

การศึกษาการเปลี่ยนแปลงโครงสร้างคณะกรรมการบริหารหลังระดมทุนครั้งแรกในตลาดหลักทรัพย์

CHANGES IN BOARD STRUCTURE AFTER AN INITIAL PUBLIC OFFERING



ภาควิชาบริหารธุรกิจเกษตร คณะเทคโนโลยีการเกษตร  
สถาบันเทคโนโลยีพระจอมเกล้าเจ้าคุณทหารลาดกระบัง

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า  
ไม่ว่ากรณีใดๆ ทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

สำนักหอสมุดกลาง พระจอมเกล้าลาดกระบัง

การศึกษาการเปลี่ยนแปลงโครงสร้างคณะกรรมการบริหารหลังระดมทุนครั้งแรกในตลาดหลักทรัพย์

CHANGES IN BOARD STRUCTURE AFTER AN INITIAL PUBLIC OFFERING



T100778



รศ.ดร.กมลกัญญา ณ ป้อมเพ็ชร  
รศ.เสาวรีย์ ตะโพนทอง

RCH  
HG  
5450.55  
.A3  
ก724 ก  
ฉ.2

เลขหมู่.....  
เลขทะเบียน.....100778  
วัน,เดือน,ปี.....21 JUN 2000

ภาควิชาบริหารธุรกิจเกษตร คณะเทคโนโลยีการเกษตร  
สถาบันเทคโนโลยีพระจอมเกล้าเจ้าคุณทหารลาดกระบัง

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า  
ไม่ว่ากรณีใดๆ ทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

การศึกษาการเปลี่ยนแปลงโครงสร้างคณะกรรมการบริหารหลังระดมทุนครั้งแรกในตลาดหลักทรัพย์  
CHANGES IN BOARD STRUCTURE AFTER AN INITIAL PUBLIC OFFERING

บทคัดย่อ

งานวิจัยนี้ศึกษาถึงการเปลี่ยนแปลงโครงสร้างของคณะกรรมการบริษัท หลังนำเสนอขายหุ้นสามัญให้แก่ประชาชนทั่วไปเป็นครั้งแรก จากการเปรียบเทียบข้อมูลโครงสร้างคณะกรรมการบริษัท ระหว่างปีที่ระดมทุนครั้งแรกและ 5 ปีต่อมาพบว่าสัดส่วนของหุ้นที่คณะกรรมการบริษัทถือได้ลดลงไปแต่สัดส่วนของหุ้นที่ผู้ถือหุ้นรายใหญ่ถือไว้ไม่ได้ลดลง นอกจากนี้คณะกรรมการบริษัท ประกอบด้วยจำนวนกรรมการมากขึ้นและมีกรรมการที่มาจากบุคคลภายนอกเพิ่มขึ้น บริษัทส่วนใหญ่จะมีประธานคณะกรรมการบริษัท เป็นคนละคนกับประธานคณะกรรมการบริหาร ในปีที่นำเสนอขายหุ้นสามัญในตลาดครั้งแรก และยังคงโครงสร้างนี้ไว้ 5 ปี ต่อมา

การเปลี่ยนแปลงโครงสร้างของส่วนของผู้ถือหุ้นของคณะกรรมการบริษัทที่มีความสัมพันธ์ทางตรงกับการเปลี่ยนแปลงสัดส่วนระหว่างกรรมการที่เป็นผู้บริหารกับกรรมการอิสระของบริษัท การศึกษาพบว่า การเปลี่ยนแปลงสัดส่วนของผู้ถือหุ้นรายใหญ่ของคณะกรรมการบริษัทไม่มีความสัมพันธ์กับขนาดของคณะกรรมการบริษัท และการเปลี่ยนสัดส่วนของผู้ถือหุ้นรายใหญ่ไม่มีความสัมพันธ์กับขนาดของคณะกรรมการบริษัท

ABSTRACT

This study examines changes in ownership and board structures of initial public offering (IPO) firms. A comparison of the characteristics of ownership structures and board structures of 35 Thai IPOs between the IPO year and five years later, shows that board ownership declines significantly after the IPO, while blockholder ownership does not. Moreover, as IPO firms mature, the board structure changes to include more members and outside directors. Most of the firms in the sample adopted a dual leadership structure at the time of the IPO and have maintained this leadership structure as they matured.

There is a positive relationship between changes in board ownership and changes in the proportion of inside directors. There is no relationship between changes in blockholder ownership and changes in proportion of inside directors. There is no relationship between changes in board ownership and board size, nor is there a relationship between changes in block holder ownership and board size.

2

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้าไม่ว่ากรณีใดๆ ทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

# CHANGES IN BOARD STRUCTURE AFTER AN INITIAL PUBLIC OFFERING

## I. INTRODUCTION

Research on corporate governance has identified a number of mechanisms intended to insure that management perform in the best interests of shareholders. These include managerial ownership and the board of directors. Recent studies (Mello and Parsons, 1998; Stoughton and Zechner, 1998; Mak and Ong, 1999) argue that firms going public change their ownership structure after their offerings as controlling shareholders acquire stakes in these initial public offering (IPO) firms. Other studies indicate that IPO firms tend towards a dual leadership structure for the board of directors (Beatty and Zajac, 1994). This paper presents international evidence of the ownership structures and board structures of IPO firms in an emerging country, Thailand. The purpose of this study is to investigate changes in ownership structure and changes in board structure that occur in Thai listed firms as they progress from initial public offering (IPO) status to become more established firms. Establishing effective corporate governance that protects minority shareholder is essential at the time of IPO because the IPO is the first time that most firms raise equity from dispersed shareholders. These elements of board structure namely board size, the proportion of outside director and leadership structure are examined.

