INFLUENCES OF CORPORATE GOVERNANCE ON THAI INVESTORS FOR STOCK INVESTMENT

TANNANYA UDOMPOKANAN

A THEMATIC PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2015

Thematic paper
entitled

INFLUENCES OF CORPORATE GOVERNANCE ON THAI INVESTORS FOR STOCK INVESTMENT

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
May 2, 2015

…………………………………
Miss Tannanya Udompokanan
Candidate

....
Assoc. Prof. Vichita Ractham,
Ph.D.
Advisor

....
Asst. Prof. Randall Shannon,
Ph.D.
Chairperson

....
Assoc. Prof. Annop Tanlamai,
Ph.D.
Dean
College of Management
Mahidol University

....
Dr. Poomporn Thamsatitdej,
D.B.A
Committee member

ACKNOWLEDGEMENTS

First of all, I would like to express my sincerest gratitude to my thematic paper advisor, Assoc. Prof. Vichita Ractham, Ph.D., who has supported me throughout my thematic paper with her enthusiasm, patience, motivation, and immense knowledge. Her valuable suggestions and feedbacks have contributed to the completion of this paper.

Besides my advisor, I would like to thank the rest of the thematic paper committee: Asst. Prof. Randall Shannon, Ph.D. and Dr. Poomporn Thamsatitdej, D.B.A. for their insightful comments and questions.

Furthermore, I would like to thank my family members, especially my mom. They were always by my side encouraging me to move forward with their best wishes.

Finally, I would like to thank my boss and my senior officer for the time-offs and support as I required for working on this paper. Without their kindness, I would not have been able to complete the thematic paper as per given deadlines.

Tannanya Udompokanan

CONTENTS

CONTENTS (cont.)

LIST OF TABLES

LIST OF FIGURES

INFLUENCES OF CORPORATE GOVERNANCE ON THAI INVESTORS FOR STOCK INVESTMENT

TANNANYA UDOMPOKANAN 5649183

M.M. (GENERAL MANAGEMENT)

THEMATIC PAPER ADVISORY COMMITTEE: ASSOC. PROF. VICHITA RACTHAM, Ph.D., ASST. PROF. RANDALL SHANNON, Ph.D., DR. POOMPORN THAMSATITDEJ, D.B.A.

ABSTRACT

Conflict of interest has been a major problem for shareholders all around the world. With this concern, Corporate Governance is created to protect investors, especially minority investors from expropriation from the management team or controlling shareholders (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). The purpose of this research is to study the influence of Corporate Governance on Thai investors for their stock investment.

To achieve the purpose, qualitative research approach was chosen by personal interviews people with different background, random age and investment behavior. It was revealed that short-term investors roughly know and concern about Corporate Governances as compared to medium-term and long-term investors. In general, the study revealed that there is scarcely an impact of Corporate Governance towards Thai investors for stock investment. Although Thai investors know Corporate Governance and its promising benefits, Corporate Governance is considered as a supporting factor for stock investment for medium-term and long-term investors.

KEY WORDS: Corporate Governance / Investor protection / Influence / Stock investment

25 pages

CHAPTER I
INTRODUCTION

In December 2001, Enron Corporation, one of the largest American energy companies, fell to bankruptcy with $62.8 billion worth of assets (Vinten, 2002). Enron goal was to maintain both its iconic status and share price in order to secure its attractiveness among investors. To achieve its goal, the company conducted accounting fraud to conceal its debt and to inflate earning. Due to this action, the company shares that were sold for $90 in August 2000 crashed to penny-stock levels.

Approximately seven months after Enron declared bankruptcy, WorldCom, the largest telecommunication company with assets of 103.8 billion became another giant company to collapse (Lyke & Jigling, 2002). The company was claimed to have an accounting scandal, generating billions of illusory earnings, false reporting errors of expenses, and company loans to the executives (Clarke, 2007). All stakeholders witnessed the financial tragedies and massively lost their investments.

With these irreparable disgraces, conflict of interest has been a major problem for shareholders, especially for minority shareholders, in publicly listed companies all around the world. The attention to prevent fraudulent activities has been intensified globally, especially in the United States. Inevitably, the most important factor of the two companies' liquidation is poor Corporate Governance practice, which fails to protect such colossal frauds.

Since the incidents, the United States and European countries have paid a closer attention on Corporate Governance. As a result, the stringent practices have spread across the world including Thailand.

In recent years, stock investment in publicly listed company has continuously increased in Thailand. Yet, conflict of interest has still been an unbearable problem for investors in terms of the expropriation from the insiders such as the management team as well as the controlling shareholders (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). Similarly, it also affects the companies in terms of corporate sustainability in the long term. In order to undertake the issue, many companies are trying to continuously develop themselves into enterprises with integrity to attract investors.

Recent studies claimed that good Corporate Governance has a positive consequence on company performance. Hence, investors are more likely to obtain a good rate of dividend as a result of good financial status of the company. Companies also enhance further investment to secure trust among investors ultimately resulting in a good stock price in the end.

