

PREDICTING REHABILITATION OF DISTRESSED COMPANIES IN AN EMERGING ECONOMY

การพยากรณ์ความสามารถในการฟื้นฟูกิจการ สำหรับบริษัทที่ได้รับผลกระทบจากภาวะวิกฤตเศรษฐกิจ

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ABSTRACT

This study examined factors that have utility as predictors of (i) companies on the Stock Exchange of Thailand would join the Companies Under Rehabilitation (REHABCO) sector; and (ii) once having joined the sector, which companies would go on to be delisted from there. Two models were developed. Existing models were extended by including financial distress, auditor's opinion, audit quality, and corporate governance variables. This study also examined emergence under the REHABCO sector by comparing values of each variable at two time periods (the time of companies entering under the REHABCO and the time of companies returning to the normal board). Multinomial logistic regression was used in the study to classify which companies would enter and which ones would be delisted from rehabilitation because each stage provided three alternatives confronting companies.

The results show that the presence of audit committee, the remuneration, the capital adequacy, and the prior two years loss are significances comparing between to be delisted under REHABCO and returning to the normal board. When comparing between continuing under REHABCO and returning to the normal board, the presence of audit committee, the different position held by CEO and chairman, and the presence of going concern opinion are significances. For emergence from there, values of each variable are compared between two periods of time (the time at companies entering under REHABCO and the time at companies returning to the normal board). The result shows that twelve out of eighteen variables are significant differences between those two periods of time. There are the capital adequacy ratio, the earnings ability ratio, the liquidity ratio, the size of assets, the prior two years loss, the presence of going concern opinion, the proportion of board independence, the independent chairman, the

CEO ownership, the managerial ownership, the presence of nomination committee, and the presence of audit committee.

KEYWORDS: REHABCO sector, Auditor's opinion, Audit quality, Corporate governance

บทคัดย่อ

งานวิจัยนี้จัดทำขึ้นเพื่อศึกษาปัจจัยที่มีผลต่อการพยากรณ์ 1. บริษัทที่มีเกณฑ์เข้าสู่หมวดฟื้นฟูกิจการ 2. บริษัทที่เข้าสู่หมวดฟื้นฟูกิจการ ว่า บริษัทใดมีเกณฑ์ถูกเพิกถอนจากตลาดหลักทรัพย์ในขณะที่ยังคงอยู่ในหมวดฟื้นฟูกิจการ หรือเป็นบริษัทที่สามารถฟื้นฟูกิจการดำเนินงานจนสามารถกลับเข้าสู่หมวดปกติได้ โดยการพัฒนาตัวแบบพยากรณ์ 2 ตัวแบบที่ใช้ข้อมูลทางการเงิน ความเห็นของผู้สอบบัญชี บริษัทตรวจสอบบัญชี รวมถึงข้อมูลที่เกี่ยวข้องกับบริษัทภิบาล ในการพิจารณาบริษัทในตลาดหลักทรัพย์แห่งประเทศไทย นอกจากนี้ การศึกษานี้ยังศึกษาเปรียบเทียบลักษณะของตัวแปรต่างๆ ของบริษัทที่สามารถฟื้นฟูกิจการดำเนินงานจนสามารถกลับเข้าสู่หมวดปกติ ระหว่างช่วงเวลาบริษัทเข้าสู่หมวดฟื้นฟูกิจการกับเวลาที่บริษัทกลับสู่หมวดปกติ ซึ่งการตรวจสอบและอธิบายถึงการเข้าและการหลุดพ้นจากการฟื้นฟูกิจการนั้น ใช้การวิเคราะห์ความถดถอยมัลติโนเมียล เพื่อกำหนดกลุ่มบริษัทซึ่งมีทางเลือกได้ 3 ทาง

