A STUDY OF CORPORATE GOVERNANCE IN THAILAND THROUGH THE LENS OF THE THREE-PILLARED MODEL*

Surasak Chaithanakij**

Abstract

Inspired by Sabel's and Schlicht's theory of the firm, a new three-pillared theory of the firm (3Cs model) has been developed. Underlying it is the concept of the balance of power. The balance of power is the core of corporate governance that appears to have been referred to more by practitioners than scholars. This paper shows that corporate governance can actually find its root in economic governance in which the balance of power has been the dominant principle underlying all stable and prosperous economic systems from the past to present. The economic history of Europe shows this. More recent studies on modern organizational economics have shown two interacting thrusts inside the firm: to achieve the firm's objective and to keep its activities efficient. Both streams of evidences lead this paper to synthesize the balance of power as the core of corporate governance. The balance of power concept, though much mentioned, never has been proposed in the past as a theoretical ground because of the firm' subtlety. This theoretical framework argues that a firm can be understood and conceptualized in several realms. Whereas the legal realm of the firms is commonly used in theoretical analysis, its narrowly characterized nexus-of-contract hinders an understanding of the complexity of the governance realm which can be construed as the balance of power driven by three interacting components, namely Authoritative capability, Control power and Cultural consensus. Since a sizable portion of Thai listed companies are plausibly controlled by majority shareholders and their families, the companies represent the ideal subjects of study through the lens of the 3Cs model. Selected proxies of the three governance components are tested against the performance indices and significant relationships are found. The 3Cs model is proved to be a new effective tool of corporate governance study.

Keywords*:* balance of power; corporate governance; cultural influence; internal audit; Thai public companies

*This paper is based on the author's Ph.D. Dissertation which was completed at Thammasat University with the financial support of the Royal Golden Jubilee Ph.D. Program, Thai Research Fund.

**MBA (U.C. Berkeley), Ph.D. Candidate, Thammasat University. Address for correspondence: Ph.D. Program in Integrated Sciences, Thammasat University, Taprajan, Bangkok, Thailand, 10200. Tel. 66-2-613-2845, Fax No. 66-2-613-2849. E-mail address: *nemcon@loxinfo.co.th*. The author is indebted to his supervisor Dr. Somboon Siriprachai at the Faculty of Economics, Thammasat University, Mr. Chalee Chantanayingyong, Senior Assistant Secretary General, SEC, Bangkok, Thailand and Dr. Piman Limpaphayom at Sasin Graduate Institute of Business Administration, Chulalongkorn University, Bangkok, Thailand for valuable comments on earlier drafts of this paper.

1. Introduction

Past attempts to understand the complexity of corporate governance have not yielded satisfactory results because most effort has been focused on modern organizational economics which is based on the legal notion that the firm is a nexus of contract. Insufficient attention has been paid to the evolutionary perspective of the firm. This paper shows that the mystery of corporate governance reveals its theoretical root when European economic history is scrutinized (Grief, 1994; 1996). European economic history is actually rich in historical economic governance systems that can lend the theoretical ground for corporate governance. This finding is compatible with the studies of modern organizational economics which find that an internal balance of power is indispensable for controlling opportunistic behaviors of parties in firm (Wells, 1998; Rajan and Zingales, 1998). The paper argues that balance of power is also necessary for corporate governance. A recent meta-analysis on theories of the firm indicates two main thrusts in the firm, namely capability and efficiency (Foss, 1999). Meanwhile, socio-economic and other studies support the notion that the corporate culture, which explains varieties of corporate governance systems, is linked to spontaneous order (Hayek, 1973; Ionnides, 2003), trust (Gusiso et al., 2001), social norms (Pistor, 2005), shared-belief (Aoki, 2001, p .10), focal point in game-theory perspective (Kreps, 1990, p. 93; Schelling, 1960) and ethics (Shionoya, 1995 in Zafirovski, 2000, p. 14; Osterloh and Frey, 2004, p. 194). This paper claims that the interaction of three governance components, namely, Authoritative capability, Control power and Cultural consensus, determines the corporate governance.

The recent economic crisis of Thailand has been claimed to be connected to the poor quality of corporate governance and the crony economy (Pomerleano, 1998, p. 2; Alba et al, 1998; Claessens et al., 1999). Ironically, after having been accused of this for almost a decade since the crisis, Thailand (together with all other Eastern Asian countries) still does not have or does not subscribe to the generally accepted theoretical core of corporate governance PT *[see endnotes 1]*. If Thailand and the other East Asian countries – so it is said - had had such forms of corporate governance, this may have protected them from the economic meltdown, no matter how severely their currencies had been attacked.

Like it would be for most governments, the appearance of lacking corporate governance has been considered unflattering to the Thai government. Thus, regardless of having insufficient theoretical support, the Security Exchange of Thailand (SET) and Security Exchange Commission (SEC), which are under governmental control, embarked on the initiative. The practice of corporate governance had been introduced in Thailand in several occasions, well before the economic crisis in 1997. SET and SEC have adopted a key role in this effort and have been able to convince the listed and newly applying companies to follow the guidelines of corporate governance to a certain degree. One of these guidelines strongly proposes the establishment of an internal audit function under the audit committee of the board of director, serving as a countervailing power to keep the managerial owners' power in check. The organizing of the function in practice comes in various forms, providing an opportunity of using their independence as an indicator of the internal balance of power. The data of these arrangements were gathered through a survey of executives and directors whereas types and nationality structures of ownerships were obtained from the SET's website. In this paper, multiple linear regressions are employed to find relationships between corporate governance indicators including the independence of the audit committee and the internal audit function. The rest of the article is organized as follows. The evolution of the corporate governance concept is reviewed in section 2. The three-pillared model (3Cs) and the concept of balance of power, which is believed to be the core of governance, are introduced in section 3. Section 4 focuses on the development of corporate governance and on the characteristics of the family controlled economy in Thailand. Section 5 mainly deals with the issue of the internal audit function. It tries to elaborate how SET urges Thai listed firms to establish this function. Hypotheses are proposed in section 6; research design and data collection in 7. The results of testing are shown and discussed at length in section 8. The conclusion follows in section

2. The Evolution of Concepts

Scarcity brings in property rights (Demsetz, 1967), and the conflict deriving from this in turn stimulates the demand for economic governance (Ostrom and Garner 1993). Thus, ubiquitous conflicts of property right in the firm (Demski, 2003) naturally raise the demand for corporate governance. The conflicts of property right, or so-called conflicts of interest, emerge when actors of firms have different goals and preferences. The asymmetry of information and changing business environments aggravate the problems. Conventional wisdoms have been found to offer limited scope of explanation. Agency theory (Jensen and Meckling, 1976) has addressed one problem of Western capitalism in which the management is separated from the owner. However, most firms in developing countries have different aspects of conflict of interest where the coupling of ownership and management is the rule and majority shareholders are accused of expropriation. La Porta, Lopez-de-Silanes, Shliefer and Vishny (1998) claim that the legal protection of the shareholder is the determinant of the quality of corporate governance. This is rarely agreed to in recent studies. Mitton (2002) and Klapper and Love (2003) argue that legal protection, although it remains an important factor, is hardly the decisive determinant of corporate governance. After a thorough review of the literature, Denis and McConnel (2003) conclude that concentrated ownership may be a necessary structure for most bank-based economies and the expropriation of minority shareholders may be an inevitable problem. Though the contradiction could possibly be explained by the different dominant propensities of family governance (Carney, 2005, p.254), the argument still lacks supporting evidence.

Corporate governance is a much discussed topic. Nevertheless, overshadowed by agency theory, most studies in the past have been narrowed to the relationships between governance mechanisms such as board composition and firm performance whereas the theoretical inadequacy of the agency theory is left unquestioned. Only when a sizable number of empirical studies do not find significant relationships between corporate governance and firm performance worldwide (Denis and McConnel, 2003) is agency theory declared to have reached its boundary and scholars are urged to find a new paradigm for studying corporate governance (Daily, Dalton, and Cannella, 2003). Therefore this study takes an interdisciplinary approach, as suggested by Groenewegen (2004) and others. In this paper, corporate governance is defined as *"the balance of authoritative capability and control power under cultural consensus that shape the bargaining over the resource allocation and quasi-rents generated by the firm"[see end note 2].*

3. The Three-Pillared Framework

Among several mechanisms ensuring corporate governance, the balance-of-power criterion has been talked about frequently (Cadbury, 1992; Deakin and Hughes, 1997; OECD Principle). However, although the criterion has been adopted by practitioners, there has been much less consensus among scholars so far.