The purpose of this study is to investigate the perspective of Thai investors whether Corporate Governance is a key to their decisions making in terms of stock investment of publicly listed company (listed in SET Trade). This study will reassure companies the importance of Corporate Governance so that companies can further develop their own strategic potential to continuously attract investors.

CHAPTER II
LITERATURE REVIEW

This paper compiles Corporate Governance information. This chapter is categorized into three main sections, aiming to explain both direct and indirect impacts of Corporate Governance practices toward investor's perspective. In each section, details and comparative examples are demonstrated.

2.1 Definition of Corporate Governance

Recent corporate scandals have resulted in substantial loss in terms of financial amounts and confidence of investors (Aluchna, 2009). Most cases have been claimed that the undeniable benefit from expropriation is its incentive. With this high concern, a set of mechanism namely Corporate Governance is created to protect investors, especially minority investors from expropriation from the management team or controlling shareholders (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). Through its fundamental process including assurance of corporate efficiency and arising conflicts mitigation (Blair, 1999), transparency and corporate legal conformity (Monks, 2011), investment risk minimization with high return contribution to investors (Cadbury Committee Report, 1992), and providing managerial liability framework (Monks, 2011), Corporate Governance has two impacts towards investors as follows;

2.2 Direct Impact

2.2.1 Investor Protection

Many researchers mentioned that the main objective of investor protection simply comes from investment uncertainty. Corporate Governance provides those investors he assurance to get the return on their capitals. Due to increasing expropriation in many countries, investor protection has become more crucial. It also represents a significant manifestation of the property rights in some countries (Shleifer & Vishny, 1997). Although there are various types of expropriation, the most powerful incentive is based on the dominant agency theoretical framework which is explained below.

2.2.1.1 Agency Theory

The cause of agency problem comes from the separation of finance and management (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). It can be interpreted into the problem of ownership (investors and their funds) and control (agents). The investors, ideally, would want the company to have potential management team (agents) to run their capitals and generate a high return. Under an operational management, there is a mutual contract to dominate the delegation of operational authority and the expected return allocation. Since it is impossible to identify the future performance, the complete contract is not achievable (Shleifer & Vishny, 1997). Hence both parties should delegate power to make an unforeseen decision in the contract (Clarke, 2007).

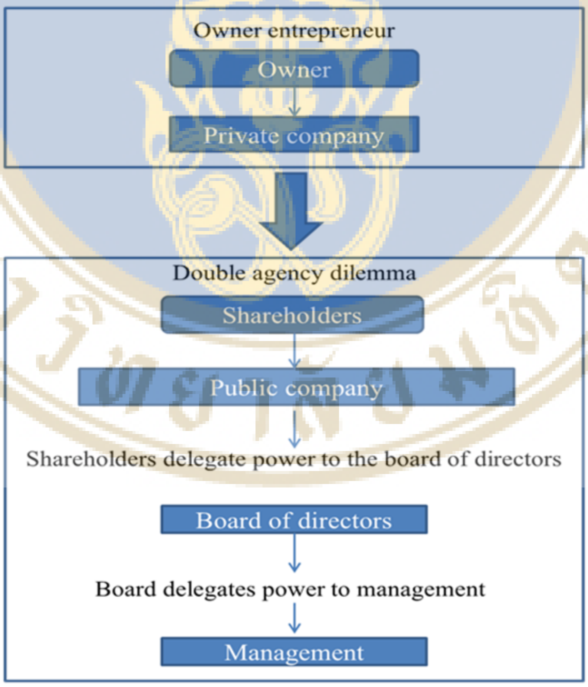

Figure 2.1 From owner entrepreneur to double agency dilemma

Source: (Clarke, 2007)

As the basis of agency theory is related to the motivation for self-interested benefit maximization, the so-called private benefits of control or also known as conflict of interest, the relationship between investors and agents is assumed to be problematic as shown in figure 1. The focus is mainly on how to prevent the benefit maximization from the agents. (Jensen, 1994). In this regard, the principal of Corporate Governance can reduce the misallocation of investor's fund.

Many researches have claimed that investor protection is more effective when it is processed in terms of legal approach. It can be described below.

2.2.1.2 Legal Approach

It is also found that, in developed countries such as United States holding the Sarbanes-Oxley Act, the rights of the investors are protected through the legal approach with both of laws and enforcements (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). The law and enforcement hold the core components of Corporate Governance and finance (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 1997; La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 1998). However, the limitation of legal protection varies around the world. In most countries, laws and regulations are enforced by market regulations, some countries by courts, and some countries by market participants (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000).