ผลการศึกษาพบว่า การมีคณะกรรมการตรวจสอบ จำนวนเงินเดือนและค่าตอบแทนของกรรมการและผู้บริหาร อัตราส่วนสภาพคล่องต่อสินทรัพย์รวม และผลขาดทุนต่อเนื่องติดต่อกัน 2 ปี มีนัยสำคัญต่อการพัฒนาตัวแบบพยากรณ์เมื่อเปรียบเทียบกับบริษัทที่ถูกเพิกถอนขณะที่อยู่ในหมวดฟื้นฟูกิจการกับบริษัทที่สามารถกลับเข้าสู่หมวดปกติได้ ส่วนตัวแปรที่มีนัยสำคัญต่อการพัฒนาตัวแบบพยากรณ์ เมื่อเปรียบเทียบกับบริษัทที่ยังอยู่ในหมวดฟื้นฟูกิจการกับบริษัทที่สามารถกลับเข้าสู่หมวดปกติได้ คือ การมีคณะกรรมการตรวจสอบ ประธานกรรมการบริษัทและประธานกรรมการบริหารที่มีได้เป็นบุคคลเดียวกัน และความเห็นของผู้สอบบัญชีที่มีรายละเอียดเกี่ยวกับการดำเนินงานต่อเนื่องของกิจการ เมื่อพิจารณาความสามารถในการกลับออกจากหมวดฟื้นฟูกิจการของบริษัท ผลการศึกษาพบว่า ตัวแปร 12 ตัวแปรจากตัวแปรทั้งสิ้น 18 ตัวแปรมีค่าเฉลี่ยวัด 1 ปีก่อนเข้าสู่หมวดฟื้นฟูกิจการ และค่าเฉลี่ยวัด 1 ปีก่อนออกจากหมวดฟื้นฟูกิจการแตกต่างกันอย่างมีนัยสำคัญ ตัวแปรเหล่านั้นได้แก่ อัตราส่วนสภาพคล่องต่อสินทรัพย์รวม อัตราส่วนกำไรสุทธิต่อสินทรัพย์รวม อัตราส่วนสินทรัพย์หมุนเวียนต่อสินทรัพย์รวม ผลขาดทุนต่อเนื่องติดต่อกัน 2 ปี ความเห็นของผู้สอบบัญชีที่มีรายละเอียดเกี่ยวกับการดำเนินงานต่อเนื่องของกิจการ ขนาดสินทรัพย์ของกิจการ สัดส่วนของกรรมการอิสระ ประธานกรรมการบริหารที่เป็นกรรมการอิสระ สัดส่วนการถือหุ้นของประธานกรรมการบริษัท สัดส่วนของถือหุ้นของผู้บริหาร การมีคณะกรรมการสรรหา และการมีคณะกรรมการตรวจสอบ

คำสำคัญ : หมวดฟื้นฟูกิจการ ความเห็นของผู้สอบบัญชี คุณภาพการสอบบัญชี การกำกับดูแลกิจการ

Introduction and Background

Firm failure is a major problem which concerns many companies during their period of operation and also auditors and regulators of those companies. Models that identify prospective firm failure and bankruptcy have been developed over decades to predict as best as possible the possibility of firms getting into this undesirable financial situation.

Several firms in Thailand have faced a failure problem especially during and since 1997. At that time, the economic and financial crisis started in Thailand and spread to the other countries of Southeast Asia. Although several Thai firms experienced bankruptcy, some severely financially distressed firms were protected under a rehabilitation scheme established by the Stock Exchange of Thailand (SET). After the Asian financial crisis in 1997, SET established the Companies Under Rehabilitation (REHABCO) listing sector of the Exchange to cope with companies not likely to remain viable. The idea was to provide a more sheltered listing environment, whilst signaling to the investing public acknowledgement of severe distress, and also to motivate the firms to escape eventual delisting status.

The purpose of this study is to examine which factors have utility as predictors of potentially delisting companies on SET and then to predict which companies, once in REHABCO will be delisted from that sector or will emerge to join the normal board again. Financial ratio analysis is well-established in predicting firm failure, but the contribution of this study is to control audit and corporate governance quality. Besides, it aims to develop models for both entry to and exit from REHABCO, where the possibilities for firms upon both entry and exit are more than binary.