The concept of governance, which is much involved with the arrangement of power structures, may be traced back to several historical events (Kaufer, 1996). The Maghribi Traders' Coalition in the 11th century (Greif, 1994) and medieval guild associations in the 12th century (Kaufer, 1996) for example, illustrate how economic governance systems emerged and evolved. In particular Greif's works (1996) explain how informal contract enforcement complemented or even substituted for legal enforcements in support of economic transactions intra and inter organizations. The core concept of economic governance is found to lie in the balance of power among parties. One vivid historic event about the balance of power found in the record was in medieval Europe when Charles VIII of France was asked to interfere in Italy during the late 15th century. Later European nations joined hands to push his force out of the country in an attempt to balance the power in Europe (Ibid). The history of England also illustrates the concept's development. The King of England initially created parliament to accommodate the cooperation of English freemen in exchange for the financial support of his war enterprise (Barzel, 1997). The parliament later became a collective action of English freemen to prevent confiscation by the king. North and Weingast (1989) claim that the evolution of constitutional arrangements in 17th century England allowed the government to commit credibly to upholding civilian property rights. A balance of power between the Crown and Parliament significantly limited publicly supplied private benefits (ibid, p. 818).

Meanwhile the internal balance of power may find its theoretical ground in theories of the firms. Though the need of balancing managerial power was recognized a long time ago (Berle and Means, 1932), it took decades for scholars to see the theoretical development beyond agency theory (Jensen and Meckling, 1976), which is seriously bounded by its epistemological roots in neoclassical economics. The earliest work that provided a theoretical foundation of the internal balance of power in the firm was carried out by Aghion and Tirole (1997) who note that the balance of agent's authority and control with the principal is the key condition of the firm. Rajan and Zingales (1998) subsequently shows that access to control of a firm's resource and allocation of rents also need a balance. The authority of the firm is needed to carry out business strategies under uncertainty (Knight, 1921; Schumpeter, 1951; Penrose, 1959; Cowling and Sugden, 1998; Moron and Ghoshal, 1999; Teece et al., 2000) whereas Control power is essential to restrict the ubiquitous conflicts of interest in the firm (Demski, 2003) inherent to its nature of incomplete contracts (Williamson, 1985, p. 306; Bratton and McCahery, 2001, p.775; Rajan and Zingales, 2000a, p.32). The agency problem (Jensen and Meckling, 1976) is apparently only the tip of the iceberg undermining the functioning of firms. Recent studies have distinguished the capability-related and control-related concepts of the firm (Foss, 1999) and that includes attention to the difference between the vertically integrated and the market-like firm (Kapás, 2005). This paper proceeds under the central conviction that the capability-related and control-related purposes are the key components of the firm and that their interaction is the key to the nature of the firm.

Whereas the common core of the balance of power can be identified, other characteristics of corporate governance have been widely noted to vary across countries. A lot of effort has been made to understand the complementarity of social institutions in each country (Whitley, 1999, Chapter 2; Hall and Soskice, 2001, p. 21; Heinrich, 2002, p.1). *This paper believes that the complementarity of a country's institutions dictates the nature that power is balanced* in much similarity to Sabel's (1997, p. 154) and Schlicht's (1998, p. 217) frameworks. Findings increasingly support the idea that cultural factors, namely social capital (Bourdieu, 1990, p.128; Guiso et al., 2001), social values (Hofstede 1980, p. 65; Schwartz, 1994; Kim, 1994; Heap, 1995; Greif, 1994; 1996), social norms (Pistor, 2005) and shared belief (Aoki, 2001), spontaneous order (Hayek, 1973, p. 36; Ioannides, 2003) and focal point in game-theory perspective (Schelling, 1960, p. 57) significantly underlie the differences. Some of these social factors are overlapped, substituted or complementary to others. They are collectively defined as Cultural consensus. In conclusion, the paper argues that the major components of the firm consist of Authoritative capability, Control power and Cultural consensus and that their balanced interactions are the necessary conditions of corporate governance.

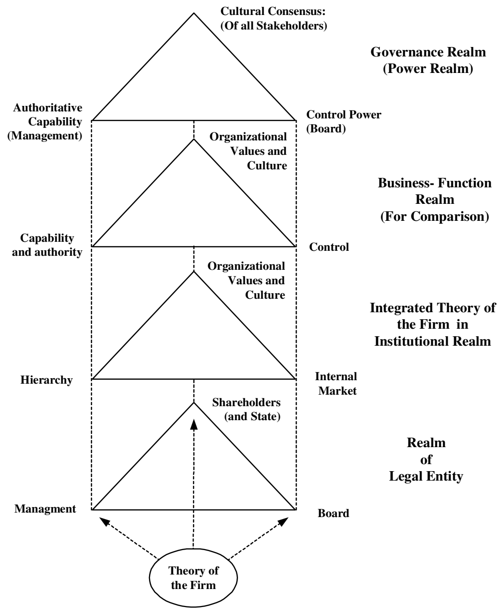

Figure 1. Different Realms of Firm

Note: created by the author to illustrate the different realms of firm and their influence on conceptual frameworks. Four different realms of firm are shown in this figure. While the legal realm is generally recognized, the governance is determined in the power realm of the firm. By looking beyond the most familiar realms of firm namely legal and business-function, the study may focus on the relevant perspective of corporate governance.

Figure 1 illustrates how the governance components are related to generally recognized business functions and legal parties of a firm. Confusion of firm nature has barred us from reaching the core of its governance. Most studies in the past have tried to grasp the understanding from one or another aspect, but have ignored the interaction between the components in other realms. A nexus-of-contract is the result of such an effort under the legal realm of the firm. Only under the realm of power can the governance of firm be clearly understood. A few studies run into category error when trying to understand the corporate governance in inappropriate realms *[see end note 3]*.In order to prove the argument, the paper selects Thai listed companies as the units of analysis. In this regards, the background of corporate governance in Thailand is explored.

4. Evolution of Corporate Governance in Thailand

Like many other companies in South-east and East Asian countries, Thai listed companies have been accused of lacking corporate governance (Pomerleano, 1998; Alba et al., 1998; Claessens, 1999 et al., Morck and Yeung, 1999). However there also are some companies that have corporate governance (Mitton, 2002; Klapper and Love, 2003).With its mixture of different standards of corporate governance, Thailand is rich in data for studying corporate governance. Unlike past studies that have relied on agency theory (Jensen and Meckling, 1976) to explain corporate misgovernance, this paper argues that some listed companies cannot raise their corporate governance standard because of the environmental constraints including political interference and cultural influence.

4.1 Political Environments and Legal Enforcements

The interaction among stakeholders of listed companies is based on, to a certain degree, formal order, known as laws and regulations. However the enforcement of laws and regulation depends very much on the political quality of the country. The interferences between business and the polity in Thailand have been known for quite some time. Studies indicating state capture *[see end notes 4]* in Thailand have recognized that this has been going on for decades (Siamwalla, 1980; Akira, 1989, p .137; Poapongsakorn, 2002, White, 2004). Thus the struggle to improve corporate governance amidst the reactionary pressure from interest groups has proved nearly impossible. The Public Company Act of B.E. 2521 marked the inception of the history of public companies in Thailand. The law was revised and the Public Company B.E. 2535 and Securities and Exchange Act B.E. 2535 *[see end notes 5]* were enacted replacing the former act. The Security Exchange Commission (SEC) has been set up since.

The Securities and Exchange Act B.E. 2535 enables SEC and SET to supervise the operation of security markets as well as listed companies to a certain degree. The SEC and SET actually started their initiatives to introduce the rules and guidelines of good business practice *[see end notes 6]* since the word 'corporate governance' had not been much recognized before. But it was the crisis and subsequent criticism of Thai business practices that made the quick adoption of the guidelines inevitable.

4.2 The Cultural Environment and Business Practices in Thailand

The evolutionary perspective of Thai firms is indispensable for a better understanding of corporate governance in Thailand. Berglof and Thadden (1999) partition all economic systems into five subgroups according to managerial and ownership patterns, which may also be re-categorized into three, namely Managerial capitalism, Alliance capitalism and Personal capitalism (Carney and Gedajlovic, 2001a). According to this classification, Thailand, Malaysia, Indonesia, and the Philippines are dominated by personal and family businesses. In these East Asian countries, ethnic Chinese are demographic minorities, yet account for a disproportionate magnitude of business activities. Thus the relationship-based system, previously known as *quanxi*, was widely adopted by Chinese. The repayment of gratitude is the backbone of personal relationships. This also explains why this value has been embedded in the culture of the Chinese businessmen (Begley and Tan, 2001).