Publicly listed companies in Thailand are enforced to be in compliance with laws and regulations in order to provide investor protection such as Public Limited Company Act B.E. 2535 (1992), Securities and Exchange Act B.E. 2535 (1992), Notification of the Capital Market Supervisory Board No. TorChor. 28/2551 Re: Approval for Issuance and Offering for Sale of Shares, Notification of the Capital Market Supervisory Board No. TorChor. 11/2552 Re: Disclosure of Information, Notification of the Capital Market Supervisory Board No. Torchor. 21/2551 Re: Transactions of Related Parties, Notification of the Capital Market Supervisory Board No. TorChor. 20/2551 Re: Acquisition and Disposition of Assets and so on (The Securities and Exchange Commission). The objective of these laws and regulations is to prevent the asymmetric information between the management team and shareholders.

However, it is claimed that Thai laws and regulations do not provide adequate protection of minority shareholders. For example, it requires 20 percentages of voting shares to exercise the rights of shareholder meeting call or appointing outside inspectors to scrutinize the financial statement and directors (Nikomborirak & Tangkitvanich, 1999).

In general, legal protection, regardless of format, is considered as a benefit to protect investors from expropriation. Yet, the legal protection alone is inadequate to assure that return on investment is guaranteed (Shleifer & Vishny, 1997). For better solutions of investor protection, radical changes to the laws, regulations, and their effective enforcements are certainly required (Walker & Fox, 2002).

2.2.2 Wealth Maximization

It is a universal truth that investors aim for the certain return of their investment to maximize their wealth. The return is mainly divided into two forms: capital gain and dividend. This paper focuses on the dividend payment.

2.2.2.1 Dividend

From many researches, dividend has been claimed as one of the most important issues for investors (Setiawan & Phua, 2013; Mitton, 2004). Corporate Governance has a strong relationship with the dividend policy. Researches reveal that Corporate Governance mechanism has an impact on the dividend policy (Kumar, 2006). Overall, it is a common stereotype that the company that applies good Corporate Governance will provide a good rate of dividend as a return to investors due to the potential performances. Most of the previous supporting researches directed their focus on developed countries such as the United States. Hence, the statement about dividend may not be entirely correct when referring to countries in different settings (Brown, Beekes, & Verhoeven, 2011; Claessens & Yurtoglu, 2013). Good dividend can be provided in two circumstances according to the outcome theory and the substitute theory, which are explained below.

2.2.2.2 Outcome Theory versus Substitute Theory

Since minority shareholders would prefer to have dividend than reinvestment earnings (Setiawan & Phua, 2013), the outcome theory suggests that good Corporate Governance companies provide more investor protection including its right for the dividend payment. This represents a positive relationship between Corporate Governance and dividend policy. Therefore, the companies tend to pay a good rate of dividend. Many studies have also agreed with this idea (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008).

In contrast, there are also some researches supporting the substitute theory. They argue that poor Corporate Governance companies also provide a higher rate of dividend. It compensates their weakness and poor company profile and also attracts the investors. This represents a negative relationship between Corporate Governance and dividend policy (Gugler, 2003; Gugler & Yurtoglu, 2003; Mahadwartha, 2003; Jiraporn & Ning, 2006; Renneboog & Szilagyi, 2008).

Regarding the dividend policy in South-East Asian countries, it is revealed that most countries applied the substitute theory before the monetary crisis happened during 1997-1998. Poor Corporate Governance companies paid higher dividend. However, the practice switched to the outcome theory after the monetary crisis. Companies with better Corporate Governance paid a higher dividend (Sawicki, 2009). As a consequence, Corporate Governance practice on dividend policy is still debatable and depends on other surrounding factors.

2.3 Indirect Impact

2.3.1 Economic Growth

From the previous researches, it can be implied that investor protection influences the real economy through its effect on the financial development (Beck, Levine, & Loayza, 2000). Investor protections can accelerate the development of financial markets. With investor protection, investors are likely to invest more, resulting in more security issuance from the companies (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000).

On the other hand, it also has a negative impact to the economy. It is theoretically claimed that Thailand was the core of the catastrophic Asian economy crisis in 1997 due to the failure of investor protection and law enforcement (Johnson, Boone, Breach, & Friedman, 2000a).

2.3.2 Interrelation with Subsidiary

It is possible that the parent company will have an impact on its subsidiary. Hence, the subsidiary will either gain beneficial impact or negative impact from the parent company. For example, the sky train BTS Group Holdings Public Company Limited (BTS), a trustworthy company to investors, set up VGI Global Media PCL (VGI). The initial public offering (IPO) of VGI received a good feedback as a result of being a subsidiary of BTS. From this reason, with either good or bad Corporate Governance practice, it may be implied that there may be an interrelation between the parent company and its subsidiary.

2.4 Gap in Studies

There are existing studies on Corporate Governance investigating many aspects such as the effective mechanism, and impact on dividend and economy. Majority of these studies are based on Western countries such as the United States and European countries. This area of research is still limited in developing countries like Thailand. Thus, the purpose of this paper is to study whether Corporate Governance have an impact on Thai investors.