Entry to rehabilitation has been modeled previously (Khunthong, 1998 and Anurakamolkul, 2005),

but neither delisting once in that sector nor emergence from it has in a Thai context. Furthermore, as explained previously, this study refines previous models by including corporate governance variables to the models developed and by allowing more than two alternative paths for companies to follow at each stage; both in entry to and emergence from rehabilitation.

Literature Review of Corporate Governance Variables and Their Measurements

Nine corporate governance mechanisms are reviewed in this section, comprised four mechanisms related to the structure of the board of directors, two mechanisms related to ownership, two mechanisms involving board sub-committees, and one related to executive remuneration. Their measurements are also presented.

1. Structure of Board of Directors

1.1 Board Size

Yermack (1996) argued that more effective financial performance is found in companies with smaller boards. Goodstein, Gautam, and Boeker (1994) provide evidence to support limited effectiveness in directing strategic change when a company faces environmental turbulence, when a large and diverse board exists. The size of the board of directors is measured by the number of directors on the board.

1.2 Proportion of Independent Directors

Agency theory argues that inside directors are more likely to be self-serving than outside directors (Jensen and Meckling 1976; and Fama, 1980) and so independent directors have responsibility for monitoring and evaluating management (eg DeZoort and Salterio, 2001). Organizations with lower proportions of outside directors might see insiders agreeing with the CEO and

doing whatever they believe the CEO wants (Jaikengkit, 2004). Ellumi and Gueyi? (2001) conclude that failure firms are more likely to have boards of directors containing fewer outsiders. Daily and Dalton (1994) find that firms with a lower proportion of independent directors are more likely to go bankrupt. The number of insider directors as a proportion of total directors is used as the measure of board independence.

1.3 Independent Chairman

To help protect shareholders from managerial opportunism, independent chairmen are required due to their impartiality (see, for instance, DeZoort and Salterio, 2001). Having an independent chairman is a preventative against use of inside information for abusive self-dealing. Hence, having an independent chairman reflects a lower probability of failure. Independent chairman takes the form of a binary variable that take the value of 1 when the firm has an independent chairman and 0 otherwise.

1.4 Separation of CEO/Chair Roles

A number of researchers argue that an organization is disadvantaged when the position of CEO is not separated from the position of board chairman. Duality is associated with ineffective boards due to lower board independence, reduction in board monitoring effectiveness, and CEO entrenchment (Baysinger and Hoskisson, 1990; Rechner and Dalton, 1991; and Jensen, 1993). The variable CEO duality is expected to have a negative relationship with the probability of failure. This variable is measured as a binary value taking the value 1 if the same person takes the positions both of chairman of the board and CEO and 0 otherwise.

Ownership

1. Managerial Ownership

The concentration of ownership creates one of

the largest governance problems in Thailand (Dhnadirek & Tang, 2003). This is so because of the nature of major shareholders' ownership in Thailand, which is characterised by the emergence of family business groups (eg Limpaphayom, 2000; and Suehiro, 2001). Managerial ownership is expected to be positively related to the probability of failure.

2. CEO Share Ownership

The concept of concentrated of ownership may be also applied when the CEO holds shares. It may also lead to a managerial problem due to the high power held by the CEO. Additionally, to pursue shareholder interests, it is suggested that directors and the CEO should hold company's shares. This is supported by Minow and Bingham (1995). They state that "nothing makes directors think like shareholders more than being a shareholder" (p.497). The CEO should share some amount of financial risk as shareholders. Holding some shares will give directors an incentive to act in the best interests of shareholders. Hence, the maximization of shareholders' interest will be more effectively monitored and fulfilled. The association of a high percentage of total equity owned by the CEO on corporate performance of financially distressed firms should be applicable to companies under REHABCO sector. In this study, the term CEO ownership is measured in terms of the proportion (percentage) of total equity owned by CEO. CEO ownership is expected to be positively related to the probability of failure. This is so because the managerial problem of high power may occur if the CEO holds a high percentage of the businesses' shares.

