRENGTHENING CORPORATE GOVERNANCE PRACTICES IN THAILAND 2002

THAI INSTITUTE OF DIRECTORS

In Collaboration with
The Stock Exchange of Thailand
The Office of the Securities and Exchange Commission

Preface

In April 2002, the Thai Institute of Directors (Thai IOD) released the report, Strengthening Corporate Governance Practices in Thailand, which presents the results of its first comprehensive baselining survey on corporate governance practices of selected listed companies in Thailand. The report was well accepted by all parties concerned, and has increased the awareness among Thai companies on the importance of good corporate governance. The IOD therefore, decided to conduct the survey annually to be able to track the improvements of the Thai companies.

This second report, Strengthening Corporate Governance Practices in Thailand 2002, presents the findings of the second survey conducted in 2002. The evaluation used in this second survey is mostly based on the criteria jointly developed by the Thai IOD and McKinsey&Company Thailand, and was used in our first survey. However, some additional criteria were included in the evaluation to better reflect the corporate governance issues addressed in the fifteen SET principles of good corporate governance. The survey findings are also presented in accordance with such principles in order to guide Thai companies to improve their corporate governance practices in compliance with the SET principles.

This 2002 baselining survey, was conducted in collaboration with the Stock Exchange of Thailand and the Office of Securities and Exchange Commission, with financial support from ASEM Grant through the World Bank. The Thai IOD commissioned Dr.Piman Limpaphayom of the Sasin Graduate Institute of Business Administration of Chulalongkorn University and his team to conduct the survey and compile the report.

The institute would like to thank Mr. Prasarn Trairatvorakul, Secretary-General of the Office of the Securities and Exchange Commission and Mr. Kittirat Na Ranong, President of the SET, for their guidance and support. We would also like to thank Ms. Patareeya Benjapolchai, Executive Vice President of the SET and Mr. Chalee Chantanayingyong, Assistant Secretary-General, Securities and Exchange Commission for their contribution on the Steering Committee. Finally, we would like to thank the World Bank providing the funds for this project.

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I. Background and Objectives

In 2001, the Thai Institute of Directors launched the first comprehensive baselining survey on Corporate Governance practices among selected public firms in Thailand. The findings were very valuable and very well accepted by all parties concerned. During the conference to release the baselining research results in May 2002, the major concern of most of the representatives from various organizations, both public and private, was corporate governance and its impact on the economy. The year 2002 is also quite special as the Royal Thai government has established the **National Committee on Corporate Governance**, chaired by the Prime Minister, Thaksin Shinawatra, to oversee the application and the improvement of corporate governance practices throughout the kingdom. The Prime Minister has also named 2002 to be the Year of Good Governance. These actions are results of the belief that, with improved corporate governance practices, Thai companies can be more attractive and more trusted by foreign investors which will, in turn, lead to increased investment in the Thai capital market.

After the first report entitled **"Strengthening Corporate Governance Practices in Thailand"** was released in April 2002, many companies have come to realize the importance of good corporate governance. Overall, the results of the 2001 survey (based on 2000 data) reveal that Thailand has done quite well in many respects. However, there are several areas that require significant improvement because the aggregate ratings of Thai companies are still quite low compared to ratings of firms in neighboring countries. The highlight of the findings from the 2001 survey is that there is a positive relation between corporate governance rating and market valuation, indicating that investors value good governance. Consequently, a number of companies have attempted to improve their corporate governance practices in order to meet the best practice guidelines for good corporate governance established by the Stock Exchange of Thailand (SET). In the end, it is hoped that improved governance will benefit firm market performance and attract additional capital.

In order to keep strengthening and promoting good corporate governance practices, several organizations joined together to evaluate corporate governance practices among Thai companies. The Thai Institute of Directors (Thai IOD), with cooperation from the SET, the Securities and Exchange Commission (SEC), and with technical assistance from the World Bank under the ASEM grant, joined together to conduct the second systematic evaluation of corporate governance practices in Thailand. The aims of the study are to further assess the corporate governance practices of the 133 Thai listed companies analyzed in 2001 and to expand the evaluation to reach approximately

200 listed companies. In the end, it is hoped that the study and its findings will increase awareness and encourage adoption of best practices for corporate governance in Thailand.

This report presents the results and key findings from the latest assessment of corporate governance practices among approximately 200 companies listed on the Stock Exchange of Thailand (SET). The research findings will be used to evaluate the improvement in corporate governance practices of 133 companies analyzed in 2001 and to expand the survey from the 133 listed companies examined in 2001 to approximately 200 listed companies for this current survey. The premise of the study is that corporate governance practices of companies in the sample are analyzed based on publicly disclosed information. Further, firms will be benchmarked against fifteen criteria developed from the SET's best practice guidelines as well as global standards, which are broadly based on Organization for Economic Cooperation and Development (OECD) *Principles of Corporate Governance.* The evaluation criteria will cover the 5 main OECD principles namely, 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 then be mapped to match the fifteen SET corporate governance principles.