2.5 Framework

Researching on collected literature review information can be concluded into a framework as shown below. It aims to study the perspective of Thai investors on Corporate Governance whether it is important to their decision on stock investment of publicly listed company (listed in SET Trade). As a benefit, those companies can further develop their own strategies to attract the investors, which may relate to its direct and indirect impact of Corporate Governance towards Thai investors.

Figure 2.2 Influences of Corporate Governance on Stock Investment

CHAPTER III
RESEARCH METHODOLOGY

The study aims to define the impact of Corporate Governance towards Thai investors through its potential mechanism. In addition, the objective is to acknowledge the investors' awareness of Corporate Governance and pinpoint the factors for stock buying decision. The study focuses on the investors at random ages and investment behavior.

3.1 Research Design

To collect in-depth perspective and information in order to complete the objective of the research topic, the qualitative research approach is performed. With this method, it allows the respondents to provide their individual insight towards Corporate Governance.

3.2 Data Collection and Research Methodology

3.2.1 Sampling

The samples are general investors. In order to understand the investors' thoughts with their trading behaviors and collect comprehensive information, twenty respondents with different background at random age are recruited for the interview.

3.2.2 Data Collection

There were two methods of data collection: in-person and telephone interview. Mostly, the telephone interview was preferred. The respondents were asked with open-ended questions to allow them to express their opinions. All formats of the interview were audio recorded. The respondents were informed that the recording was for an educational purpose only. Prior to the interview, the researcher explained briefly about Corporate Governance to the respondents and allowed them to ask some questions in order to obtain the most effective responses to each question.

3.3 Discussion and Research Questions

The interview began with demographic questions followed by questions asking about investors' viewpoints on influence of Corporate Governance on a decision making of stock investment. This study will then be developed to conclude the analysis with the following questions;

3.3.1 Demographic

- What is your age and gender?
- What is your job position?
- What is your company name?
- What is your portfolio size?

3.3.2 Individual Stock Preference

- What is your favorite stock? Why?
- What is/are factor(s) to make a decision to buy a stock?

3.3.3 Awareness and Effectiveness of Corporate Governance

- What is Corporate Governance in your opinion?
- In your opinion, how Corporate Governance is beneficial to you?
- How Corporate Governance practice is related to the dividend policy?
- How can Corporate Governance impact the economic growth?
- In your opinion, how does the parent company with Corporate Governance have an impact on its subsidiary?

- Why do you think Corporate Governance is not widespread in Thailand?
- In what way does Corporate Governance need improvement?

CHAPTER IV
RESEARCH FINDINGS AND DISCUSSION

In-person and telephone interviews were conducted to extract the viewpoint of Corporate Governance towards Thai investors on a stock investment.

4.1 Demographic Profiles of Respondents

To complete the purpose of this study, twenty respondents were interviewed. There were four short-term investors, four medium-term investors, and twelve long-term investors. Their background varied by investment type, portfolio type and portfolio size, age, job position, and organization. As open-ended questions related to the framework were applied, useful information including ideas, recommendations, and some examples were exchanged during the interview.

According to the investment type, the respondents were divided into 3 groups:

1. Short-term investor who mostly traded on a daily basis
2. Medium-term investor who held a stock and intended to sell when it reached the expected rate of return. For example, Mr. A sold a stock after he gained the expected 15% profit of return.
3. Long-term investor who would prefer to grow with the company and seek for business sustainability

The participants who hold both of short-term and long-term were classified by their larger amount of stock type. For example, the participant holding both of 30% of short-term stock investment and 70% of long-term stock investment was classified as a long-term investor. In addition, the portfolio size only represented the information of stock investment.

4.2 Observation Findings

Different perspectives for each topic were provided by the three groups of respondents. It was interesting to find some certain aspects of Corporate Governance. The findings were based on the investor type and divided into 3 groups as follows;

4.2.1 Short-Term Investor Viewpoint

4.2.1.1 Direct Impact

Regarding the definition of Corporate Governance, the short-term investors' knowledge on Corporate Governance was minimal with some misunderstanding. This may be implied that the short-term investors focused on the return and capital gain only. As a result, they laid interest on direct influencing factors to achieve their return such as news and trends. However, the result revealed that most short-term investors perceived that Corporate Governance had a role to control and minimize fraud activities including risks. This included the transparent process, accountability, and stakeholder protection. The quote below supported the idea of investor protection (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000).

"The organization with Corporate Governance dedicates to do business with honesty. No conflict of interest and should have legal conformity." (Participant No.3)

Under the investor protection from Corporate Governance, although most short-term investors claimed that they felt safe and confident to make an investment (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000), some of them did not believe in its promising benefits and mechanism. Corporate Governance was considered as a supporting factor for implementing management strategies for each company.

"For public relations only! Corporate Governance does not really exist. It just compensates inappropriate activities so that the stakeholders will be pleased and do not focus on the black dots." (Participant No.3)

Regarding the dividend payment, all short-term investors shared the same ideas of the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008). Additionally, they added that the dividend policy depended on the company strategy. The dividend would be paid unless the company was growing and needed more fund for the further investment. Due to the fact that the short-term investor never expected the dividend payment, their perception of dividend was assumed to be a common stereotype.