3. Board Committees

3.1 Nomination Committee

A nomination committee is responsible for

reviewing board performance, overseeing the selection of candidates for election to the board of directors, including the chairman, and appointing and removing directors. The presence of a nomination committee (NOMCOM) is represented as a binary variable that takes the value of 1 if a nomination committee exists, otherwise 0.

3.2 Audit Committee

It is suggested that more reliable financial reporting can be facilitated by the presence of an audit committee (see, for instance, Vafeas, 2005). Key functions of an effective audit committee have been studied in various aspects such as composition, expertise, disclosure of activities, and quality of financial reporting (see, for instance, DeZoort et al., 2002; Klein, 2002; and Carcello and Neal, 2003), the presence of an audit committee is used in this study to proxy for this mechanism of good corporate governance. The variable AUDCOM is expected to have a negative relationship with the probability of failure.

4. Remuneration of Officers and Directors

According to reports by the SET of the remuneration of directors and executives of listed companies between 2001 and 2005, the REHABCO sector

had the lowest average remuneration per director in the years 2005 and 2004. Hence, payment of remuneration (Baht) deflated by total assets which is below the median is expected to have a positive relationship with the probability of failure.

Research Methodology

1. Hypotheses and Model Development

There are three hypotheses developed in this study. The first is whether poorer corporate governance associated with listed companies remaining on the normal board entering under REHABCO. The second is whether poorer corporate governance associated with listed companies under REHABCO subsequently being delisted. Another hypothesis is whether improved corporate governance relative to that present at the time of REHABCO entry associated with companies' emergence from REHABCO. A flowchart diagram of the outcome alternatives that need to be considered in the model development is represented in Figure 1.

2. Model Specification

There are two models (Phase 1 model and Phase 2 model) in this study. Models are employed using multinomial logistic regression since this is the

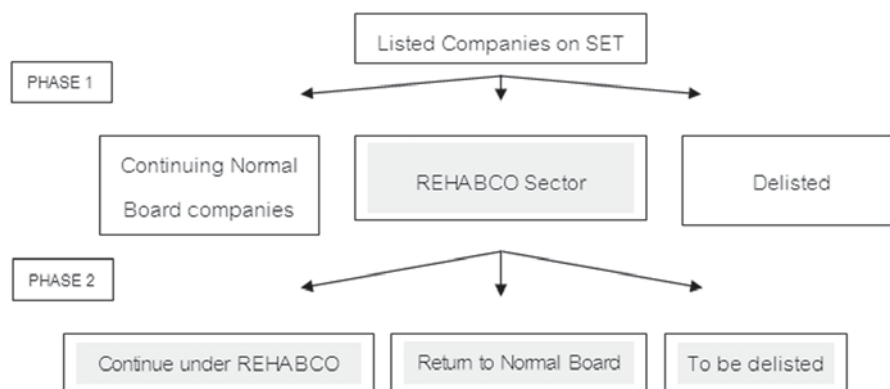


Figure 1 Flow chart of dependent variable categories for multinomial models developed to predict listed companies entering into and emerging from REHABCO

appropriate procedure where disproportionate sampling from three categories occurs (i.e. normal board category, under REHABCO category and delisted category for the Phase 1 model; the to be delisted category, returning to normal board category and continuing under REHABCO category, for the Phase 2 model).

The following multinomial logistic regression models are used to test the hypothesised relationship between lagged financial distress, corporate governance, going concern audit opinion, and audit quality variables. The Phase 1 model appears below:

$$\text{Status}_{i,t} = \beta_0 + \beta_1 \text{FINDISTRESS}_{i,t-1} + \beta_2 \text{AUDITOP}_{i,t-1} + \beta_3 \text{BIG5}_{i,t-1} + \beta_4 \text{CG}_{i,t-1} + \varepsilon \quad (1)$$