Using five-year periods, we examine the associations between changes in ownership structure and changes in board structure. Specifically, the objective of this study is to examine if the ownership structure and board structure (board size, board composition and board leadership structure change after the initial public offering.

The remainder of this paper is organized as follows. The next section briefly reviews previous studies as it pertains to corporate governance. The hypotheses are discussed in section III. Section IV discusses the data and research methodology used. Section V reports and discusses the results. Section VI concludes the paper with a summary of the major findings, and a discussion of the implications and limitations.

## II. REVIEW OF LITERATURE

### Agency Problems and the Board of Directors

The reduced management ownership experienced when a firm goes public is likely to cause agency problems as described in Jensen and Meckling (1976). Agency theory suggests that when managerial control is separated from company ownership, top management will have incentives to depart from their contracts and pursue their own utility-maximizing behavior. Buckland (2001) states that top managers' utility-maximizing behavior includes shrinking the benefits of pecuniary returns of excessive perquisite consumption, and is also derived from activities that increase managers status and power over increased resources. For example, instead of paying out dividends managers retain cash flow to be used for over-investment in acquisitions, diversification, employment, marketing and R&D. Managers have incentives to maximize the size of their firms. By creating a large, rapidly growing firms, managers enhance their own power, status, and salaries. They also increase their job security because a hostile takeover is less likely to happen.

Conflicts of interests occur when ownership and control are separated and that the consequential moral hazard problems creates a demand for monitoring and control mechanisms (Jensen and Meckling, 1976). The board of directors, on behalf of shareholders, is the first mechanism to restrain managerial opportunism. The board delegates most decision-making functions and many decision control functions to internal managers, while retaining ultimate control over these top-level decision managers through rights to ratify and monitor key decisions, and rights to hire, fire, and compensate the managers. The effectiveness of boards is considered from being independent on their ability to perform as experts. Board size, director independence, and board leadership structure are viewed as important mechanisms of the effectiveness of boards to protect stockholders' interests (Fama and Jensen , 1983; Jensen 1993).

### Board composition

Members of the boards of directors normally consists of "insiders" and "outsiders". An insider is a full-time officer of the corporation and is normally a CEO, president, vice-president of the firm. We define outside directors as all non-management directors. Board composition is generally defined as the

proportion of outsider directors to total directors. Since the requirement for decision expertise, and the obligation for thorough firm-specific knowledge, it is impartial that boards contain senior managers from within the organization (Fama and Jensen (1983)). However, the inclusion of inside board members conflicts with the decision control function of the board. To alleviate this problem, boards typically comprise outside directors as protectors of stockholders' interests. Those who consider the board of directors a vital aspect of corporate governance argue that boards dominated by outsiders are effective monitors of internal managers because they have incentives to develop reputations as experts in control (Fama and Jensen,1983). Recent empirical research sheds some light on this issue by demonstrating a link between effective monitoring and the presence of outsiders on the board. For example, Weisbach (1988) shows that outside-dominated boards are, in fact, more likely than inside dominated boards to react to poor performance by replacing the CEO. Byrd and Hickman (1992) find a positive relation between the abnormal returns associated with specific firm events and outside board membership. Fosberg (1987) looked at the effect of the proportion of outside directors (POD) on the return on equity (ROE) of a large sample of industrial firms. No relationship was found between POD and ROE, but a statistically significant positive relationship was found between the number of outside directors on the board and ROE. Agarwal and Knoeber (1996), however, find that performance is negatively related to the proportion of outside directors. Bhagat and Black (1999 and 2000) demonstrates that the proportion of outsider directors is not associated with superior (or inferior) long-term performance.

### **Board size**

Board size refers to the number of directors who sit on the board. Lipton and Lorsch (1992) argue that large boards are dysfunctional. The optimal size of the board of directors balances the costs and benefits of additional directors. Baker and Gompers (2001) states that when marginal directors bring additional information, expertise, or monitoring, large boards, burdened by free riding and complexity, may be ineffective. Yermack (1996) and Eisenberg et. Al. (1998) show that performance, measured by Q and operating ratios, is decreasing in the size of board of directors

### **CEO/Chair duality**

If the CEO and the Chairman of the board are the same person (unitary leadership), the organization concentrates management's power and board leadership in one person's hand. CEO/Chair duality allows the CEO to exert more power over the decisions problem. While the empirical evidence on leadership structure is limited, much of the recent evidence appears to support the view that separating the titles would improve corporate governance Rechner and Dalton (1991) examine 141 firms that have stable leadership structures over the period 1978-1983 (the titles are either combined or separate over the entire period). In that sample, 21.3 % of the firms separate the titles, while 78.7% have one individual holding both titles. Using several accounting-based performance measures, they find that firms with separate titles consistently outperform firms with combined titles. They conclude admonitions about a governance structure that includes the same individual serving simultaneously as CEO and board chairman. The study however, does not control for any variables that are likely to be jointly correlated with firm performance and leadership structure. Pi and Tamme (1993) examine a sample of banks over the 1987-1990 period. Approximately 25% of the firms have separated titles, while 75% have one individual holding both titles. Their results suggest that, after controlling for the firm size and some other variables, costs are lower and returns on assets are higher for firms with separate titles. They conclude that combining the two titles is a potentially suboptimal leadership structure. Baliga et.al (1996) analyze a sample of 181 industrial companies over the period 1986 to 1991. Twelve of the firms had separate titles over the entire time period, while 111 had combined titles. They also find that firms that switched to a dual leadership structure had better long-term performance than firms which maintained combined leadership. However, Brickley, et al. (1997) argue that the costs of separation are larger than the benefits for most firms.