Amidst unclear property rights and state capture as well as a relationship-based culture, keeping majority ownership has been the only viable strategy of holding power in a firm long enough to establish and cultivate the relationship with existing contemporary influential figures, government officers and politicians. Most large Thai listed companies started out as family businesses (Limpaphayom, 2001, p. 241). The coupling of management and ownership is more the rule than the exception in the Thai context. Similar to several East and Southeast Asian firms, most executives of Thai listed firms are majority shareholders or the family's members (Carney and Gedajlovic, 2001b). The relationship-based economy with state-capture condition inevitably leads to the favorable granting of governmental concessions and bid logging for certain business groups and subsequently monopolistic environments are engendered that seclude the firms from competition. With the prevalence of these strong entry barriers, business innovation in Thailand is considered only the second-best strategy and discretely inferior to the rent seeking from concession contract bidding and favorable treatment. In view of its inadequate economic rewards, innovation eventually is neglected. *Besides, it is not hard for businessmen to see that no competitive strength can be compared to the strength of not having to compete***.** The practice has prevailed long enough to create a shared belief, embedded into the local business culture and contributing to inefficient economic systems that are grossly called the "crony economy" (Pomerleano, 1998, p. 2).

5. The Establishment of Internal Audit in Thailand

The roles of independent directors as audit committee and internal audit function *[see end notes 7]* have been recognized for years (Weisbach, 1988; Drucker, 1991, p. 277) and has become more important lately (Spira and Page, 2002). In 2002, The Stock Exchange of Thailand (SET) issued the SET Code of Best Practice for Directors of Listed Companies to serve as the guideline for good corporate governance. Its content, in particular, the requirement for an audit committee is very similar to the Cadbury report (1992) of the United Kingdom. Literally, the function of internal audit serves as an arm of the audit committee to ensure that the company establishes adequate and sufficient internal control systems.

After CalPERS pulled out its investment in 2002 in its disappointment with the lack of corporate governance in Thailand, the Thai government streamlined all efforts to restore the confidence of foreign investors (Fagan, 2003). Encouraging listed companies that are ingrained with certain degree of independence to adopt the internal audit function, a practice generally adopted by most market-based economies such as the U.S. and Britain, is one such effort. However, in Thailand where the coupling of management and ownership is a norm, placing the internal audit function under the audit committee, out of reach of the management and majority shareholders, is inevitably considered a threat to the incumbent power structure. In an effort to diffuse the resistance, the SET provided the guidelines expected, but allowed each firm, for the time being, to design its own organization of the function to suit their needs. Outsourcing of the service is allowed and the independence of the function is subject to the individual firm's decision, though placing the internal audit function under the Audit Committee of the board is recommended. The internal audit function of Thai listed firms is organized practically in many ways and under different levels of hierarchy. Table 1 in the Appendix shows the details. Needless to say, the higher the levels of reporting by the internal audit function, the wider the scope of auditing, and the more countervailing power the audit committee has against the management. The arguments in this and previous sections appear to warrant empirical tests.

6. Theoretical Framework

6.1. Theoretical Framework

Under the three-pillared framework, the governance realm of the firm is influenced by the interacting of three major components, Authoritative capability, Control power and Cultural consensus. The development (*PatentQuan*) and deployment of capability under managerial directing (*%Control*) are the main functions of Authoritative capability whereas the examining, reviewing, and correcting of managerial decisions, under the audit committee's supervision and market monitoring (*Overage, YearExp*, *AC-Training*, *AC-Ed, IAStrength, %Foreign*, *%AAOwning*) are the main functions of Control power. However the interaction between Authoritative capability and Control power are influenced by Cultural consensus. Cultural consensus in family firms in Eastern Asian countries dominated by Chinese ethnic groups (*Sinoblood*) relies on the coupling of ownership and management (*FamilyRole*) and personal relationships (Carney and Gedajlovic, 2001b). Concentrated ownership may be a necessary structure for most bank-based economies and the expropriation of minority shareholders is an inevitable problem (Denis and McConnel, 2003).

6.2. Hypothesis

Proposition: A firm's trend of performance in Thailand depends on the three interacting governance components, Authoritative capability, Control power and Chinese-family-dominated Cultural consensus.

The proposal may be presented in equation as follows:

$f[\Delta\%ROI, \Delta\ \%Yield,\ \Delta\%ROA,\ \Delta\%ROE\ ] = \alpha + \beta_1[\%Control,\ PatenQuan\ ] + \beta_2[Overage,\ YearExp,\ \%Foreign,\ \%AAOwnershi,\ AC\text{-}Training,\ AC\text{-}Ed,\ IAStrength] + \beta_3[Sinoblood,\ FamilyRole] + \beta_4[AveLogCap] + \beta_5[Grouping] + \varepsilon$

All definitions of variables are summarized in Table 2 in the Appendix and the models under testing consist of:

6.2.1. Dependent variables

Δ%ROI, Δ %Yield, Δ%ROA, Δ%ROE are four dependent variables selected for analysis. They are derived from the (increasing or decreasing) trend in firms' selected performance data in the financial year 2002-3. As Thailand has recovered from the financial crisis, much volatility in firms' performances has been witnessed. The trend figures are appropriate under the circumstances than the ratios of market to book value known as Tobin's q which has also been undermined by the illiquidity of SET and alleged inefficiency (Morck and Yeung, 1999). However the *Δ %Yield* is included because the dividend payments by themselves are considered to represent a valid performance index.

6.2.2. Independent variables: independent variables are grouped, arranged and tested according to their categories of Authoritative capability (*%Control, PatentQuan*), Control power (*Overage, YearExp*, *%Foreign*, *%AAOwning, AC-Training*, *AC-Ed, IAStrength*) and Cultural consensus (*Sinoblood*, *FamilyRole*). Whereas *Overage, YearExp*, *AC-Training*, *AC-Ed, IAStrength* are considered internal Control power, *%Foreign* and *%AAOwning* are regarded as external or market Control power. When all models with specific variables concerning audit committee (*Overage, YearExp*, *AC-Training*, *AC-Ed*) are tested, only data relevant to the cases in Table 2 (shown in the Appendix) are included in computation.

6.2.3. Control variable: size of firms (*AveLogCap*) and business network (*BizGroup*) are included in the models as control variables. Both are believed to have some influence on how firms organize their internal structures of control, in particular the quality of audit committee.

6.2.4. All alternative models: from the variables above, all following 112 (4 X 28) alternative models are proposed and tested.

6.2.5. Multicollinearity: Although the interaction between governance elements is an important underlying assumption of the models, multicollinearity, if any, was not considered a serious problem under the circumstances.

However since the exact nature of the interaction remains unknown and needs future study, this study chooses to keep the multicollinearity in check. Any multicollinearity and its impact on the significant level was therefore evaluated and noted. Even so, only a few cases of multicollinearity between independent variables with minimal impact were noted in the tests. Multicollinearity between two control variables (*AveLogtCap, BizGroup*) was, however, found. Only one control variable was kept in each testing as the result.

7. Research design and Data Collection

Two primary data sources, a self-reported questionnaire and the secondary data provided by Stock Exchange of Thailand, were considered for the study. The two types of data were separately collected.

7.1. Self-reported questionnaire

187 firms from the manufacturing and trading sectors were purposely identified to limit the influence of business variations. From the SET's website, equal numbers of executives and independent directors were selected. A draft of the questionnaire was tested with 56 executives and directors of the target segments before the total of

775 questionnaires were distributed to roughly equal number of executives and independent directors in late 2004. 231 were received and 221 were valid accounted for 26.28% of total questionnaires sent and 124 firms. Of the total number of 221 respondents, 128 or 57.9% were CEOs, Managing Directors or other executives, 74 or 33.5% independent directors or member of audit committees and 15 or 15.8% other directors. The independence of the Internal Audit Function was determined by data from self-reported questionnaires since most listed companies do not provide the data in their annual report. The breakdown of samples categorized by business sectors is shown in Table 3 in the Appendix.

7.2. The Stock Exchange of Thailand

Upon receiving the self-reported questionnaires, the names of the companies were identified. Data of dividends, dividend yield, return on assets (ROA), return on equity (ROE) and closing prices during 2001-2003, and nationalities of ownerships in % were downloaded from SetSmart, the information provider for the SET. The % of total control rights were collected from Form 56-1 in SEC's website. The numbers of % control rights of listed companies supposedly include the indirect voting right through cross holding and subsidiaries and the figures in the Form 56-1 have been revealed on a self-disclosure basis and have been accepted in this study. Unfortunately, the data for 2003 was the most recent, sufficiently complete set of information for the study, despite the fact that a field survey was conducted a year later. The time discrepancy is noted but it is believed to pose only a minor problem for our study as four different dependent variables were employed to check out the effects. No significant effect of time discrepancy was recognized in the study. The results of testing appear as follows.

8. Result and Discussion

Descriptive statistics of all samples are shown in Table 4 in the Appendix and descriptive statistics of audit committee are shown in Table 5 in the Appendix.