The full model is represented by Equation (2)

$$\begin{aligned} \text{PHASE 1} \\ \text{Status}_{i,t} = & \beta_0 + \beta_1 (C)_{i,t-1} + \beta_2 (A)_{i,t-1} + \beta_3 (M)_{i,t-1} + \beta_4 (E)_{i,t-1} + \beta_5 (L)_{i,t-1} + \beta_6 (\text{LOSS})_{i,t-1} + \\ & \beta_7 (\text{AUDITOP})_{i,t-1} + \beta_8 (\text{BIG 5})_{i,t-1} + \beta_9 (\text{BORAR SIZE})_{i,t-1} + \beta_{10} (\text{BOARDIND})_{i,t-1} + \\ & \beta_{11} (\text{MOWN})_{i,t-1} + \beta_{12} (\text{COWN})_{i,t-1} + \beta_{13} (\text{INDCHAIR})_{i,t-1} + \beta_{14} (\text{DUAL})_{i,t-1} + \\ & \beta_{15} (\text{NOMCOM})_{i,t-1} + \beta_{16} (\text{AUDCOM})_{i,t-1} + \beta_{17} (\text{REMU})_{i,t-1} + \varepsilon \end{aligned} \quad (2)$$

PHASE 1 Status _{i,t}	=	Categories taking value 1 when normal board status occurs, 2 when delisted status occurs, and 3 when under REHABCO status occurs at time t.
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CG_{i,t-1} = Corporate Governance

=	<ul style="list-style-type: none"> Board Size (BOARDSIZE), Board Independence (BOARDIND), Independent Chairman (INDCHAIR), Nomination Committee (NOMCOM), Audit Committee (AUDCOM), Remuneration (Baht) deflated by total assets (REMU) Managerial Ownership (MOWN), CEO Ownership (COWN), Position of CEO and chairman held by different person (DUAL), measured one year prior to the measurement of companies' status.
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$FINDISTRESS_{i,t-1}$	=	Financial Distress
	=	Capital Adequacy (C), Asset Quality (A), Management Quality (M), Earnings Ability (E), Liquidity (L), Asset size (ASSET), Loss in each of the prior 2 years (LOSS), measured one year prior to the measurement of companies' status.
$AUDITOP_{i,t-1}$	=	Going concern opinion (AUDITOP) measured one year prior to the measurement of companies' status.
$BIG\ 5_{i,t-1}$	=	Big 5 audit firm client (BIG 5) measured one year prior to the measurement of companies' status.
ϵ	=	Error term

Due to the smaller sample size for companies under REHABCO, the Phase 2 model is of the same form as that used in Phase 1 but it includes only those variables found to be significant in the multinomial regression from Phase 1 and those significant in univariate tests of difference between status categories for this sample. Hence, the Phase 2 model has as its dependent variables the categories; companies to be delisted, companies remaining under REHABCO and companies emerging from REHABCO.

3. Sample and Data Sources

The selection of the sample is dependent upon availability of the required complete data within the annual reports including balance sheet, income statement and corporate governance data. The samples of normal board companies, companies under REHABCO and delisted are selected across the period 1999-2007 which consists of 155, 95 and 60 firms respectively. The sample of normal board companies is formed by a rigorous matching process. The normal board sample of 155 companies is matched to the REHABCO and delisted based on being from the same year, the same industry

sector, approximately the same Baht value of assets (ten per cent tolerance) as companies in the REHABCO and delisted samples. For 95 companies under REHABCO, sub-samples consist of companies continuing under REHABCO (22), companies returning to the normal board (46), and companies delisted after entrance to the REHABCO sector (27). To examine the value of the data over the eight years, analysis of data one year prior to emergence from rehabilitation is performed.

Results and Discussion

Hypotheses in this study investigate the ability of nine corporate governance mechanisms to model successfully SET listed companies' entry to rehabilitation and also listed companies under REHABCO subsequently being delisted.

Distress will be associated when companies: i) do not set an appropriate number of members of the board of directors, ii) have not clearly separated the role of board and its responsibilities as the monitor of the company's operations, iii) have a non-independent chairman, iv) have CEO related to major shareholders or

involved in the operation of the company, v) have officers and management related to major shareholders or involved in the operation of the company, vi) have the chief executive officer (CEO) position held by same individual as the chairman of the board, vii) have no nomination and/or viii) audit committees, and ix) have

no or a low rate of remuneration of board members and board sub-committee members.