"Dividend is really from the turnover of the company. If the company is well regulated with good Corporate Governance, it will make a good business, bringing the good profit and good dividend in the end." (Participant No.2)

4.2.1.2 Indirect Impact

Regarding the indirect impact of Corporate Governance leading to the economic growth, most investors believed that companies with Corporate Governance are attractive. They could also draw attention and confidence from the investor as long as Corporate Governance provided the investor protection. As a result, this would help promote the economy in the end (Beck, Levine, & Loayza, 2000).

"Of course, Corporate Governance helps. When investors are protected, this would be attractive to new investors. This will further lead to business investment and growth which provides a positive effect on the economy including the employment." (Participant No.4)

Most short-term investors agreed that there was an interrelation between parent company and its subsidiary. From the finding, the majority of short-term investors believed that company with good Corporate Governance had a positive impact on its subsidiary. They claimed that the subsidiary was more likely to share the same standard as the parent company.

"I have a trust on the subsidiary. As the parent company is doing well, its subsidiary should align with the same standard from the parent company." (Participant No.2)

4.2.1.3 Problem and Expectation

According to short-term investors, the main reason why Corporate Governance was not widespread in Thailand was the capital gain. Most investors believed that the majority of investors only sought for the return of capital gain. As a result, they would not lay their interest to other factors.

"70% of investors are only concerned about their capital gain (from short-term trading)." (Participant No.1)

It was also found out that most short-term investors expected to see more public relations of Corporate Governance. The independent organizations should take part in this support to urge companies to apply it.

"It should promote and create more awareness of Corporate Governance. At present, it is only a limited number of people who know it." (Participant No.4)

4.2.2 Medium-Term Investor Viewpoint

4.2.2.1 Direct Impact

Regarding the definition of Corporate Governance, the medium-term investors' knowledge on Corporate Governance was moderate. This might be due to the medium-term investors needed to see the potential and influencing factors for the business management of each company. It found out that most of medium-term investors perceived that Corporate Governance was a mechanism to control, minimize fraud activities including risks, and do business with integrity (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). In addition, most of medium-term investors considered Corporate Governance as an important factor but still not mandatory for their investment. Corporate Governance was likely to be a supporting factor to their consideration when they would make a decision on picking a stock.

"Corporate Governance is important for the business as it helps to run the business in the long run. Every company should apply it." (Participant No.7)

Under the investor protection from Corporate Governance, most medium-term investors also claimed that they felt safe and confident to make an investment (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). In addition, the medium-term investors believed that the company would take care of their investors. They also believed that it was unlikely to lose their fund investment under the investor protection.

"The company with good Corporate Governance will take good care of its customers. If a company has a good Corporate Governance, its price will not be smashed down heavily." (Participant No.8)

Although medium-term investors generally targeted a certain amount return, they also sought gain from dividend as the return was usually unpredictable. Most of medium-term investors supported the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008) as they believed in the potential of the mechanism of Corporate Governance.

"The company with good Corporate Governance may not need to pay a very good rate of dividend. However, the dividend is paid in a regular basis and it tends to be increased year by year." (Participant No.8)

4.2.2.2 Indirect Impact

Regarding the indirect impact of Corporate Governance leading to the economic growth, most of medium-term investors believed that Corporate Governance had a positive impact to the economy (Beck, Levine, & Loayza, 2000). It created trust and confidence for more investment. As a result, this would help promote the economy as an indirect approach.

"Listed companies (with Corporate Governance) make investors more confident and this brings more liquidity in the capital market." (Participant No.6)

In terms of the interrelation with subsidiary aspect, most of medium-term investors emphasized the centered policy application. Also, they paid attention to the management committee. If the policy and the management committee were the same team in the parent company, they therefore put their trust on the subsidiary. If not, they would consider the subsidiary as a general company and needed to consider it individually.

"It depends on the management team. I will also look at the CG score. Corporate Governance is another supporting factor to my decision." (Participant No.5)

4.2.2.3 Problem and Expectation

According to the medium-term investors' perspective, there were two main reasons why Corporate Governance was not widespread in Thailand. Firstly, some of medium-term investors believed that most investors were only interested in capital gain. Secondly, some mentioned that the rating score of Corporate Governance was not reliable.

"The rating number of Corporate Governance means nothing to me. I used to invest in the company with high rate of Corporate Governance (4 out of 5 rating). The company still has the market manipulation and treasury buybacks." (Participant No.5)

Most of medium-term investors expected to have the written regulation or law declaring that the company should provide more in-depth information disclosure as they strongly believed that it was beneficial to the investors. This idea also supported the legal approach of investor protection (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000).