8.1. Result on the models

12 out of 112 models were found significant. All models with 0.05 statistical significance are summarized in Table 6 and 7 in the Appendix. Though the number of tests with 0.05 significance is quite low compared to the amount of total tests, all of their related characteristics show high conformance with the proposal and its supporting details. The hypothesis is thus confirmed by the tests. In other words the balance of power leads to corporate governance.

8.2. The Result on Dependent Variables

All dependent variables, *Δ%Yield, Δ%ROI, Δ%ROE,* and *Δ%ROA,* were found to have significant relationships. However, each tends to be sensitive only to particular independent variables. The finding supports the notion that each firm has different strategic relationships with environments (Cowling and Sugden, 1998; Moran and Ghoshal, 1999; Rodrigues and Child, 2003; Volberda and Lewin, 2003; Lampel, 2004, p. 234) and so, they may require different governance structures.

8.3. Result of the Test on Independent Variables of Authoritative Capability

The Authoritative capability variables include *%Control* and *PatentQuan.*

In the regression results of five models in Table 6, the fact that there were five negative out of six coefficients and one ($p<.05$) significant coefficient on the variables *%Control* supports the hypothesis that there had been majority shareholders' expropriation, similar to what has been found in previous studies (Mitton, 2002; Klapper and Love, 2003; Dhanadirek and Tang, 2003). The expropriations may be attributed to lack of sufficient countervailing power (Lins, 2003) and subsequent imbalance of power in firm (Rajanand Zingales, 2000 b). In contrast, only two negative and insignificant coefficients on *PatentQuan* were witnessed in other two models shown in Table 7 in the Appendix. *PatentQuan* has not been found to have any positive significant relationship with the performance trend proxies (*Δ%Yield, Δ%ROI, Δ%ROE,* and *Δ%ROA*) supporting previous arguments that Thai business persons tend to emphasize short-term profit (Redding, 1990, p.109; Carney and Gedajlovic, 2001b, p.10) and rely on political connections as the backbone of the crony economy (Pomerleano, 1998). It is worth noting that the findings do not disprove the agency theory which proposes that expropriation of shareholders is the prime motivation. Rather the findings indicate that concentrated ownership may be a necessary corporate strength in relationship-based and state-captured economies.

8.4 Result of the Test on Independent Variables of Control Power

There were two classes of Control Power variables in the analyses: internal and external variables. The internal variables included *Overage, YearExp, AC-Ed*, *AC-Training*, and *IAStrength* whereas the external variables included *%AAowning* and *%Foreign. AC-Ed* and *IAStrength* were the only two internal variables of the Control Power component that were found to have positive and significant coefficients. Variable *AC-Ed* was demonstrated to have positive significant relationships at 0.05 level in four models with relatively high values of coefficient (beta = 2.019, 2.987, 3.026, 3.037). This implies that the level of education of the audit committee plays a crucial role in keeping the power interaction of firm in balance. It should also be noted that *Δ%ROI* and *Δ%ROE* are the only performance variables that were found to have relationships with *AC-Ed*. *IAStrength* is the only other the variable of internal Control Power that proved to have a positive and significant relationship with *Δ%ROA*. The positive high value of the coefficient (beta = 2.088) indicates an important contribution of *IAStrength* in the relationship. In other words, the independence of the audit committee and internal audit function has an influence on a firm's performance and corporate governance. Surprisingly another three variables, namely *Overage, YearExp,* and *AC-Training* were not found to have either positive or negative significant relationships at 0.05 levels with the performance variables. The findings imply that retirement age (*Overage*) (Nikomborirak, 2001), number of years with the company (*YearExp*) (Fagan, 2003, p.330) and general director training program *[see end note 8]* (*AC-Training*) are not as influential as expected. This finding creates the impression that the level of formal education is a highly influential factor of corporate governance whereas training programs contribute much less. This finding raises an interesting issue. This discrepancy or counter-intuitive position in the effect of education exposes the study to an insight. It is neither the knowledge nor analytical skill, supposedly associated with education that counts. Rather it is the impressive appearance of education, in particular the degrees of audit committee members, that really counts. The paper concludes that the majority shareholders of listed companies bring in prominent, highly-educated figures as audit committee members only when the former are ready to improve the corporate governance of the companies and substantiate their genuine intentions with action. In this perspective, the characteristic of audit committee members appear to have only an indirect influence on the corporate governance of Thai listed firms. The study brings in a new insight that the balance of power and subsequent corporate governance in Thailand emerges from the voluntary act of the majority stockholders.

Both variables of external Control Power, *%AAowning* and *%Foreign* were found to have extremely significant positive relationships. The test results indicate that *%AAowning* was extremely significant ($p<.001$) in its effect on the *Δ%Yield* with substantial impact (beta = 5.435, 7.268, 7.307). Since Anglo-American investors shared a sizable portion of total foreign ownership in the firms under study, the *%Foreign* also showed a smaller but still significant relationship ($p < .05$) with moderate impact (beta= 2.579) on *Δ%Yield* in the test result for one model. The observation is consistent with previous studies (Hellman, Jones and Kaufmann, 2002; Gillan and Starks, 2003) that companies in emerging countries are motivated to improve their corporate governance in line with foreign investors, especially Anglo-American, which have higher standards. What should be also noted is the unchanged nature of Anglo-American investors and, to a lesser degree, other foreign investors. The result indicates their tendency to emphasize the short-term investment in firms that have the potential to pay high dividends (Porter, 1992 in Gilson, 2000, p.3; Porter, 1997; Bratton and McCahery, 2002, p.26). That explains why their influence can be distinguished by *Δ%Yield* only. However, their motive may be attributed to the illiquidity of the Thai stock market, which makes abrupt withdrawal from the market to reap capital gains nearly impossible.

The result also yields another insight. There were five tests indicating the effectiveness of internal Control Power and also another four tests with similar success for the external Control Power. The evidence leads this paper to conclude that there are certain possibilities of substitution between inside and outside mechanisms in creating corporate governance, supporting the previous study of Rui et al. (2002).

Whenever the supervisory agencies take any measure to improve corporate governance, there naturally are reactions from majority shareholders; either it is incompatible with local business conditions or too rigid to comply with. Though neither side can find hard evidence to prove their cases, political interference can make enforcement stall. Based on the fact that all positive coefficients of *AC-Ed* and *IAStrength* in all models were found to be significant, the paper has provided new evidence supporting the supervisory agencies' requirement that all listed companies maintain the quality and independence of audit committees and the internal audit function. The fear that the requirement may make Thai listed firms uncompetitive is proved groundless.

Last but not least, an implication from the test result supports the prevalence of complementary effect. Patterns of relationship are observed. From the test results, each of the models found to have a significant relationship tended to be sensitive to particular performance variables. While *Δ%ROI* and *Δ%ROE* were the only performance variables that were found to have relationships with *AC-Ed*, *Δ%ROA* was the only performance variable that proved to have a positive and significant relationship with *IAStrength*, besides the *Δ%Yield* with *%AAowning* and *%Foreign*. This observation suggests that each governance element and structure behaves differently and therefore needs different measuring instruments. The quality and independence of the audit committee and the internal audit function may help the company to prove their determination to improve their corporate governance and to attract short-term foreign investors. However, the real benefit of the audit committee and the internal audit function can be distinguished only by *Δ%ROA* because the governance mechanisms may help bringing in better accounting information quality but are still less successful on restrainting other opportunistic behaviors (Mitton, 2004). The results of the study support calls for the strengthening of corporate governance as well as the flexibility for each listed company to have their own design of corporate governance.

8.5. Result of the Test on Independent Variables of Cultural Consensus

Both variables are selected to represent Chinese cultural influence in Thai listed companies. It should be noted that *Sinoblood* is the self-reported personal information of respondents whereas *FamilyRole* is considered the respondent's opinion about the involvement of the majority shareholder and their families. Both variables show mixed results of these influences on firms' performance. Based on the test result, *Sinoblood* was found to have a negative significant (p<.05)and moderate affect (beta = -2.258) on firms' performance (*Δ%ROI*) in a model supporting previous studies (McVey, 1992; Brown, 1994; Carney and Gedajlovic, 2001b). In contrast, the test results of two models indicated that *FamilyRole* had a positive significant (p<.05) moderate affect (beta = 1.968, 2.186) on firms' performance (*Δ%Yield*). Though the evidence strongly supports the hypothesis of cultural effect on firms' performance, there appear two other implications following these findings. Firstly, *Sinoblood* may not be equivalent to *FamilyRole*. In other words, majority shareholders and their family members' involvement in daily operation of the company should be considered separately from Chinese culture. There are studies around the globe indicating that firms with concentrated ownership have better performance (e.g. in the literature survey of Denis and McConnel, 2003; Claessens et al., 1999; Manjon, 2003). Secondly, given adequate and sufficient balance of power in companies, majority shareholders' involvement in business decisions may do more good than harm to the firms' performance. There are many cultural elements affecting the interaction of power in firms. The evidence tends to support Carney (2005, p. 254) who distinguishes the different dominant propensities of governance in family businesses. To conclude that all practices in association with Chinese culture or family business are unfavorable may be grossly simplistic. In brief, the paper argues that the Chinese culture has projected Thai listed companies as a personal or family property. The culture in general is not compatible with the balance of power, which is the necessary condition for the emergence of corporate governance. However the majority shareholders and their family's daily involvement with the company should not be curtailed as long as it does not jeopardize the balance of power.