Brickley, Coles, and Jarrell states the benefits and costs of separating the CEO and chairman titles in their article "Leadership structure: Separating the CEO and Chairman of the Board" published in Journal of corporate finance 3 (1997) page 192-195 as follows.

### **Benefits of dual leadership structure**

Brickley et al. (1997) argued that the characteristic of modern large corporation is lacking of the classical entrepreneurial decision maker. In order to obtain the benefits of risk sharing, the company's residual claims are diffused among many agents, who generally vest their decision control

rights in the board of directors and the CEO's office. This delegation results in agency problems between decision agents and residual claimants and generates agency costs, which Jensen and Meckling (1976) define to be the sum of the costs of designing, implementing, and maintaining appropriate incentive and control systems and residual loss resulting from not solving these problems completely.

Fama and Jensen (1983) argue that agency costs in large organizations are reduced by institutional arrangements that separate decision management from decision control. Decision management refers to the rights to initiate and implement recommendations for resource allocation, while decision control refers to the rights to ratify and to monitor the implementation of resource commitments.

The board of directors which is the top of the decision control system of large corporation usually has the power to hire, fire, and compensate top managers, and to approve and monitor essential decisions. The board is not an effective mechanism for decision control unless it restricts the decision discretion of individual top managers (Fama and Jensen, 1983). Brickley et al. (1997) states that Fama and Jensen's argument seems to imply that combining the CEO and chairman titles contradicts their separation theory.

Brickley et al. states that Jensen (1993) extends his logic in his Presidential Address to the American Finance Association recommends that companies separate the two titles. In this speech (p.36). Jensen articulates the potential benefits of separation:

The function of the chairman is to run board meetings and oversee the process of hiring, firing, evaluating, and compensating the CEO. Clearly the CEO cannot perform this function apart from his or her personal interest. Without the direction of an independent leader, it is much more difficult for the board to perform critical function. Therefore, for the board to be effective, it is important to separate the CEO and Chairman positions. The independent chairman should, at a minimum, be given the rights to initiate board appointments, board committee assignments, and (joint with the CEO) the setting of the board's agenda.

### **Costs of dual leadership structure**

#### **1. Agency costs**

Brickley et al. (1997) states that "appointing an outside director chairman of the board ( the head decision control agent in a large organizational) might reduce the agency costs of controlling the

CEO's behavior, but it introduces the agency costs of controlling the behavior of non-CEO's behavior. Brickley et al. (1997) argues that in the spirit of Akchian and Demsetz (1972)', "who monitors the monitor?". If the chairman is a large residual claimant, then the problem is solved as it is in the classical model of the entrepreneurial owner. But, in the large complex company, it is generally the case that no one on the board has greater reputational and financial capital at risk in the future performance of the organization than does of the CEO. Thus, shareholders must be concerned about the chairman's perquisite taking, effort level and investment performance.

## 2. Information costs

Brickley et al. (1997) states that apparently, CEOs have supreme specialized knowledge regarding the strategic challenges and opportunities facing the firm. Then separating the CEO and the chairman titles necessitates the costly and generally incomplete transfer of critical information between the CEO and the chairman. One way to decrease this trouble is to have the old CEO stay on as chairman for an indefinite period. However, keeping the old CEO on the board for indefinitely might obstruct the new CEO in making changes the organization ( Somenfeld ,1988).

## 3. Costs of changing the succession process

As Brickley et al. (1997) states "another important concern relates to the succession process of CEOs Vancil (1987) provides detailed studies of the succession processes used by about a dozen firms. These case studies suggest that a common succession process is what Vancil calls "passing the baton". This process has the former CEO, who recently relinquished the CEO title to the heir apparent (passed the baton), retain the chairman title during a probationary period in order to allow the board to monitor the new CEO in action. The probationary period also provides an opportunity for the old CEO to pass on relevant information to the new CEO. The new CEO generally has an additional operating title such as President of Chief Operating Officer. If the new CEO passes this test, then typically the new CEO earns the additional title of chairman, and the old chairman resign from the board. At this point, the CEO often holds three titles, such as Chairman, CEO and president. After a few years, the CEO hands off the operating title to an heir apparent and the process continues. Vancil concludes that the transition period, during which time the CEO and chairman titles are separate, it deliberately structured to allow the board to readily oust the new CEO, should he or she drop the baton. The process also eases the transition from active duty to retirement for an aging CEO and thus makes it less likely that the CEO will attempt to hold

on to his position too long. If this succession process is widely used(as Vancil's case studies suggest), regulations to separate the titles would force many firms to change their basic succession process. The costs of forcing this change have not been considered in regulatory debates. For instance, the prospect of being promoted to the chairmanship potentially provides important incentives to new CEOs. These incentives are lost if the firm maintains an independent chairman.”