So, the results of Tables 1 and 2 can be concluded that poorer corporate governance is associated with listed companies being delisted and enter the REHABCO sector.

Table 1 Multinomial Logistic Regression for the Classification of Listed Companies in SET (n=310)

Variable	Estimates of Coefficients (Reference Category is Normal Board)					
	Delisted Companies (n=60)			REHABCO Companies (n=95)		
	B	Std. Error	Wald Test	B	Std. Error	Wald Test
Intercept	-.073	3.811	.000	-10.291	6.709	2.353
BOARDSIZE	-.081	.076	1.140	-.144	.150	.925
BOARDIND	-.018	.016	1.329	-.002	.033	.003
INDCHAIR	1.304	.895	2.124	4.692	1.676	7.841***
NOMCOM ¹	.524	.920	.325	13.880	.000	.
AUDCOM	-.981	.495	3.923**	-.416	1.003	.172
REMU	-.124	.594	.043	-2.732	1.307	4.373**
MOWN	-.028	.018	2.329	-.056	.045	1.517
COWN	.037	.032	1.340	.133	.075	3.129*
DUAL	-.114	.514	.049	-.223	1.021	.048
(C)	.119	1.129	.011	-11.907	3.039	15.352***
(A)	2.064	1.684	1.501	-2.677	3.871	.478
(M)	-1.974	5.601	.124	19.588	11.243	3.035*
(E)	3.097	4.306	.517	-7.580	4.693	2.609
(L)	1.072	.935	1.313	-6.056	2.539	5.690**
LOGASSET	.220	.497	.195	.200	1.011	.039
LOSS	-1.211	.637	3.611*	-2.638	1.123	5.518**
AUDITOP	-1.629	.620	6.903***	-4.057	1.162	12.186***
BIG 5 ²	-1.209	.520	5.404**	2.336	1.224	3.643*
Model Chi-Square	304.291***					
-2 Log Likelihood	512.660					
Nagelkerke R ²	81.1%					
Overall Correctly Classified	82.9%					

*** Statistical significance at the 0.01 level, ** Statistical significance at the 0.05 level, * Statistical significance at the 0.10 level

¹ There is no result for the variable NOMCOM for REHABCO companies because no REHABCO companies report the presence of a nomination committee during the period of this study.

² Big 5 refers to brand name auditors: Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PriceWaterhouseCoopers. This tier of auditors was previously called Big 8 or Big 6; however, brand name audit firm currently is called Big 4 due to the recent demise of Arthur Andersen. In this study, Big 5 is the focus because Andersen was also a top tier accounting firm for some of the period of this study (1999-2006).

The results from Table 1 also show that although all nine corporate governance variables are included in the first model, only three (INDCHAIR, REMU, and COWN) are significant when comparing REHABCO companies

and normal board companies. When comparing delisted companies and normal board companies, only one of nine corporate governance variables is significant. This is the variable AUDCOM.

Table 2 Multinomial Logistic Regression for Companies which have Entered Under REHABCO and are Subsequently Delisted (n=95)

Variable	Estimates of Coefficients (Reference Category is returning to the Normal Board)					
	To be Delisted under REHABCO (n=27)			Continuing under REHABCO (n=22)		
	B	Std. Error	Wald Test	B	Std. Error	Wald Test
Intercept	4.963	4.905	1.023	-19.820	6.398	9.596***
INDCHAIR	-2.124	1.312	2.620	17.097	.000	.
AUDCOM	1.912	1.068	3.202*	-2.116	.909	5.423**
REMU	2.197	1.037	4.491**	-.449	1.257	.127
COWN	-.062	.042	2.177	-.038	.045	.698
DUAL	.653	.824	.628	2.404	.916	6.883***
(C)	-1.191	.715	2.776*	-1.095	.749	2.134
(M)	-1.334	1.617	.680	-3.186	3.118	1.044
(L)	1.322	1.468	.812	.050	1.808	.001
LOGASSET	-1.146	.817	1.967	.250	.997	.063
LOSS	2.471	1.078	5.252**	-1.664	1.838	.820
AUDITOP	.881	1.682	.274	4.741	1.722	7.582***
BIG 5	.329	.717	.211	.898	.919	.955
Model Chi-Square	72.055***					
-2 Log Likelihood	176.654					
Nagelkerke R2	65.9%					
Overall Correctly Classified	71.1%					