8.6. Result of the Test on Control Variables

Both *BizGroup* and *AveLogCap* are the only two control variables put into the analyses and unfortunately found to have significantly multicollinearity with each other (p=.06). Though four out of five models with *BizGroup* were found to have significant relationships, only one significant (p<.05) positive coefficient with moderate affect (beta=2.371) on variable *BizGroup* was found in the analyses. The test result is compatible with previous studies that group-member companies have better performance than stand-alones (Khanna,2000; Khanna and Palepu, 2000) In contrast, five out of seven models with *AveLogCap* that came to attention due to their significant relationships showed negative coefficients on the variable *AveLogCap*. The variable does not, however, show a significant relationship in any models at all. The test result is in conformity with a previous finding that countries with efficient judicial systems have larger firms (Kumar et al., 1999).

8.7. Multicollinearity

Most multicollinearity problems encountered in the analyses were quite limited. Almost all models still showed significant relationships (p<.05) even after removing one collinear variable from the models. There was only one model that lost a significant relationship (p =.05) when one collinear variable was removed. However, it is the interaction among governance components that has been assumed under the theoretical framework of the paper. Therefore, the multicollinearity between independent variables of different components is naturally expected and the validity of the model is accepted.

This paper represents an early attempt to study corporate governance. The multiple regression analyses employed have confirmed the influences of three governance components on firm performances used as proxies for corporate governance. There is a noteworthy caveat. *Limited by its nature as it is, the regression analysis nevertheless proves the influences of the independent variables on dependent variables. This neither explains anything about the balance of power nor the constructive interaction among the parties involved, proposed by the framework. Both conditions have to be further semantically implied from the empirical finding.* The findings of a parallel study *[see end notes 9]* could provide additional explanation of the interaction. Much is still left for further study in the future. There also are a few other minor issues worth noting that pose a concern over the validity. However, the research findings are generally compatible with previous studies strengthening confidence that there are sufficient grounds for sustaining this alternative model of corporate governance over the agency theory model.

9. Conclusion

So many guidelines and comments about corporate governance have been coming out in the last decade but no concept seems capable of providing one framework that may explain the different phenomena of corporate governance in Thailand as well as in other countries. Disappointed with the impasse of conventional approaches, namely agency theory and the legal-protection perspective, this paper represents an unprecedented study of corporate governance under an interdisciplinary approach. The paper starts with the review of the economic history in the belief that corporate governance should not be the first effort of mankind to deal with the conflict of interest among parties involved. The balance-of-power core appears to underlie all concepts of economic as well as social governance in the past and present. Meanwhile, the recent evolution of theories of the firm has revealed similar thoughts.

Overwhelming evidence of cultural effects on firms has been found. Based on the balance-of-power and cultural concepts, the three-pillared model of corporate governance has been developed.

Furthermore, Thai listed firms have been used as case studies. 112 combinations of models under the framework were tested with 12 found to fulfill the request. Though the successful cases were small in proportion to the total, these findings are highly compatible with many previous studies, and more importantly a number of new insights have been found. The test results have collectively demonstrated that each of the governance components and their interactions have strong power in explaining variations of performance. Thai businessmen are found to be influenced by the Chinese culture of perceiving the listed firm as personal and family property. This perception and its consequent practices have been adopted and normalized as the Thai polity and business sector have become intertwined and state-capture has been widely spread and deepened. Under the circumstances, managerial majority ownerships has been paying off and therefore strengthened.

As the result, the balance of power in listed companies has been missing. Though there have been voluntary efforts, initiated by a minority of listed companies, to improve their corporate governance, the expropriations of outside shareholders are an inevitable outcome in the majority of listed firms. The three-pillared framework of corporate governance (3Cs) has been confirmed.

References

1. Aghion, P. and Tirole, J. (1997), "Formal and Real Authority in Organization", *J. of Political Economy* 105:1-29.
2. Akira, S. (1989), *Capital Accumulation in Thailand 1855-1985*. The Centre for East Asian Cultural Studies, Tokyo.
3. Alba, P., Claessens, S., and Djankov, S. (1998), *Thailand's corporate financing and governance structures: impact on firms' competitiveness: Conference on Thailand's Dynamic Recovery and Competitiveness*, 20-21 May 1998, UNCC, Bangkok.
4. Aoki,(2001), *Toward a Comparative Institutional Analysis*, Cambridge, USA: MIT Press.
5. Barzel, Y. (1997), "Parliament as a Wealth-Maximizing Institution: The Right to the Residual and Right to Vote", *International Review of Law and Economics*, 17: 455-74.
6. Begley, T. and Tan, W. (2001), "The Socio-Cultural Environment for Entrepreneurship: A Comparison between East Asian and Anglo-Saxon Countries", *J. of International Business Studies*, 32: 537-54.
7. Berglof, E. and Thadden, E. (1999), *The Changing Corporate Governance Paradigm: Implications for Transitions and Developing Countries*, Conference Paper, Annual World Bank Conference on Development Economics, Washington D.C., http://papers.ssrn.com.
8. Berle, A. and Means, G. (1932), "The Corporate Governance Library: Seminal Book Precis" in R. Tricker (2000) (ed.), *Corporate Governance*, Aldershot, England: Ashgate, pp. 23-26
9. Bourdieu, P. (1990), *The Logic of Practice*, Translated by Richard Nice. Stanford: Stanford University Press.
10. Bratton, W. and McCahery, J. (2001), "Incomplete Contracts Theories of the Firm and Comparative Corporate Governance", *Theoretical Inquiries in Law*, 2: 745-82.
11. Bratton, William W. and McCahery, Joseph A. (2002) "Comparative Corporate Governance and Barriers to Global Cross Reference." In J. A. McCahery, P. Moserland, T. Raajmakers and L. Renneboog (eds.), *Corporate Governance Regimes: Convergence and Diversity*, Oxford: Oxford University Press, pp. 23-55.
12. Cadbury, A. (1992), "The Code of Best Practice" in R.I. Tricker (2000) (ed.), *Corporate Governance*, Aldershot, England: Ashgate, p.279.
13. Carney, M.(2005), "Corporate Governance and Competitive Advantage in Family-Controlled Firms", *Entrepreneurship Theory and Practice* 29: 249-65.
14. Carney, M. and Gedajlovic, E. (2001a), "Corporate Governance and Firm Capabilities: A