### **Managerial ownership**

Managerial ownership serves to align interests of managers with those of shareholders and thus increase firm value (Jensen and Meckling, 1976; Hiraki et al., 2003). However, increased managerial equity ownership can also have the effect of entrenching managers by making it more difficult to remove a manager who is performing poorly, whether due to incompetence or to the manager's pursuit of private benefits at shareholders' expense (Stulz, 1988). Denis et al. (1997) states that equity ownership can lag top executives from internal monitoring efforts in two ways. First, managerial ownership is likely to be correlated with the power of the top executive, either through the voting control associated with equity ownership or through the correlation between equity ownership and other conditions conducive to managerial entrenchment, or both. For example, Morck et al. (1988) argue that managerial ownership will be correlated with attributes such as stature within the firm status as the firm's founder, the employment of fewer professional managers, greater inside board representation, and other non-quantifiable measures of power.

Second, managerial ownership may inhibit the external corporate control market and, in so doing, reduce the effectiveness of internal monitoring efforts. For example, an external control threat may increase the likelihood that the board of directors feels pressured to take disciplinary action against a poorly performing manager, even if that board is aligned with the incumbent management team. In addition, Hirshleifer and Thakor (1994) suggest that takeover bids convey adverse information possessed by the bidder about managerial performance and that the board of directors aggregates this information with its own information. Thus, even a board that is aligned with shareholder interests is made more effective by an active external control activity facilitates internal monitoring efforts by increasing monitoring by active investors during the course of and following the takeover contest.

### **Blockholder and institutional ownership**

Danis et al. (1997) states that the presence of blockholders or institutions that own nontrivial amounts of a firm's equity, or both, may reduce the degree of entrenchment associated with a given level of managerial ownership. For example, Shleifer and Vishny (1986) present a model in which a block shareholder is an effective monitor of management by virtue of presenting a credible takeover threat.

The evidence on the effects of blockholder and institutional ownership on firm value is mixed. Mikkelsen and Ruback (1985) document positive abnormal returns following the announcement of the acquisition of a 5% or greater stake in our firm. However, this abnormal return is eventually dissipated if the target firm is not taken over, or if the acquired shares are not sold on the market or to the firm in a targeted repurchase. McConnell and Servaes (1990) find a positive relation between institutional ownership and Tobin's q. They acknowledge, however, that this could simply result from institutions buying the stocks of firms that have been performing well. Consistent with greater monitoring by institutional investors, Brickley et al. (1988) find a positive relation between institutional holdings and the percentage of votes cast against management-sponsored antitakeover amendments.

### **Institutional Environment**

The institutional environment in Thailand, as it pertains to corporate governance, is fundamentally different from that of the U.S. and Japan. The U.S. is characterized by a relatively strong market of corporate control and relatively dispersed stock ownership (Scheleifer and Vishny, 1997; La Porta et al., 1996) while Thailand has a highly concentrated stock ownership (Wiwattanakantang, 2000). Similarly to other East Asian economies, hostile takeovers whereby incompetent management teams are replaced, are relatively uncommon. One of the reasons of this is that the Asians do business where aggression and confrontation are normally avoided (Chandrasegar, 1995; Mak and Ong, 1999). Another reason is likely to be the high stock ownership concentration in Asia which makes it difficult to exercise hostile takeover (Mak and Li, 1998 and Mak and Ong, 1999).

### III RESEARCH QUESTIONS AND HYPOTHESES

The objectives of this study is to answer three research questions. First, are there significant changes in board and blockholder ownership after an IPO? Second, are there significant changes in board structure-board size, percentage of executive directors and leadership structure after an IPO? Third, are there associations between changes in ownership structure and changes in board structure? The first two questions are generally descriptive in nature while hypotheses relating to the third are developed in the following subsections.

#### Ownership structure and Board structure

The ownership structure of the firm is likely to affect the level of agency problems and the ability of stockholders to control agency problems (Jensen and Meckling, 1976; Mikkelson and Ruback, 1985; and Mak and Ong, 1999). In this study, follows Mak and Ong (1999), we define ownership structure in term of two traditional characteristics-board ownership and blockholder ownership. We define board structure in terms of three characteristics-board characteristics- board composition, leadership structure and board size.

#### Board Ownership

The top managers of most large firms own only a small percentage of the stock, that they have a insatiable appetite for salaries and perquisites because outside investors bear the cost. As share ownership by officers and managers increases, managers' incentives become more aligned with shareholders' interests (Jensen and Meckling, 1976).

Mek and Ong (1999) states that lower managerial ownership is likely to cause more independent boards because of two reasons. First, lower managerial ownership implies higher agency costs (Jensen and Meckling, 1976), which therefore calls for a stronger board for monitoring management. Second, lower managerial ownership indicates that managers have less power over board appointments because they control fewer voting rights.

Bathala and Rao (1995) find a negative relationship between managerial ownership and the percentage of directors who are independent of management on the board. Beatty and Zajac (1994) argue that a lower level of board ownership is associated with a higher level of firm monitoring as

represented by a higher proportion of outsiders or separate CEO and board chairman positions. Thus, an increase in board ownership will cause less monitoring, i.e., a lower proportion of outside directors. We also examine whether changes in board ownership affect board size.