"I expect more of disclosures than in the present. Also, it should be enacted in written forms including penalties." (Participant No.6)

4.2.3 Long-Term Investor Viewpoint

4.2.3.1 Direct Impact

From the interviews, most long-term investors knew the definition of Corporate Governance. It might be implied that long-term investors were concerned about the business of the company in a long run. Therefore, they possibly considered Corporate Governance as one of factors that helped add values to the company. The result illustrated that most of long-term investors perceived that Corporate Governance was a mechanism to control, minimize fraud activities including risks, do business with integrity, and takes care of stakeholders (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). In addition, long-term investors were concerned about the business competency in the long run and saw Corporate Governance as another factor for their decision on investment. However, Corporate Governance was still a supporting factor for their consideration when they would make a decision on picking a stock.

"I think Corporate Governance is to help regulate the operational system of the company to be accountable and transparent. The company needs to take care of investors' and stakeholders' benefit." (Participant No.18)

In terms of long-term investors' perception, benefits of Corporate Governance were divided into two main groups. Firstly, it created more confidence to investors. Under the investor protection from Corporate Governance, most investors claimed that they were more confident to invest, especially in the company with Corporate

Governance. They felt that their investment would be well handled. Secondly, it provided accurate information without asymmetry. Most long-term investors revealed that they would receive more accurate information with equality and would consider to make an investment based on this provided information (Monks, 2011).

"Corporate Governance creates more confidence in investment. In terms of minority shareholders, CG is a filter to screen the stocks. At least, CG Score will help you categorize the types of stock." (Participant No.16)

Regarding the relationship between Corporate Governance and dividend payment, there were two main points of view. Firstly, the dividend payment was paid on a regular basis with possibility of good rate. Some long-term investors believed the dividend payment was offered from the actual turnover rate of the company. With its benfits, Corporate Governance helped control the management to work systematically and efficiently. The following ideas supported the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008). Secondly, there was no relationship between Corporate Governance and dividend payment. Some long-term investors believed that dividend payment depended on several factors but Corporate Governance.

"I will see if the dividend is paid regularly. If the company applies Corporate Governance, there is possibility of good rate of dividend payment. It helps company to have a good turnover, resulting in a good rate of dividend." (Participant No.17)

4.2.3.2 Indirect Impact

Regarding the indirect impact of Corporate Governance leading to the economic growth, most of long-term investors believed that Corporate Governance was able to create confidence among Thai and foreign investors under investor protection. Also, it must be in terms of legal enforcement. This helped increase creditability of companies. As a result, Corporate Governance with legal enforcement would help boost the economy in the end. This idea of investor protection through legal enforcement (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000) had an impact on the real economy (Beck, Levine, & Loayza, 2000).

"At present, there is no legal enforcement on Corporate Governance. If there were, it would make create more creditability and confidence for

investment. Unlike these days, the stock heavily fluctuates without clues." (Participant No.14)

Most long-term investors agreed about the concept of the interrelation with subsidiary. They believed that there was a positive impact on the subsidiary if the parent company held good Corporate Governance. However, it also depended on the policy and the management team.

"You cannot generalize that subsidiary will follow the parent company but you can say that it will have a positive impact and will have a good influence and guidance." (Participant No.13)

4.2.3.3 Problem and Expectation

Most of long-term investors believed that Corporate Governance was unclear and hard to understand. They claimed that Corporate Governance was difficult to completely understand its process including the scoring rubrics. As a result, the majority did not pay attention to Corporate Governance.

"Corporate Governance is a broad word. It is difficult for general people to truly understand what it is or how it works. It sounds difficult, formal, very far from us. It is a beautiful word. But no certain result for implementation." (Participant No.18)

There were three recommendations towards Corporate Governance suggested by long-term investors. Firstly, there should be law and enforcement including punishment. Most of long-term investors focused on the importance of legal enforcement. They claimed that legal approach (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000) could help protect investors. Secondly, there should be a formal credit scoring. Some of long-term investors believed that there should be a clear and good filter to categorize the types of stock in the market if the formal credit scoring method applied. Finally, investors should be educated. Some of long-term investors claimed that the investors barely knew about the mechanism of Corporate Governance.

"We should push and motivate to form Corporate Governance index or CG-index and make it real. We can adapt from the sustainability index from abroad." (Participant No.17)

According to the findings, it revealed that short-term, medium-term, and long-term investors had different points of view. Medium-term and long-term investors shared a similarity in the importance of Corporate Governance. Both of medium-term and long-term believed that Corporate Governance should be applied to all organizations. In contrast, short-term investors disagreed and did not see the necessary of Corporate Governance. Apart from the price of stock, general interest and expectation of each group could be summarized in the table below.