Comparison of Managerial, Alliance, and Personal Capitalism", *Asia Pacific J. of Management*, 18: 335-54.
15. Carney, M. and Gedajlovic, E. (2001b), *Organization Path-Dependence and Institutional Environment: The Case of East Asia's Chinese Family Business Groups*, ERIM Report Series research in Management, http://www.erim.eur.nl.
16. Claessens, S., Djankov, S., Fan, J. and Lang, L. (1999), *Expropriation of Minority Shareholders: Evidence from East Asia*, Policy Research Working Paper, the World Bank.
17. Cowling, K. and Sugden, R. (1998), "The Essence of the Modern Corporation: Markets, Strategic Decision-Making and the Theory of the Firm", *The Manchester School* 66: 59-86.
18. Daily, C., Dalton, D. and Cannella, Jr., A. (2003), "Corporate Governance: Decades of Dialogue and Data", *Academy of Management Review*, 28: 371-82.
19. Deakin, S. and Hughes, A. (1997), "Comparative Corporate Governance: An Interdisciplinary Agenda", *J. of Law and Society*, 24:1-9.
20. Demsetz, H. (1967), "Toward a Theory of Property Right", in H. Demsetz (1988) (ed.), *Ownership, Control, and the Firm: The Organization of Economic Activity*, Oxford: Basil Blackwell, pp.104-116.
21. Demski, J. (2003), 'Corporate Conflicts of Interest' *J. of Economic Perspectives* 17: 51-72.
22. Denis, D. and McConnel, J. (2003), "International Corporate Governance", *J. of Financial and Quantitative Analysis* 38: 1-36.
23. Drucker, P. (1991), "Reckoning with the Pension Fund Revolution" in R. I. Tricker (ed) (2000), *Corporate Governance*, Aldershot, England: Ashgate, pp. 269-78.
24. Fagan, J. (2003), "The Role of Securities Regulation in the Development of the Thai Stock Market" *Columbia J. of Asian Law*, 17: 303-53.
25. Foss, N. (1999), "Research in the Strategic Theory of the Firm: 'Isolationism' and 'Integrationism'", *J. of Management Studies* 36.
26. Gillan, S. and Starks, L. (2003), *Corporate Governance, Corporate Ownership, and the Role of Institutional Investors: a Global Perspective*, Weinberg Center for Corporate Governance Working Paper No. 2003-01, http://papers.ssrn.com.
27. Gilson, R. (2000), *Globalizing Corporate Governance: Convergence of Form or Function,* Columbia Law School Working Paper No. 174 and Stanford Law School Working Paper No.
28. Greif,(1994), "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies", *J. of Political Economy*, 102: 912-50.
29. Greif, A. (1996), *Contracting, Enforcement, and Efficiency: Economics beyond the Law*, Annual World Bank Conference on Development Economics.
30. Grandori, A. (2004), "Reframing Corporate governance:Behavioral Assumptions, Governance Mechanisms, Institutional Dynamics", in A. Grandori (ed.), *Corporate Governance and Firm Organization: Microfoundations and Structural Firms*, Oxford: Oxford University Press.
31. Groenewegen, (2004), "Who Should Control the Firm?:Insights from New & Original Institutional Economics", *J. of Economic Issues* 38: 353-61
32. Gugler, K. (2001), "Conclusion and Policy Implications" in K. Gugler (ed.) *Corporate Governance and Economic Performance*, New York: Oxford University Press, pp. 201-15
33. Guiso, L., Sapienza, P., and Zingales, L. (2001), *The Role of Social Capital in Financial Development*, Working Paper,
34. Hall, P. and Soskice, D. (2001), "An Introduction to Varieties of Capitalism" in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, New York: Oxford University Press.
35. Hayek, F. (1973), *Laws, Legislation, and Liberty, Volume 1: Rules and Order*, London: Routledge & Kegan Paul.
36. Heap, S. H. (1995), "Rational Action and Institutional Change." In J. Groenewegen C. Pitelis and S. Sjostrand. (eds.), *On Economic Institutions: Theory and Applications*, Hants, England: Edward Elagar, pp. 45-62.
37. Heinrich, R. P. (2002), *Complementarities in Corporate Governance*, Heidenberg: Springer-Verlag.
38. Hellman, J., Jones, G. and Kaufmann, G. (2000), *"Seize the State, Seize the Day": Sate Capture, Corruption, and Influence in Transition*. Policy Research Working Paper 2444, the World Bank Institute Governance, Regulation and Finance, and European Bank of Reconstruction and Development.
39. Hellman,J., Jones, G. and Kaufmann, D. (2002), *Far From Home: Do Foreign Investor Import Higher standards of Governance in Transition Economies?*, World Bank Working Paper.
40. Hofstede, G. (1980), *Culture's Consequences: International Differences in Work-Related Values*, Abridged Edition, London: Sage Publications.
41. Hofstede, Geert, Van Deusen, Cheryn A., Mueller, Carolyn B. and Charles, Thomas A. (2002) "What Goals Do Business Leaders Pursue? A Study in Fifteen Countries", *J. of International Business Studies* 33: 785.
42. Holmstrom, B. and Kaplan, S. (2003), *The State of U.S. Corporate governance: What's Right and What's wrong?* ECGI – Finance Working Paper No. 23/2003.
43. Institute of Internal Auditors (IIA.) (1994) *The IIA's perspective on outsourcing internal auditing: A professional briefing for chief audit executives*, Professional Issues Pamphlet 94-1, Altamonte Springs, FL: IIA.
44. Ioannides, S. (2003), 'Order and Organizations: Hayekian Insights for a Theory of Economic Organization', *American J. of Economics and Sociology*, 62: 533-66.
45. Jensen, M. and Meckling, W. (1976), "Theory of Firm: Managerial Behavior, Agency Costs, and Ownership Structure" in M. Jensen (2000) (ed.) *A Theory of the Firm: Governance, Residual*

Claims, and Organizational Forms, Cambridge, USA: Harvard University Press, pp.83-153.
46. Kapás, J. (2005), "Towards an Understanding of the Variety of Firms", *Acta Oeconomica* 55.
47. Kaufer, E. (1996), "The Evolution of Governance Structures: Entrepreneurs and Corporations", *J. of Institutional and Theoretical Economics*.
48. Kim, U. (1994), "Individualism and Collectivism: Conceptual Clarification and Elaboration", in U. Kim, H. Triandis, C. Kagitbibasi, S. Choi and G. Yoon (eds.), *Individualism and Collectivism: Theory, Method and Applications*, Thousands Oaks, USA: Sage Publications, pp.19-40.
49. Klapper, L. and Love, I. (2003), "Corporate Governance, Investor Protection, and Performance in Emerging Markets", *J. of Corporate Finance* 195: 1-26.
50. Knight, F. (1921), *Risk, Uncertainty and Profit*, Houghton Mifflin Co.; reprinted Chicago and London: University of Chicago Press, 1971.
51. Kumar, K., Rajan, R., and Zingales, L. (1999), *What Determines Firm Size?* NBER Working Paper No. 7208.
52. La Porta, R., Lopez-de-Silanes, F., Scheifer, A. and Vishny, R. (LLS&V) (1998), "Law and Finance", *J. of Political Economy*, 106: 1113-55.
53. Lampel, J. (2004), "The Benefit of Doubt: Shadow Norms and Governance in Trust-based Organizations", in A. Grandori (ed.), *Corporate Governance and Firm Organization: Microfoundations and Structural Firms*, Oxford: Oxford University Press, pp. 232-45.
54. Limpaphayom, P. (2001),"Thailand" in J. Zhuang, D. Edwards and V. Capulong (eds.) *Corporate Governance and Finance in East Asia*, Manila: Asia Development Bank, pp. 229-77.
55. Manjon, M. (2003), *The Trade-Off between Risk and Control in Corporate Ownership*, Discussion Paper, Tilburg University.
56. McVey, R. (1992), "The Materialization of The Southeast Asian Entrepreneur", in R.McVey(ed.), *Southeast Asian Capitalism*, New York: Cornell University Southeast Asia Program, pp.7-34.
57. Mitton, T. (2002), "A Cross-Firm Analysis of the Impact of Corporate Governance on the East Asian Financial Crisis", *J. of Financial Economics,* 64: 215-41.
58. Mitton, T. (2004), *Corporate Governance and Dividend Policy in Emerging Markets*, Working Paper, http://papers.ssrn.com.
59. Moran, and Ghoshal,(1999), "Markets, Firms, and the Process of Economic Development", *Academy of Management Review*, 24: 390-412.
60. Morck, R. and Yeung, B. (1999), *The Information Content of Stock Markets: Why Do Emerging Markets Have Synchronous Stock Price Movements?* Harvard Institute of Economics Research Paper No. 1879; William Davidson Institute Working Paper No. 44, http://papers.ssrn.com.
61. North, D. C. and Weingast, B. R. (1989), "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England" *The J. of Economic History*, XLIX (December): 803-32.
62. Organization for Economic Co-operation and Development (1998) *OECD Principles of Corporate Governance.*
63. Osterloh, M. and Frey, B. (2004), "Corporate Governance for Crooks? The Case for Corporate Virtue" in A. Grandori (ed.), *Corporate Governance and Firm Organization: Microfoundations and Structural Firms*, Oxford: Oxford University Press, pp. 191-211.
64. Ostrom, E. and Garner, R. (1993), "Coping with Asymmetries in the Commons: Self-Governing Irrigation systems Can work", *J. of Economic Perspectives* 7: 93-112.
65. Penrose, E. (1959), *The Theory of The Growth of The Firm,* New York: Oxford University Press.
66. Pickett, S. (1997), *The Internal Auditing Handbook*, Chichester, England: Wiley.
67. Pistor, K. (2005), *Legal Ground Rules in Coordinated and Liberal Market Economies*, ECGI Working Paper Series in Law No. 30/2005, March 2005.
68. Poapongsakorn, N. (2002), "The New Competition Law in Thailand: Lessons for Institution Building" *Review of Industrial Organization,* 21: 185-204.
69. Pomerleano, M. (1998), *The East Asia crisis and corporate finance: the untold story*, World Bank Working Paper.
70. Porter, M. E. (1992), "Capital Disadvantage: America's Failing Investment System", *Harvard Business Review* 70 (September-October).
71. Porter, M. E. (1997), "Capital Choices: Changing the way America Invests in Industry" in D. Chew (ed.) *Studies in International Corporate Finance and Governance Systems,* New York: Oxford University Press, pp. 46-56.
72. Rajan, G. and Zingales, L. (1998), "Power in Theory of the Firm", *Quarterly J. of Economics*, CXIII: 387-432.
73. Rajan, G. and Zingales, L. (2000a), "The Governance of the New Enterprise" in Xavier Vives (ed.) *Corporate Governance: Theoretical and Empirical Perspectives*, New York: Cambridge University Press, pp. 201-32.
74. Rajan, and Zingales, L. (2000b), "The Tyranny of Inequality"*, J. of Public Economics* 76
75. Rodrigues, S. and Child, J. (2003), "Co-evolution in an Institutionalized Environment", *J. of Management Studies* 40.
76. Sabel, C. (1997) "Constitutional Orders: Trust Building and Response to Change", in J. Hollingworth and R. Boyer (1997), (eds.), *Contemporary Capitalism*, New York: Cambridge University Press, pp.154 -88.
77. Sawyer, L. and Dittenhofer, M. (1996), *Sawyer's Internal Auditing*, Altamonte, Florida: The Institute of Internal Auditors.
78. Schelling, T. (1960), *Strategies of Conflict* London: Oxford University Press.
79. Schlicht, E. (1998), *On the Custom in the Economy*, New York: Oxford Clarendon Press.
80. Schumpeter, J. (1951), *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*, Cambridge, MA: Harvard University Press.