H1a: There is a positive relationship between changes in board ownership and changes in the proportion of executive directors.

H1 b: There is a negative relationship between changes in board ownership and changes in board size.

### **Blockholder Ownership**

Danis et al. (1997) states that the presence of blockholders or institutions that own significant amounts of a firm's equity, or both, may reduce the degree of entrenchment associated with a given level of managerial ownership by facilitating takeover, or using their voting rights to get rid of managers who fail to maximize the firm value. This serves as a major structural mechanism to restrain managerial opportunism (Mikkelsen and Ruback, 1985; Mak and Ong, 1999). The most effective method for blockholders to enhance monitoring is to raise board independence. Therefore, a positive relationship should exist between blockholder ownership and board independence given the weak market for corporate control in Thailand.

H2a: There is a negative relationship between changes in blockholder ownership and changes in the proportion of executive directors.

H2b: There is no relationship between changes in blockholder ownership and changes in board size.

## **IV. DATA AND METHODOLOGY**

### **Sample Selection**

The research is based on Thai firms which enacted initial public offerings of equity securities between 1996 and 1997. The first criteria in selecting the sample is that the public offering must be listed on the Stock Exchange of Thailand five years after its offering. The second criteria is that information on board structure, ownership structure and leadership structure must be available from company files (FM 56-1). The major source of the ownership and board data manually collected from

— company files available at the library and the website of the Stock Exchange of Thailand. A total of 35 firms which met the criteria are included in this study.

## Data

The information and data used in this study are as follows:

1. Proportion of executive directors;
2. Leadership structure;
3. Board size;
4. Percentage of shares owned by directors.
5. Percentage of shares held by substantial shareholders (shareholders with 5% or more of total shareholdings);
6. Percentage of shares held by top 3 shareholders;

The data above are collected at both the time of offering and five years.

## Measurements of Variables

### Board Size (*BSIZE*)

Board size is measured by the total number of members on board of directors. The change in board in board size (*CBIZE*) is measured by subtracting board size at the time of IPO from board size five years thereafter.

### Proportion of Inside directors (*INSIDE*)

We classify executive directors as insiders and all other directors as outside directors. The proportion of inside directors is calculated by dividing the number of inside directors by the total number of directors. The change in the proportion of inside directors (*INSIDE*) measured by subtracting the proportion of executive directors at IPO from the proportion of inside directors five years thereafter.

### Leadership Structure (*LS*)

Leadership structure is defined as follows. Unitary leadership occurs only where the CEO is the chairperson of the board. Dual leadership exists where the CEO and chairperson roles are separated.

### Board Ownership (*BOWN*)

Board ownership is defined as the percentage of common stock directly held by inside directors. The change in board ownership (*CBOWN*) is determined by subtracting board ownership at the time of IPO from board ownership 5 years later.

### Blockholder Ownership (*SUBS/TOP3*)

Blockholder ownership is defined in two ways. *SUBS* refers to the percentage of common stock directly held by substantial shareholders (stockholders who hold 5 % or more of the common stock). *TOP3* refers to the percentage of common stock directly held by the top 3 shareholders. The change in blockholder ownership structure is obtained by subtracting the ownership at the time of IPO from the ownership five years thereafter and are defined as (*CSUBS*) or (*CTOPS*).

### Data Analysis

The objectives of the study are to determine (1) whether there are changes in ownership structure as well as changes in board structure at the time of IPO and five years thereafter; (2) whether the changes in ownership structure are associated with the changes in board structure. To answer these questions, the analysis is divided into two parts. Part 1 provides a descriptive analysis of all the variables, at the time of the IPO and five years after. Matched sample tests for differences in the variables over the two time periods are conducted. Part 2 of the analysis examines the bivariate correlations between changes in board structure and changes in ownership structure.

## V. EMPIRICAL RESULTS AND DISCUSSION

The final sample comprises 35 listed firms across various industries. The descriptive statistics for the study variables at the time of IPO are shown in Table 1. On average, directors hold 23.83 % of the firm's equity. The board of directors composed of 10.83 members, of which 80 % are insiders, and 20 % are independent outsiders. Blockholder ownership is defined in two ways: (a) top 3 shareholders and (b) substantial shareholders. At the time of the IPO blockholders hold around 54.20 % of the firm's equity if top 3 shareholders are used as the definition and blockholders hold 59.44 % if substantial shareholders are used as the definition.

Table 2 reports descriptive statistics for the ownership structure and board composition of the sample firms five years after the IPO. On average, directors hold 15.11 % of the firm's equity. The board of directors composed of 11.34 members, of which 76 % are insiders, and 24 % are independent outsiders. At the time of the IPO blockholders hold around 53.09 % of the firm's equity if top 3 shareholders are used as the definition and blockholders hold 57.81 % if substantial shareholders are used as the definition.

Table 3 shows the results of the Wilcoxon Signed Ranks tests for differences between the time of the IPO and five years thereafter. There is a significant decrease (8.72%) in board ownership ( $p < 0.001$ ). There is a significant increase in board size. The proportion of inside directors significantly decreases (4%) at the 1 % level. Blockholder ownership does not decrease significantly regardless whether top 3 shareholders or shareholders are used as definition.