Table 4.1 Investors' Interest for Decision on Stock Investment

	Short-Term Investor	**Medium-Term Investor**	**Long-Term Investor**
General Interest and Expectation	Capital Gain, News, Trend, and Technical Data	Capital Gain, Dividend, Information Disclosure, Technical Data and Analysis	Investor Protection, Information Disclosure, Business Transparency and Accountability, Dividend, Business Sustainability
Corporate Governance Influence	No	Yes (Optional)	Yes (Optional)

CHAPTER V
CONCLUSION AND RECOMMENDATION

With all responding groups, this study aims to identify the opinions of each group about the benefits of Corporate Governance including investor protection, wealth maximization, economic growth and interrelation of parent company with its subsidiary. This is to serve the purpose of this study to find out the impact of Corporate Governance towards Thai investor on stock investment.

5.1 Conclusion

In general, the study reveals that there is scarcely an impact of Corporate Governance towards Thai investors for stock investment. Although Thai investors know Corporate Governance and its promising benefits, Corporate Governance is considered as a supporting factor for stock investment for medium-term and long-term investors. According to the findings, the summary of each group can be seen below.

5.1.1 Short-term investor

Short-term investors roughly know and concern about Corporate Governances as compared to medium-term and long-term investors. Regarding the direct impact of Corporate Governance, short-term investors roughly know about Corporate Governance as they focus on the capital gain only. As a result, they lay their interest in directly influencing factors to achieve their return such as current trends and news. In general, short-term investors have a common stereotype regarding investor protection and dividend payment. Short-term investors believe that Corporate Governance would provide the investor protection (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000) and also support the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008), pushing the company to provide a good rate of the dividend.

Regarding the indirect impact, short-term investors believe that Corporate Governance also help accelerate the economic growth by creating confidence under investor protection, attracting more investment (Beck, Levine, & Loayza, 2000). Regarding the interrelation of the parent company with its subsidiary, most of short-term investors believe that the parent company with Corporate Governance has a positive impact on the subsidiary.

5.1.2 Medium-term Investor

It seems that medium-term investors are more interested in Corporate Governance than short-term investors as they expect a certain rate of profit, which usually requires longer period of time for return. Therefore, medium-term investors need to see the potential and influencing factors for the business management. Regarding the direct impact of Corporate Governance, medium-term investors know Corporate Governance mechanism and its process. In the similar way, medium-term investors also perceive that Corporate Governance would provide the investor protection (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). In addition, medium-term investors support the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008) as they believe that Corporate Governance would allow investors to have a stable and good rate of dividend.

Regarding the indirect impact, medium-term investors believe that Corporate Governance would create a positive impact that could help boost the economy (Beck, Levine, & Loayza, 2000). In terms of the interrelation of the parent company with its subsidiary, most of medium-term investors are confident only if the centered policy including management team from the parent company is applied in the subsidiary.

5.1.3 Long-term Investor

Long-term investors are mostly interested in Corporate Governance as they concern more about the company business sustainability. Therefore, long-term investors are more likely to consider Corporate Governance as another factor that adds values to a company. Regarding the direct impact of Corporate Governance, long-term investors also perceive that Corporate Governance provided investor protection (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). Through its fundamental process, long-term investors believe that Corporate Governance creates more confidence for more investment (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000) and provides accurate information without asymmetry (Monks, 2011). Long-term investors also support the outcome theory (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000; Mitton, 2004; Kowalewski, Stetsyuk, & Talavera, 2008) as they believe that Corporate Governance would help the company to pay dividend on a regular basis with possibility of good rate of dividend.

Regarding the indirect impact, long-term investors believe that Corporate Governance could help boost the economy only if Corporate Governance was enacted in legal approach (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000). Also, most of long-term investors agree on the concept of the interrelation with subsidiary. However, it also depends on the policy and the management team.

5.2 Recommendations

To apply Corporate Governance efficiently and make Corporate Governance become an important factor for stock investment in Thailand, the right implementation is essential. The recommendations are as follows;

5.2.1 Public Relations

From the finding, Corporate Governance is difficult to understand, thus more public relations and awareness of Corporate Governance should be promoted. It is also advisable to educate investors more about Corporate Governance, and its working process including the benefits that investors would receive. The independent organization such as Securities and Exchange Commission (SEC) or the Stock Exchange of Thailand (SET) should take part in this concern as it creates the reliability to the capital market in general. Also, the company should be responsible in this concern. For example, opportunity day event should be held regularly. This would also help investors to be more aware of the investor’s right and protection.

5.2.2 Legal Approach

At present laws and regulations applied in Thailand are inadequate to protect investors. Their purposes are solely to provide information disclosure to investors. This might not cover the effective investor protection. As a result obtained from medium-term and long-term investors' points of view, Corporate Governance should be enacted with strict penalties. For example, if a company breaks the law and regulation, a high amount of fine should be applied. If the same company continuously violates the law and regulation, the company should be temporarily or permanently suspended from any trading activities and subject to higher amount of fine. As a result, penalties would help prevent inappropriate activities such as self-profit maximization of the management team or related parties. This recommendation also supports the investor protection through the legal approach (La Porta R. , Lopez-de-Silanes, Shleifer, & Vishny, 2000).