81. Schwartz, S. (1994), "BeyondIndividualism / Collectivism: New Cultural Dimension of Values" in U. Kim, H. Triandis, C. Kagitcibasi, S. Choi, G. Yoon (eds.), *Individualism/Collectivism: Theory, Method, and Applications*, Thousands Oaks, USA: Sage Publications, pp. 85-122.
82. Shionoya, Y. (1995), 'The Ethics of Competition', *European J. of Law and Economics* 2: 5-19.
83. Siamwalla, A. (1980), *An Economic Theory of Patron-Client Relationships: With Some Examples form Thailand*, Thai-European Seminar on Social Change in Contemporary Thailand, University of Amsterdam Anthropological-Sociological Centre, 28-30 May, 1980.
84. Spira, L. and Page, M. (2002), "Risk Management: The Reinvention of Internal Control and the Changing Role of Internal audit", *Accounting, Auditing and Accountability J.* 16.
85. Teece, D. J., Pisano, G. and Shuen, A. (2000), "Dynamic Capabilities and Strategic Management." In G. Dosi, R.R. Nelson and S. Winter (eds.) *The Nature and Dynamics of Organizational Capabilities*, Oxford: Oxford University Press, pp. 334-62.
86. Volberda, H. and Lewin, A. (2003), "Co-evolutionary Dynamics Within and Between Firms: From Evolution to Co-evolution", *J. of Management Studies* 40: 2111-36.
87. Weisbach, M. (1988), "Outside Directors and CEO Turnover", *J. of Financial Economics* 20.
88. Wells, R. (1998), *Information, Authority and Internal Governance of the Firm*, MIT Dept. of Economics Working Paper No. 98-3, http://papers.ssrn.com.
89. White, S. (2004), "Stakeholders, Structure and the Failure of Corporate Governance Reform Initiatives in Post-Crisis Thailand", *Asia Pacific J. of Management*, 21: 103-22.
90. Whitley, R. (1999), *Divergent Capitalisms: The Social Structure and Change of Business Systems*, Oxford: Oxford University Press.
91. Williamson,(1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York: The Free Press.
92. Zafirovski, M. (2000), "Economic and Sociological Approaches to Institutions: Economy, Society and Law", *European J. of Law and Economics*, 10: 7-30.
93. Zingales, L. (1998), "Corporate Governance" in P. Newman (ed.), *The New Palgrave Dictionary of Economics and the Law*, London: Macimillan.

Endnotes:

1. OECD principles of Corporate Governance have been generally regarded as an Operation Framework and subsequently neglected in most theoretical discussions. All world corporate governance models bear certain weaknesses (Grandori, 2004, p. 17-8)
2. Adapted form Zingales (1998)
3. e.g. Montgomery, C. and R. Kaufman (2003), 'The Board's Missing Link' *Harvard Business Review*, 81: 86. The authors claim that the interaction of three legal parties, namely management, board of directors and shareholders, is the key to corporate governance. Though this argument can explain the governance of U.S. firms, this hardly meets the firm's requirements in the rest of world, where they are dominated by managerial ownership.
4. State or government agencies are under control of certain interest groups. See J. Hellman, S. Jones and G. Kaufman (2000), "Seize the State, Seize the Day": Sate Capture, Corruption, and Influence in Transition. Also see Cypher and Dietz, 2004, p. 213.
5. http://www.sec.or.th/en/enforce/regulate/legalact_e.shtml.
6. At the time, those rule and guidelines of practices had been not been combined and were scattered in different places. See http://capital.sec.or.th/webapp//nrs/data/3458p.doc.
   See also http://www.set.or.th/en/rules/corporate/files/ror.26_00.pdf.
7. The function has been defined as *an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization, including those in management and on the board, in the effective discharge of their responsibilities* (IIA, 1994, p. 5; Sawyer and Dittenhofer, 1996, p. 21). It is however not the purpose of this paper to prove the legitimacy of the internal audit function. Interested persons may find its legitimacy in Sawyer and Dittenhofer (1996) and Pickett (1997) and the lately changed role in Spira and Page (2002).
8. The first and general training programs for new corporate directors.
9. My dissertation employing factor analysis as well as multiple regression analysis.

Appendices

Table 1: Assigned Value of Internal Audit Independence

This table presents the assigned value of a dummy variable namely *IAStrength*, which representing the degree of independence of audit committee and related internal audit function. The value of variable is assigned to increase in correlation with the independent level, which consists of 6 levels. The highest level of independence is observed when the head of internal audit function directly reports to the audit committee, which consists of independent directors. A dual-reporting system that allows interference from any other than non-audit committee is considered the second best level, and the value is assigned lower accordingly (at 5). A dual-reporting system that allows interference from executive is considered inferior to the second best alternative, and therefore is assigned further lower (at 4).The rest of value assigning process just follows suit.

The Independence of Internal Audit Function	*Assigned Values*
Internal auditors report to audit committee that consists of independent directors	6
Internal auditors report to audit committee that consists of independent directors and Chairman who is not independent director but does not hold management position	5
Internal auditors report to audit committee that consists of independent directors and CEO/MD/executive director	4
Internal auditors report to Chairman or director who neither is independent director nor holds management position	3
Internal auditors report to CEO/MD/executive director	2
No function in the past 6 months	1

Table 2: Summary of variable definition

Variable name	*Definition*
Δ%Yield	The dividend yield of 2002 subtracted by dividend yield of 2003*
Δ%ROI	The rate of return on investment for the period of 2001-2 subtracted by and The rate of return on investment for the period 2002-3 (the rate of return includes capital gain on share price plus dividend based on year-end share price)
Δ%ROA	The rate of return on total assets of 2002 subtracted by the rate of return on asset of 2003*.
Δ%ROE	The rate of return on net equity of 2002 subtracted by the rate of return on net equity of 2003*.
Overage	A dummy variable that's equals two when audit committee is 61 year old or older, and equals one otherwise.
PatentQuan	The number of patents registered in last two years that are reported.
%Control	% of the voting rights directly and indirectly held through single group companies and family members**
FamilyRole	A dummy variable representing the level of major stockholder and family members' involvement in daily operation that equals one if it is reported no involvement, two if it is reported some involvement, equals three when it is reported moderate involvement and equals four when it is reported much involvement.
AC-Training	A dummy variable of self-reporting that equals one when audit committee has not attended any director training program, equals two when having attended a brief program, and equals three when having attended a complete program.
Sinoblood	That equals one when reporting of no Chinese blood, two when having 1-24%, two when having 25-49%, three when having 50-74%, four when having 75-99% and five when having 100%
YearExp	The number of years that audit committee has reported to hold position in this company.
AC-Ed	A dummy variable that equals one when the audit committee has finished lower education than bachelor's, equals two when having finished bachelor's, equals three when having finished master's and equals four when having finished doctoral degree.
IAStrength	A dummy variable representing independence of internal audit functions: represented by assigned values shown in Table 1, in line with self-reported information.
AveLogtCap	The averaged log value of market capitalization at the end of 2002-3*
BizGroup	A dummy variable that equals one when the company is a subsidiary or an affiliation of a business group and equals zero otherwise**
α	The constant coefficient
$\beta_1 \ldots \beta_8$	The variable coefficients
ε	The error term

* Data from SetSmart.com, ** Data from SetSmart.com and Form 56-1, www.sec.or.th.