Table 4 shows the leadership structure of the firms. Only 8 out of 35 (22.86%) firms adopted unitary leadership at the time of IPO. Five years later, 11 out of 35 (31.43 %) adopted unitary leadership structure. Spearman's correlations are used to examine the relationship between changes in ownership structure and changes in both proportion of inside directors and changes in board size. The results are shown in Table 5.

Table 5 shows that change in the proportion of executive directors is significantly related to changes in board ownership but is not significantly related with blockholder ownership. An increase in board ownership is associated with an increase in the proportion of executive directors. These results are consistent with hypotheses 1a and 2b. There is no significant relationship between change in board size and changes in either board ownership or blockholder ownership.

**Table 1**

**Descriptive statistics for IPO firms as of the year that the firms went public**

	Mean	Median	Maximum	Minimum
<b>Board Ownership and Board Structure</b>				
Board ownership	23.83	12.30	91.30	0.00
Board size (N = 35)	10.83	11	17	5
Fraction of inside director (N = 34)	0.80	0.81	0.88	0.60
Block holder ownership (TOP 3) N = 31	54.20	53.8	94.14	19.75
Block holder ownership (Stock holder who hole 5% or more) N = 32	59.44	60.97	95.91	0.00

**Table 2**

**Descriptive statistics for IPO firms as of the five year after the IPO**

	Mean	Median	Maximum	Minimum
<b>Board Ownership and Board Structure</b>				
Board ownership	15.11	7.72	57.06	0.0
Board size (N = 35)	11.34	11	17	6
Fraction of inside director (N = 34)	0.76	0.80	0.87	0.40
Block holder ownership (TOP 3) N = 31	53.09	53.21	94.96	17.59
Block holder ownership (Stock holder who hole 5% or more) N = 32	57.81	54.67	97.78	20.35

**Table 3**

Wilcoxon Signed Rank tests of Changer for all variables except for leadership structure

Variable	Mean		Sig
	At IPO	5 years later	
Board ownership (N = 27)	23.83	15.11	.007 ***
Board size (N = 35)	10.83	11	.096 *
Fraction of inside directors (N = 35)	0.80	0.76	.002 ***
TOP 3 (N = 31)	54.20	53.09	.493
Stock holder who 5% or more	59.44	57.81	.601

\*\*\* Significant at the 0.01 level

\*\* Significant at the 0.05 level

\* Significant at the 0.10 level

**Table 4**

Descriptive statistics for leadership structure (N = 35)

Variable	At IPO		5 years later		No Change in leadership structure	Change from Dual to Unitary
	Unitary	Dual	Unitary	Dual		
Leadership Structure	8 (22.8%)	27 (77.2%)	11 (31.43%)	24 (68.57%)	32 (91.43%)	3 (8.57%)

100778

17

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านการค้า  
ไม่ว่ากรณีใดๆ ทั้งสิ้น อีกทั้งห้ามมิให้ตัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

**Table 5**

Association between Changes in Ownership Structure and Board Structure

(Spearman Correlations) (N = 25)

Correlation Coefficients	Variables	CBSIZE	CEXEC
	C BOWN	.070	.444 **
	C TOP 3	.218	.109
	C SUBS	.290	.082

\*\*\* Significant at the 0.01 level

\*\* Significant at the 0.05 level

\* Significant at the 0.10 level

## VI. SUMMARY

The major findings of this paper are:

1. There was a decrease in the board ownership (8.72 %).
2. There was no significant decrease in blockholdership. This is inconsistent with the fact that ownership structure is more diffused after the IPO.
3. The proportion of executive directors decreased by around 4 % over the five year period to about 76 % of the board. Dual leadership was the dominant leadership structure and most firms ( 68.57%) maintained its leadership structure. There was an increase in board size in the five year period and the average board size was around eleven members.
4. The association between the change in the proportion of executive directors and the change in board ownership structure is consistent with expectation. A positive relationship exists between change in board ownership and change in the proportion of executive directors. However, there is no relationship between the proportion of executive directors and the change in blockholder ownership.
5. No significant relationship was found between changes in board size and changes in ownership structure.