5.3 Limitations

The limitation of this paper is the small number of interviewed participants, which might have a direct impact on the result. In addition, data collection was done only in Bangkok area. As a consequence, the result of this study may not truly represent the viewpoints towards Corporate Governance of the whole population on a stock investment.

5.4 Suggestions for further research

To enhance the relevancy and reliability of the results, further research should be done with larger number of participants across the nation. Moreover, this research can be extended to investigate the perception of expatriate investors in Thailand or a group of investors with certain investment duration such as long-term investors who have more than three years of investment experience.

REFERENCES

Aluchna, M. (2009). Does good corporate governance matter? Best practice in Poland. *Management Research News*, *2*(32), 185-198.

Beck, T., Levine, R., & Loayza, N. (2000). Finance and the sources of growth. *Journal of Financial Economics 58*, 261-300.

Blair, M. (1999). Firm-specific human capital and theories of the firm. (M. M. Roe, Ed.) *Employees and Corporate Governanve*.

Brown, P., Beekes, W., & Verhoeven, P. (2011). Corporate Governance, accounting and finance: a review. *Accounting and Finance, 51*(1), 96-172.

Cadbury Committee Report. (1992). *Voting Rights Can Be Regarded as an Asset.*

Claessens, S., & Yurtoglu, B. (2013). Corporate governance in emerging markets: a survey. *Emerging Markets Review*, *58*(1/2), 81-112.

Clarke, T. (2007). *International Corporate Governance: a comparative approach* . Oxford: Routledge.

Gugler, K. (2003). Corporate Governance, dividend payout policy, and the interrelation between dividends, R&D, and capital investment. *Journal of Banking and Finance*, *27*, 1297-1321.

Gugler, K., & Yurtoglu, B. (2003). Corporate governance and dividend pay-out policy in Germany. *European Economic Review*, *47*(4), 731-758.

Jensen. (1994). Self-interest, Altruism, Incentives and Agency Theory. *Journal of Applied Corporate Finance*, 40-55.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics 3*, 305-360.

Jiraporn, P., & Ning, Y. (2006). Dividend policy, shareholder rights, and corporate governance. *Journal of Applied Finance, 16*(2), 24-36.

Johnson, S., Boone, P., Breach, A., & Friedman, E. (2000a). Corporate governance in the Asian financial crisis. *Journal of Financial Economics 58*, 141-186.

Kowalewski, O., Stetsyuk, I., & Talavera, O. (2008). Does corporate governance determine dividends payouts in Poland? *Post-Communist Economies, 20*(2), 203-218.

Kumar, J. (2006). Ownership structure and dividend payout policy in India. *Journal of Emerging Market and Finance, 5*(1), 15-58.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1997). Legal determinants of external finance. *Journal of Finance 52*, 222-279.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and Finance. *Journal of Political Economy 106*, 1113-1155.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics 58*, 3-27.

Lyke, B., & Jigling, M. (2002). *WorldCom: The Accounting Scandal.* Retrieved February 4, 2015, from University of Maryland Francis King Carey School of Law: http://www.law.umaryland.edu/marshall/crsreports/crsdocuments/RS21253_08292002.pdf

Mahadwartha, P. (2003). Predictability power in dividend policy and leverage policy to managerial policy in Indonesia: an agency theory perspective. *Jurnal Ekonomi dan Bisnis Indonesia, 18*(3), 288-297.

Mitton, T. (2004). Corporate Governance and dividend policy in emerging markets. *Emerging Markets Review, 5*, 409-426.

Monks, R. (2011). Corporate governance and value: appearance and reality. *European Business Forum, No.5*.

Nikomborirak, D., & Tangkitvanich, S. (1999). Corporate Governance: The challenge facing the Thai economy. *Paper presented at a Conference on Corporate Governance in Asia: A Comparative perspective*. Seoul, South Korea.

Renneboog, L., & Szilagyi, P. (2008). How relevant is dividend policy under low shareholder protection? *Paper presented at the EFA*. Athens, Greece.

Sawicki, J. (2009). Corporate governance and dividend policy in Southeast Asia pre- and post-crisis. *15*(2), 211-230.

Setiawan, D., & Phua, L. (2013). Corporate governance and dividend policy in Indonesia. *Business Strategy Series, 14*(5/6), 135-143.

Shleifer, A., & Vishny, R. W. (1997, June). A survey of Corporate Governance. *The Journal of Finance, LII*(No. 2).

The Securities and Exchange Commission. (n.d.). *Summary of related laws and regulations.* Retrieved February 5, 2015, from The Securities and Exchange Commission: http://www.sec.or.th/EN/RaisingFunds/EquityDebt/Pages/link-Laws_Regulations/ CorporateGovernanceCG.aspx

Vinten, G. (2002). The corporate governance lessons of Enron. *Corporate Governance: The international journal of business in society*, *2*(4), 4-9.

Walker, G., & Fox, M. (2002). Corporate governance reformin East Asia. *Corporate Governance: The international journal of business in society*, *2*(1), 4-9.