*** Statistical significance at the 0.01 level, ** Statistical significance at the 0.05 level, * Statistical significance at the 0.10 level

Key: C=Capital Adequacy measured as the net worth to total assets, A=Asset Quality measured as the loan to total assets, M=Management Quality measured as the operating expenses to total assets, E=Earnings Ability measured as the net income to total assets, L=Liquidity measured as liquid assets to total asset, LOSS= a loss in each of prior two years, AUDITOP = Opinion measured as the presence of audit opinion as going concern, and BIG5=Big 5 Audit Firm measured as the presence of a Big 5 audit firm, BOARDSIZE = Board Size measured as the number of directors on board, BOARDIND = Board Independence measured as a proportion of inside director on board, MOWN = Managerial Ownership measured as the percentage of total equity owned by all officers and management, COWN = CEO Ownership measured as the percentage of total equity owned by CEO, INDCHAIR = Independent Chairman measured as the presence of an independent chairman of the board, DUAL= CEO duality measured as the same person who take position both of CEO and chairman of the board, NOMCOM = Nomination Committee measured as the presence of a nomination committee, AUDCOM= Audit Committee measured as the presence of an audit committee, REMU=Remuneration measured as payment of remuneration (Baht) deflated by total assets which is below the median

The results from Table 2 show that eight corporate governance variables from the Phase 1 model are included in the Phase 2 model except for the variable NOMCOM due to the lack of a nomination committee for companies under REHABCO. Two corporate governance variables (AUDCOM and REMU) are significant when comparing to be delisted companies and returning to the normal board companies. When comparing continuing under REHABCO companies and returning to the normal board companies, only two of nine corporate governance

variables are significant in the model predicted. Those are variables AUDCOM and DUAL.

To evaluate the discriminatory power of each variable, values at two time periods are compared; first at the time of companies entering REHABCO and second at the time of companies returning to the normal board, are focused to see any significant movements in the variables for firms when entering REHABCO compared to when returned to the normal board (see Table 3).

Table 3 Paired Sample T-Tests for Continuous Variables and Chi-Square Tests for Dichotomous Variables at time of Entering REHABCO vs. Returning to Normal Board (n=46) and at time of Returning to Normal Board vs. Matched Pair Continuing Normal Board Companies (n=46)

Continuous Variables	Paired Sample T Test (1) vs. (2)	Entering under REHABCO (1)	Returning to Normal Board (2)	Matched Pair Normal Board (3)	Paired Sample T Test (2) vs. (3)
BOARDSIZE (number)	-.511	9.51	9.73	10.23	-.939
BOARDIND (%)	-4.304***	18.5780	29.6937	32.7071	-1.046
MOWN (%)	-7.742***	20.6430	61.5222	58.9111	.171
COWN (%)	2.275**	8.0133	3.8173	11.7752	-2.959***
C (times)	-3.569***	-.1512	.3049	.5759	-2.267
A (times)	.387	.1076	.0916	.0745	.547
M (times)	1.420	.1064	.0490	.0303	1.310
E (times)	-4.395***	-.1903	.0418	.0136	1.100
L (times)	-2.175**	.4321	.5048	.5478	-.946
ASSET (billion Baht)	2.206**	9.0994	5.8045	5.8454	-.260