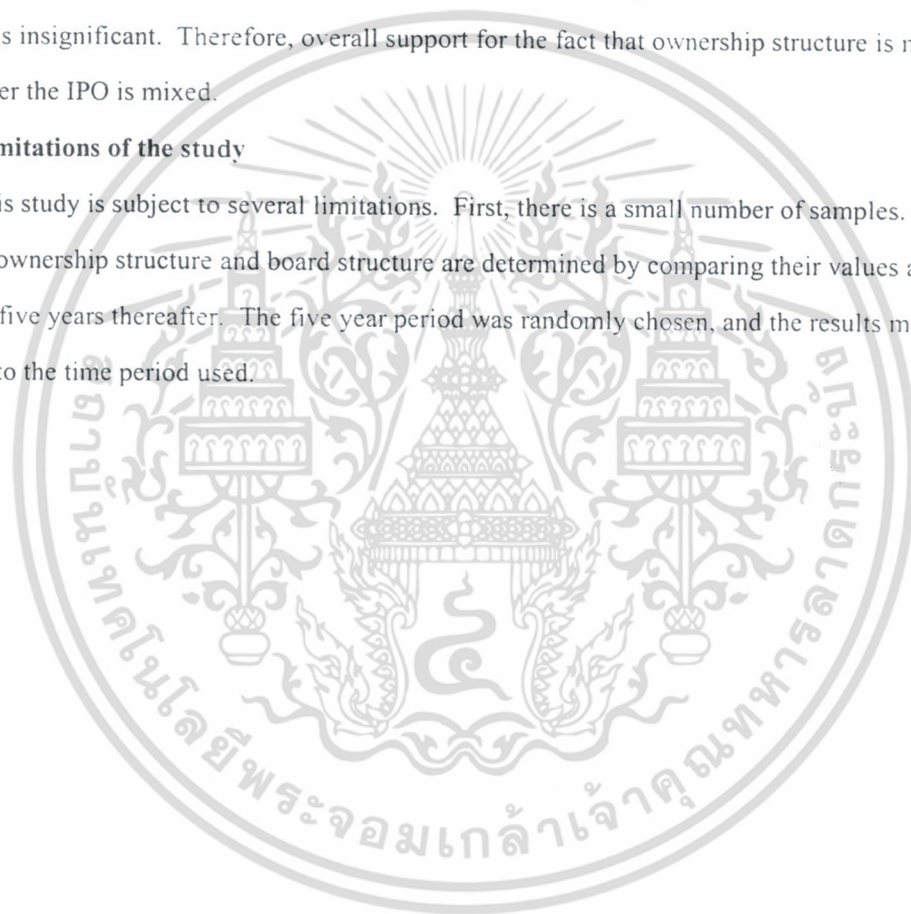
## Implications

In general, the findings seem to indicate that firms are moving towards a stronger board as they mature, where a strong board is defined as having more members, a lower proportion of executive directors (more outside directors). This is not unexpected since agency problems are likely to occur as ownership become more diffused after the IPO. Thus, a stronger board will help to reduce the agency problems of these firms.

Although there is a significant decrease in board ownership, the decrease in blockholder ownership is insignificant. Therefore, overall support for the fact that ownership structure is more diffused after the IPO is mixed.

## Limitations of the study

This study is subject to several limitations. First, there is a small number of samples. Second, changes in ownership structure and board structure are determined by comparing their values at the time of IPO and five years thereafter. The five year period was randomly chosen, and the results may be responsive to the time period used.



## REFERENCES

- Agarwal, A. & Knoeber, C. R., 1996, Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders, *Journal of Financial And Quantitative Analysis* 31, 377-398.
- Alchian, A.A., & Demsetz, H., 1972, Production, Information Costs, and Economic Organization. *American Economic Review* 62, 777-795.
- Baysinger, B.D. & Butler, H.S. 1985, Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics, and Organizations*. 1. 101-104.
- Balign, B.R., Mayer, R.C., & Ran, R.S., 1996, CEO Duality and Firm Performance: What's the Fuss?. *Strategic Management Journal* 17, 41-53.
- Baker, M., & Gompers, P.A., 2001, The Determinants of Board Structure at the Initial Public Offering, Working Paper.
- Bathala, C.T. & Rao, R.P., 1995, The Determinants of Board Composition: An Agency Perspective, *Managerial and Decision Economics*, 16. 59-69.
- Beatty, R.P. & Zajac, E.J., 1994, Managerial Incentives, Monitoring, and Risk-Bearing: A Study of Executive Compensation, Ownership and Board Structure in Initial Public Offerings, *Administrative Science Quarterly* 39, 313-335.
- Berle, A. & Means, G., 1932, *The Modern Corporation and Private Property*. New York: Macmillian
- Bhagat, S., & Black, B., 1999, The Uncertain Relationship Between Board Composition: An Agency Theory Perspective. *Managerial and Decision Economics* 16, 56-69.
- Bhagat, S., & Black, B., 2000, Board Independence and Long-Term Performance, Stanford Law School, Working Paper.
- Brickley, J.A., Coles, J.L. & Jarrell, G., 1997, Leadership Structure: Separating the CEO and the Chairman of the Board. *Journal of Corporate Finance* 3, 189-220.
- Brickley, J.A., Lease, R.C., & Smith, C. W., 1988. Ownership Structure and Voting on And Takeover Amendments. *Journal of Financial Economics* 20, 267-291.