The paper is organized as follows. The next section provides a summary of finding. Section 3 discusses the methodology used in this survey. Section 4 presents the empirical results of the survey, based on 2001 data. Section 5 reports the results of the time-series and cross-sectional analyses of the data. Section 6 presents recommendation to companies on how to improve their corporate governance ratings. Some recommendations are also directed at regulators in order to assist companies in improving their ratings.

II. Summary of Findings

In 2001, the Thai Institute of Directors (Thai IOD), in collaboration with McKinsey & Company Thailand, the Stock Exchange of Thailand (SET) and the Office of the Securities and Exchange Commission (SEC), jointly launched an effort to baseline corporate governance practices of the largest listed companies in the Kingdom. The main objective was to encourage the adoption of best practices in governance by systematically evaluating current practices and identifying areas for improvement. The findings of the 2001 survey offer a rich source of information so the Thai IOD decided to conduct the survey on a regular basis.

The 2002 baselining survey focuses on the top 234 companies listed on the Stock Exchange of Thailand (SET). The criteria for inclusion in the sample are average 12-month market capitalization and trading volume calculated by the SET. The evaluation framework is based on the recently published SET Principles of Good Corporate Governance. It is hoped that the findings will provide important input for Thai companies, regulators, and the public in order to identify a plan to improve corporate governance practices in Thailand. Guided by the fifteen governance principles created by the Stock Exchange of Thailand, Thai public companies continue their efforts to improve governance practices.

The overall findings for this year are quite encouraging as Thai companies show significant improvements in several key areas. For example, in the area of shareholder rights, Thai firms have made impressive changes. Shareholders are promised by law to be given equal ownership rights and votes; all surveyed firms complied. Shareholders are also finding it increasingly easier to make their voices heard at annual general meetings, whether through simplified proxy voting or by simply questioning top management present at the annual meeting.

In addition, Thai firms have made significant improvements in the ways they disclose information to investors. More firms are making critical business information (financial statements, operations, director compensation, and risks) easier for investors to examine. Thai firms are using a variety of media (web, print, press announcements, analyst briefings) to disseminate important information quickly and efficiently to the investment community.

When new regulatory or legal requirement have been implemented, Thai firms quickly responded to comply with new regulations. For example, new regulations concerning audit committees have been rapidly adopted. All firms surveyed have audit committees, and many firms now have a separate internal audit function. However, companies have not consistently emphasized on the reporting of such activities as there is a decline in the reporting aspect of the practice.

Another cornerstone of good governance practices concerns conflicts of interest. No Thai firms surveyed had been prosecuted for insider trading or non-compliance cases. A majority of firms were not part of an economic grouping of related companies, which helps protect the rights of shareholders.

However, there are some key areas that deserve more attention both from the companies and regulators. For example, disclosure is a one important theme in governance practices. The survey shows that Thai firms have improved disclosure practices, yet further improvement is possible. Many firms have prepared key statements and documents (such as governance rules, vision statements, statements of ethics or principles, and director's reports) yet do not make their statements available to the general public. Once prepared, firms can easily offer these documents for public review. While some firms are setting the standard, Thai firms must continue to expand their view of corporate social responsibility by being aware of the needs of a wider group of stakeholders such as employees and the environment.

Firms provided adequate disclosure of related-party transactions. However, transparency of ownership structure, while more open than in the past, could be further improved. Many Thai firms still maintain complicated non-transparent ownership structures. For example, many companies still reported Thailand Securities Deposit Company (TSD) as one of major shareholders. An effort on the company's part could significantly benefit investors.

Lastly, good governance is set by the tone at the top because good governance and board practices are intertwined. Though Thai boards are large on average, non-executive directors now make up a majority of the board at a significant majority of listed firms surveyed. The positions of board chairman and CEO are now more likely to be split, another hallmark of good governance. While all surveyed companies now have an audit committee, further progress will see Thai firms create additional board committees to address compensation, nominations, and business policy/strategy. Director certification through the Thai Institute of Directors (Thai IOD) can continue to play an increasingly important role in upgrading the skills and abilities of directors to enhance good governance through the practice of directorship. The trend is quite encouraging as companies increase their support for the program.

This survey also suggests a list of steps that firms can take in order to improve their scores relatively quickly. Most importantly, the empirical results also reveal that there is a positive relation between corporate governance rating and firm value suggesting that improving corporate governance practices can lead to high firm value. To summarize, "it pays to have good governance."