Dichotomous Variables	Chi-Square Test (1) vs. (2)	Entering under REHABCO (1)	Returning to Normal Board (2)	Matched Pair Normal Board (3)	Chi-Square Test (2) vs. (3)
INDCHAIR	3.045*	.09	.22	.16	.653
DUAL	1.385	.77	.67	.70	.207
NOMCOM	5.294**	.00	.11	.16	.809
AUDCOM	39.319***	.30	.93	.98	1.047
REMU	3.933	.44	.32	.39	2.569
LOSS	62.267***	.87	.04	.09	.713
AUDITOP	39.546***	.91	.28	.07	6.452**
BIG 5	.884	.60	.56	.54	.362

*** Statistical significance at the 0.01 level, ** Statistical significance at the 0.05 level, * Statistical significance at the 0.10 level

Results of the analysis showed that eleven of these variables have a positive improvement between the two time periods. These are variables BOARDIND, INDCHAIR, NOMCOM, AUDCOM, COWN, C, E, L, ASSET, LOSS, and AUDITOP. Total assets decreased comparing between the time of companies entering the REHABCO sector and the time of companies returning to the normal board (at $p < 0.05$), showing that restructuring may have taken place. However, one variable presents deterioration between these two periods. This is variable MOWN. The percentage of total equity owned by officers and management increased from 20.64 to 61.52 per cent between those two periods, which is significant at the $p < 0.01$ level. Variables BOARDSIZE, REMU, DUAL, A, M and BIG5 did not show a significant difference between those two periods of time. However, variables REMU, DUAL, and A indicated positive improvements, even though insignificant. Size of the board of directors does not change. Variables M and BIG5 represented deterioration between those two times, if indeed a Big 5 auditor represents superior audit quality.

Conclusions, Implications and Future Research

In general, the results support the use of financial distress, audit, and corporate governance variables in examining and explaining companies entering and emergence from the REHABCO.

For model entering under REHABCO, three out of five of CAMEL ratios (the Capital Adequacy ratio, the Management Quality ratio, and the Liquidity ratio), the prior two years loss variables, as well as going concern opinion and Big 5 variables, are good predictors in the multivariate model. There are also four corporate governance variables (independent chairman, remuneration (Baht) deflated by total, CEO ownership, and the presence of audit committee) included.

For model delisting from REHABCO, only one of CAMEL ratios (the Capital Adequacy ratio), the prior two years loss variables, as well as going concern opinion, are good predictors in the multivariate model. There are also three corporate governance variables (the position of CEO and chairman are occupied by different person, remuneration (Baht) deflated by total, CEO ownership, and the presence of audit committee) included.

For emergence from REHABCO, results of the analysis showed that eleven of these variables have a positive improvement between the two time periods. These are variables board independence, independent chairman, the presence of nomination committee, the presence of audit committee, CEO ownership, the Capital Adequacy ratio, the Earning Ability ratio, the Liquidity ratio, asset size, the loss in each of prior two years, and auditor's opinion. However, one variable presents deterioration between these two periods. This is variable managerial ownership.

Some limitation should be noted when interpreting the results of this study. However, the limitations provide opportunities for future study. First of all, this study has a problem about missing variables. In the corporate governance literature, the state ownership or the government ownership is also an important attribute in the corporate governance structure of the firm. The state ownership variable may affect to the performance of firm. The positive relationship between state shares and firm's performance are reported in previous studies. Given the data on state ownership, the models would be better specified. The measure of variables employed is another limitation. For the structure of board of directors, this study employed four governance mechanisms including the board size, the proportion of independent directors, the presence of a non-independent chairman, and the holding by same person of the position of CEO

and chairman. For the measures of the structure of board of directors, this study looked at one of these measures and their effect for listed companies entering and then emerging the REHABCO sector. It would be better if this study look at these measures of the level of the structure of the board of directors together.

Future research may be developed to address the limitations and weaknesses of this study. The development of future research may also focus on the corporate governance and the performance of firm. The recent literatures focused on the corporate governance and the firm's performance have been reported in the United State of America, European countries, Japan as well as Malaysia. The lack of empirical evidence on corporate governance and Thai firm's performance should lead to further interest in this area of research.

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