- Buckland. R., 2001, UK IPO Board Structures and Post-Issue Performance.  
Working Paper.
- Byrd. J.& Hickman, K., 1992, Do Outside Directors Monitor Managers? Evidence  
From Tender Offer Bids. *Journal of Financial Economics* 32, 195-221.
- Chandrasegar, C., 1995, Takeovers and Mergers, Butterworths Asia.
- Denis. D.J., Denis. D.K. , & Sarin, A., 1997, Ownership Structure and Top Executive  
Turnover. *Journal of Financial Economics* 45, 193-221.
- Eisenberg, T., Sundgren, S., & Wells, M. T., 1998, Larger Board Size and Decreasing  
Firm Value in Small Firms, *Journal of Financial Economics* 48, 35-54.
- Fama. E.F., 1980. Agency Problems and the Theory of the Firm. *Journal of Political  
Economy* 88, 288-298.
- Fama, E.F. & Jensen, M.C., 1983. Separation of Ownership and Control. *Journal of Law  
and Economics* 26, 301-325.
- Fosberg . R. H., 1989, Outside Directors and Managerial Monitoring, *Arkon Business  
and Economic Review* 20, 24-32.
- Finkelstein, S. & D'Aveni, R.A., 1994, CEO Duality as a Double-Edged Sword: How  
boards of Directors Balance Entrenchment Avoidance and Unity of Command.  
*Academy of Management Journal* 37, 1079-1108.
- Hermalin, B.E. & Weisbach, M.S., 1991, The Effects of Board Composition and  
Direct Incentives on Firm Performance, *Financial Management*, 101-112.
- Hiraki, T., Inoue, H., Ito, A., Kuroki, F., & Masuda, H., 2003, Corporate Governance  
And Firm Value in Japan: Evidence From 1985 to 1998, *Pacific-Basin Finance  
Journal* 11, 239-265.
- Hirshleifer, D., & Thakor, A.V., 1998, Corporate Control Through Board Dismissals  
And Takeovers, *Journal of Economics & Management Strategy* 7, 489-520.
- Jensen, M.C., 1993, The Modern Industrial Revolution, Exit and the Failure of  
Internal Control System. *Journal of Finance* 48, 831-880.
- Jensen, M.C. & Meckling, W.H., 1976, The Theory of the Firm: Managerial Behavior,  
Agency Costs and Ownership Structure, *Journal of Financial Economics*, 3, 305-360.

เอกสารนี้เป็นเอกสารที่สงวนไว้สำหรับการใช้งานเพื่อการศึกษาเท่านั้น ไม่อนุญาตให้นำไปใช้ประโยชน์ด้านอื่น  
ไม่ว่ากรณีใดๆ ทั้งสิ้น อีกทั้งห้ามมิให้คัดแปลงเนื้อหา และต้องอ้างอิงถึงเจ้าของเอกสารทุกครั้งที่มีการนำไปใช้

- Kaplan, S.N. & Reishus, D., 1990, Outside Directorships and Corporate Performance.  
*Journal of Financial Economics*, 27, 389-410.
- Kaplan, S. N., & Minton, B.A., 1994, Appointments of Outsiders to Japanese Boards:  
Determinants and Implications For Managers, *Journal of Financial Economics* 36,  
225-258.
- Wiwantanakantang, Y., 2000, The Equity Ownership Structure of Thai Firms.  
Hitotsubashi University, Japan. Working Paper.
- Kesner and Dalton ,1986, Boards of Directors and the Checks of (Im)balances of  
Corporate Governance. *Business Horizon*, 17-23.
- La Porta, R. Lopez-de-Silanes, F., Shleifer, A. & Vishny R.W., 1998, Law and Finance,  
*Journal of Political Economy* 106, 1113-1155.
- Mak, Y.T. & Ong, P.F., 1999, Changes in Ownership Structure and Board Structure  
Following an Initial Public Offering. National University of Singapore, Working  
Paper.
- Mak, Y.T. & Roush, M.L., 1998, Factors Affecting the Characteristics of Boards of  
Directors: An Empirical Study of New Zealand Initial Public Offering Firms.  
*Journal of Business Research*.
- Mak, Y.T. & Li, Y. ,1998, Ownership Structure and Board Independence. National  
University of Singapore, Working Paper.
- McConnell, J.J., & Servaes, H., 1995, Equity Ownership and the Two Faces of  
Debt, *Journal of Financial Economics* 39, 131-157.
- Mello, A.S. & Parsons, J.E., 1998, Going Public and the Ownership Structure of the  
Firm, *Journal of Financial Economics*, 49, 79-109.
- Mikkelson, W.H., Partch, M.M. and Shah, K., 1997, Ownership and Operating  
Performance of Companies That Go Public, *Journal of Financial Economics*  
44, 281-307.
- Mikkelson, W. and Ruback, R., 1985, An Empirical Analysis of the Interfirm Equity  
Investment Process, *Journal of Financial Economics* 14, 523-553.
- Morck, R., Shleifer, A., & Vishny, R., 1988, Management Ownership and Market

- Valuation: An Empirical Analysis, *Journal of Financial Economics* 20, 293-316.
- Pi. L. & Timme, S.G., 1993, Corporate Control and Bank Efficiency. *Journal of Banking And Finance* 17, 515-530.
- Rechner. P.L. and Dalton, D.R., 1991, CEO Duality and Organizational Performance: A Longitudinal Analysis, *Strategic Management Journal*. 12, 155-160.
- Shivdasani. A., 1993, Board Composition, Ownership, and Hostile Takeovers. *Journal of Accounting and Economics* 16, 167-198.
- Shleifer. A. & Vishny, R. W., 1997, A Survey of Corporate Governance. *Journal Of Finance* 52, 737-783.
- Somenfeld, J., 1988., The Hero's Farewell: What Happens when CEOs Retire, *Oxford University Press*, New York.
- Stoughton. N.M. and Zechner. J., 1998, IPO-Mechanisms, Monitoring and Ownership Structure, *Journal of Financial Economics* 49, 45-77.
- Stulz, R. M., 1988, Managerial Control of Voting Rights: Financing Policies and The Market For Corporate Control, *Journal of Financial Economics* 20, 25-54.
- Vancil, R.F., 1987, Passing the Baton: Managing the Process of CEO Succession. *Harward Business School Press*, Boston.
- Yermack, D., 1996, Higher Market Valuation of Companies With a Small Board Of Directors, *Journal of Financial Economics* 40, 185-212.ss