Table 3. Breakdown of samples by business sectors

Business Sectors	*No. of Company*	*No. of respondents*		*No. of respondents who are audit committee or independent director*	
Agro and Food Industries	24	45	20.3%	12	16.2%
Commerce	10	20	9.0%	8	10.8%
Consumer Products	22	38	17.2%	7	9.5%
Electrics and Computer	6	10	4.5%	5	6.8%
Electronic component	5	8	3.6%	2	2.7%
Industrials	29	44	19.9%	20	27.0%
Building materials	15	30	7.4%	10	13.5%
Resources	11	24	10.9%	9	12.2%
Others	2	2	0.1%	1	1.4%
Total	124	221	100.0%	74	100.0%

Source: created by author to present the sources of self-reported questionnaires according to their business sectors.

Table 4. Descriptive statistics of all samples

This table presents descriptive statistics of whole samples used in the regression models that are not involved with characteristics of audit committee. The samples consist of non-financial firms listed on the stock exchange of Thailand during 2004. The financial data are obtained from the paid internet service provider of SET (SetSmart.com). The rest of data are obtained or derived from self-reported questionnaires.

Variables	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Δ%Yield	209	-7.9	45.0	.360	4.4013
Δ%ROI	188	-1073.6	4927.0	66.083	419.8583
Δ%ROA	213	-36.4	36.2	.163	7.8526
Δ%ROE	201	-186.2	316.7	-2.504	35.4597
Overage	221	1.00	2.00	1.2715	.44574
PatentQuan	220	0	4	1.49	.731
%Control	178	5	84	42.00	17.988
FamilyRole	214	1	4	2.58	1.088
Sinoblood	216	1	6	3.55	1.817
IAStrength	221	2	6	4.66	1.549
% AAowning	217	0	72	5.40	9.325
% Foreign	217	0	92	19.65	19.207
AveLogtCap	211	7.76	11.32	9.1962	.64854
BizGroup	221	1	2	1.31	.464
Valid N (listwise)	137				

Table 5: Descriptive statistics of audit committees

Variables	*N*	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Δ%Yield	54	-2.5	37.0	1.053	5.0869
Δ%ROI	49	-1073.6	582.9	33.332	248.4616
Δ%ROA	56	-36.4	18.2	.286	8.4893
Δ%ROE	52	-186.2	71.1	-8.892	42.7198
Overage	59	1.00	2.00	1.5593	.50073
PatentQuan	59	0	4	1.37	.667
%Control	48	9	73	45.27	16.138
FamilyRole	59	1	4	2.85	.979
Sinoblood	58	1	6	3.21	1.843
AveLogtCap	55	7.79	10.39	9.1403	.57960
BizGroup	59	1	2	1.27	.448
YearExp	53	0	33	6.43	5.767
AC-Ed	58	1	4	2.67	.735
AC-Training	59	1	3	2.12	.560
Valid N (listwise)	34				

Source: created by the author. This table presents descriptive statistics of samples that are audit committees used in the regression models in regards with characteristics of audit committee only. The samples consist of non-financial firms listed on the stock exchange of Thailand during 2004. The financial data are obtained from the paid internet service provider of SET (SetSmart.com). The rest of data are obtained or derived from self-reported questionnaires.

Table 6. Result of the tests on *%Control* as the proxy of Authoritative Capability

This table presents empirical results of multiple regression analysis under Enter method with *%Control* is hold as representative of a component of corporate governance, namely Authoritative capability whereas variables representing other two components take turn making 56 different models for testing. Only 6 models with significant level of ANOVA tests are included.

Models	Model 1-4		Model 1-6(1)		Model 1-6(2)		Model 1-13(1)		Model 1-13(2)		Model 1-14	
Dependent Variable	Δ%Yield		Δ%ROI		Δ%ROE		Δ%ROE		Δ%ROE		Δ%ROA	
Independent Variable	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
Authoritative Capability												
%Control	1.167	.245	-2.126	.041*	-1.380	.176	-.947	.350	-.928	.359	-1.249	.214
Control Power												
Overage	-	-	-	-	-	-	-	-	-	-	-	-
YearExp	-	-	-	-	-	-	-	-	-	-	-	-
%Foreign	-	-	-	-	-	-	-	-	-	-	-	-
%AAOwning	5.435	.000**	-	-	-	-	-	-	-	-	-	-
AC-Ed	-	-	2.019	.052	2.987	.005**	3.037	.004**	3.026	.004**	-	-
AC-Training	-	-	-	-	-	-	-	-	-	-	-	-
IAStrength	-	-	-	-	-	-	-	-	-	-	2.088	.038*
Cultural Consensus												
Sinoblood	.430	.668	-1.871	.070	-1.129	.227	-	-	-	-	-	-
FamilyRole	-	-	-	-	-	-	-1.479	.148	-1.498	.142	1.714	.088
Control Variables												
BizGroup	-	-	1.489	.146	-	-	-	-	-.082	.935	-	-
AveLogCap	1.558	.121	-	-	-.429	.670	-.860	.395	-	-	1.678	.095
Overall model Anova		.000		.037		.047		.034		.045		.032
Method	Enter		Enter		Enter		Enter		Enter		Enter	

(1) Only models with significant relationship (p<.05) are presented. (2) *Model 1 - 14* encounters the problem of multicollinearity among *%Control, IAStrength,* and *FamilyRole*. If *Family Role* isremoved, the Model still shows a significant relationship at .050 level. If *IAStrength* is chosen for removal, the significant relationship of *Model 1- 14* suffers and shows its significant level at much higher level of.099. Since the interaction among governance component underlies the framework under analysis, the multicollinearity between independent variables (*%Control* and *IAStrength*) are expected and does not undermine the validity of the test result. * Variables which are significant at .050 or lower.** Variables which are significant at .010 or lower.- Variables which are not included for calculation in the model.

Table 7. Result of the tests on *PatentQuan* as the proxy of Authoritative Capability

This table presents empirical results of multiple regression analysis under Enter method with *PatentQuan* is hold as representative of a component of corporate governance, namely Authoritative capability whereas variables representing other two components take turn making 56 different models for testing. Only 6 models with significant level of ANOVA tests are included.

Models	Model 2- 4		Model 2- 6(1)		Model 2- 6(2)		Model 2-10		Model 2-11		Model 2-13	
Dependent Variable	Δ%Yield		Δ%ROI		Δ%ROE		Δ%Yield		Δ%Yield		Δ%ROE	
Independent Variable	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
Authoritative Capability												
PatentQuan	.376	.707	1.219	.230	-.942	.351	.699	.485	.284	.776	-1.260	.214
Control Power												
Overage	-	-	-	-	-	-	-	-	-	-	-	-
YearExp	-	-	-	-	-	-	-	-	-	-	-	-
%Foreign	-	-	-	-	-	-	2.579	.011*	-	-	-	-
%AAOwning	7.268	.000**	-	-	-	-	-	-	7.307	.000**	-	-
AC-Ed	-	-	2.027	.049*	2.951	.005**	-	-	-	-	3.182	.003**
AC-Training	-	-	-	-	-	-	-	-	-	-	-	-
IAStrength	-	-	-	-	-	-	-	-	-	-	-	-
Cultural Consensus												
Sinoblood	-.741	.460	-2.258	.029*	-.912	.367	-	-	-	-	-	-
FamilyRole	-	-	-	-	-	-	1.968	.050*	2.186	.030§	-1.618	.113
Control Variables												
BizGroup	-	-	1.663	.104	-	-	1.408	.161	2.371	.019*	-	-
AveLogCap	-1.143	.255	-	-	-1.270	.211	-	-	-	-	-1.794	.079
Overall model Anova		.000		.042		.044		.031		.000		.019
Method	Enter		Enter		Enter		Enter		Enter		Enter	

(1) Only models with significant relationship (p<.05) are presented. (2) The test of ***Model 2-6(2)*** indicates multicollinearity between ***PatentQuan*** and ***AveLogCap***. Should ***AveLogCap*** be removed, the overall test result of ***Model 2-6(2)*** still maintains its significant level at .048. The effect of multicollinearity on the test result therefore considered minimal. (3) The test of ***Model 2-10*** indicates multicollinearity between ***FamilyRole*** and ***BizGroup***. Should ***BizGroup*** be removed, the overall test result of ***Model 2-10*** still maintains its significant level at .034. The effect of multicollinearity on the test result therefore considered minimal. (4) The test of ***Model 2-11*** indicates multicollinearity among ***%AAOwning FamilyRole*** and ***BizGroup***. Should either ***FamilyRole*** or ***BizGroup*** be removed, the overall test result of the Model 2-11 still maintains its significant level at 0.00. The effect of multicollinearity on the test result therefore considered minimal. (5) The test of ***Model 2-13*** indicates multicollinearity between ***PatentQuan*** and ***AveLogCap***. Should ***AveLogCap*** be removed, the overall test result of the Model 2-13 still maintains its significant level at .029 The effect of multicollinearity on the test result therefore considered minimal. * Variables which are significant at .050 or lower.** Variables which are significant at .010 or lower.

- Variables which are not included for calculation in the model.