Chapter 5
Conclusion

Board structure is an important mechanism to good corporate governance, which in turn directly influences the firm performance. Recent studies show that there is no optimal board size that fits all firms. Each firm has its unique characteristics in terms of the scope of operation (business segment, leverage, firm size, firm age), the cost of monitoring (stock variance, market to book), and degree of agency problem (free cash flow). The firm characteristics and type of shareholder determined the board structure. Family firms have unique corporate governance. They are believed to have longer term commitment, special management style than nonfamily firms do. Family's reputation and wealth are directly related to the firm's performance, and family members have emotional connection to well-being the firm. Thus, family firms are believed to have better monitoring and lower agency problem. Hence, the way special corporate governances of family firms influence their board structures should be different from the way corporate governance do to nonfamily firms.

Using data from a sample of 384 Thai nonfinancial listed firms during 2003-2008, the study finds that board structures of Thai firms are not similar to board structures of firms in developed countries. Board structure, under this study, is defined as board size, proportion of independent directors, and CEO's dual role. Empirically, on average board sizes in Thai firms are larger and the proportion of board independent directors is lower than that of foreign countries in other previous studies. The small proportion of the independent directors is due to Thai firms mainly appointing minimum number of independent directors required by Stock Exchange Committee. As the board size increases, the number of independent directors remains constant. Hence, this results in smaller proportion of independent directors with respect to the board size. The negative relationship of board size and proportion of independent director in Thailand is unique to that of other countries. Nevertheless, the board size and proportion of independent directors are statistically determined by scope of operation, monitoring cost and agency problem variables, which is aligned with the result of Boone, Field, Karpoff, and Raheja (2007).

When compare to nonfamily firms' board structure, family firms have larger board size than nonfamily firm. The larger board size is mainly explained by higher advisory needs from board directors from scope of operation variables such as firm size and firm age. Moreover, family firms' board size is heavily determined by monitoring cost variables. On the other hand, nonfamily firm's board size is more positively correlated to the monitoring benefits to control the agency problem. Family firms need more advisors but need less monitoring from the board than nonfamily firm.

The independent directors in family firms' main duties are to give advices while nonfamily firms' independent directors have roles to monitor to control for agency problem. The proportic board independent between family and nonfamily firm are empirically the same but they are determined differently. Family and nonfamily firm's proportions of independent directors are both positively related to scope of operation. Family firms' proportion of independent directors is not statistically related to agency problem variable while nonfamily firms' proportion of independent director show the need of agency problem controlled.

Board leadership in family firm is higher than nonfamily firm. There are greater chances for family firms to give the chairman of the board position to CEO than in nonfamily firm. Thus, CEOs of the family firm who has dual role position will have absolute power over the board of director and management team.

Government controlled firms empirically have the largest average board size with large proportion of independent directors comparing to other firms. Government controlled firms' board size is positively related to scope of operation variables such as firm size and firm age. Independent directors in government controlled firms have strong monitoring role as their proportion of independent director are positively determined to agency problem and monitoring cost variables.

Finding of this study have following implications: Family firms' board structure, which mainly controlled by insiders, is more suitable in low corporate governance environment in Thailand than is the nonfamily firms' board structure. As nature of family firm will lead to lower agency problem, low board independence of nonfamily firm would result in high agency problem. This aligns with the finding of Burkart, Panunzi,and Shleifer (2003), which shows that in the weak

corporate governance and low protection of minority shareholder, it is optimal for family to take control of the company as it will optimal the performance and benefit for the firm. There is also implication for regulator to concern on proper board independence. Regulators should educate and increase awareness of the board independence benefits to nonfamily firms so as to effectively control for agency problem.

Certain limitations in this study should be noted. First, the study is quantitatively conducted to classify the determinants of family firm board structure. Thus, there is no clear qualitative explanation for all the results. For example, there is no qualitative explanation on why family firms require larger board size than do nonfamily firm when the firm size is larger. Second, due to limitation of data in Thailand, there are many variables for the proxy of monitoring variables that are missed out in this research, for example High R&D expenditure (dummy variable for firms in the tops quartile of R&D expenditure relative to firm size) and Takeover defense (or G-index which measure the firms' number of takeover defense plus the number of state antitakeover laws that apply to the firms). The further research can be done to enrich the finding of this study by solving the limitations above.