10 Did families lose or gain control after the East Asian financial crisis?

Anya Khanthavit, Piruna Polsiri and Yupana Wiwattanakantang

Introduction

Previous studies document that changes in ownership and board structures of firms in the US occur in response to changes in the business or industry conditions of the firms due to changes in regulations, input costs, technology and the financial system (Mitchell and Mulherin 1996; Holderness *et al.* 1999; Kole and Lehn 1999). In addition, ownership and board changes might be attributable to past stock-price returns, top executives changes, and corporate control threats (Denis and Sarin 1999). However, little evidence on ownership structure changes following a macroeconomic shock or crisis has been compiled.

Although recently studies focusing on how firms respond to an economy-wide shock have been increasing, to our knowledge there is no study that directly investigates an impact of a macroeconomic shock on ownership and board structures. For example, Baek *et al.* (2002) focus only on the effects of the East Asian financial crisis on restructuring activities using data on Korean firms. They assume that ownership structure is predetermined, and document the negative relation between ownership by owner-managers and the likelihood that firms undertake downsizing activities. Unlike Baek *et al.* (2002), we investigate changes in ownership and board structures as a part of the restructuring process in response to the macroeconomic shock. The country of focus is Thailand, which was affected tremendously by the 1997 East Asian crisis. Hence it provides a spectacular opportunity to explore this issue. Similar to most research on the ownership structure literature, our analysis is best viewed as an exploratory data study.

Our study focuses on Thai non-financial publicly traded firms in 2000 compared to those of 1996, which is one year before the crisis. This comparison allows us to address three principal issues. First, how corporate ownership structure changes as the economy, the financial system and the regulation on foreign ownership have changed. Second, whether there are any variations in mechanisms used by the owners to control the firms shareholders' participation in management changes, subsequent to the economic shock. Surprisingly, we find that the ownership and control appear to be more concentrated in the hands of controlling shareholders subsequent to the crisis. Interestingly, even though families are still the most prevalent owners of Thai firms, their role is reduced. Similar to the pre-crisis period, the controlling shareholders are typically involved in management in the majority of firms. Especially in family-owned firms, the participation of controlling families' members in the board is even greater after the crisis. In addition, our results show that direct shareholdings are the most common means of control used in more than two-thirds of the firms in both periods. Rather than direct ownership, pyramidal structures and cross-shareholdings are employed. These control-enhancing mechanisms, nevertheless, are used less often, reflected in the lower degree of separation between ownership and control following the macroeconomic shock.

This study is organized as followed. In Section 2, we describe data sources, data collection, and data definition. In Section 3, we examine who controlled Thai firms in the period after the crisis. Section 4 provides analyses of the deviation between ownership and control of the firms' ultimate owners and the means they use to enhance their voting rights from associated cash-flow rights. We also investigate the separation between ownership and management in this Section. In Section 5, we explore the concentration of ownership and control in firms that have no controlling shareholder. Finally, our conclusion is drawn in Section 6.

Data construction

Data sources

Our sample includes all non-financial companies listed in the Stock Exchange of Thailand. The data of 1996 and 2000 are used to represent the pre- and post-crisis periods, respectively. The choices of these two years are arbitrary, however. We do not investigate banks and other financial companies because unlike non-financial companies, there are ownership restrictions imposed on banks and financial institutions by the Bank of Thailand.[1]

Our study is based on comprehensive data sources of ownership. Previous research on ownership structure of firms in East Asian countries (for example, Claessens *et al.* 2000; Lemmon and Lins forthcoming; Lins forthcoming; Mitton 2002) typically employs data sources that include shareholders with shareholdings of at least 5 percent, while our database includes more detailed information. More precisely, our database provides the information on shareholders who hold at least 0.5 percent of a firm's shares. This ownership data as well as the board data are obtained