Abstract
The objective of this research is to provide evidence on the relationship between executive compensation and firm performance in Thailand, while controlling for ownership and corporate governance structure. This study offers some distinct advantages when compared to prior research. First, we investigate the pay-performance relationship for both directors and top managers, while other researchers studying non-USA data test this relationship for only directors’ pay or top managers’ pay, but not both, due to data constraints. Second, prior research relies on general proxy measures of corporate governance that is based primarily on individual firm-level variables. In contrast, we will utilize a corporate governance index (CGI) measure for Thai companies. Third, we have access to data on family group membership, large common stock ownership, and board composition for Thai firms that is not widely available to other researchers.

We expect this research will be the first to report on the pay-performance relationship for executives of Thai firms, and we hope to offer a unique perspective of how family business groups and strength of a firm’s corporate governance affects the pay-performance relationship for directors and managers of an emerging market country.

Corporate Governance, Ownership Structure, and the Pay-Performance Relationship in Thailand

1. Description of the proposed project
The body of research investigating the relationship between executive compensation and company performance (pay-performance) is rooted in agency theory: i.e. compensation plans are designed to align the interests of risk-averse, self-interested executives with those of stockholders-owners (Murphy, 1985; 1999). Therefore, it is argued that executive compensation plans should provide incentives for top managers to maximize share value, which corresponds to the theoretic goal of owners. Murphy (1999) summarizes this research showing
that executive pay is related to performance, but that this relationship is affected by variables, such as, company size, industry, and country of origin.

To date, the relationship between executive compensation and firm performance has been studied extensively for firms domiciled in the USA (see Murphy, 1999). However, outside of the USA, investigation of this pay-performance relationship is limited primarily to countries with larger or more mature economies, due in large part to data constraints. For example, countries that have been studied in Asia is limited to Japan (Kato and Rockel, 1992; Kaplan, 1994; Kato, 1997; Abe, Gaston, and Kubo, 2005; Kato and Kubo, 2006), Korea (Kato, Kim, and Lee, 2006), China (Mengistae and Xu, 2004; Kato and Long, 2005; Firth, Fung, and Rui, 2006), and the Philippines (Unite, Sullivan, Brookman, Majadillas, and Taningco, 2008). Of these, the Philippines is the only small, emerging market Asian economy that has been studied. While the classic view of ownership in Anglo-Saxon economies is that of widely-held, dispersed control, La Porta, Lopez-de-Silanes, and Shleifer (1999) challenge this view. They present evidence that family control is prevalent in approximately half of the larger companies throughout the world. As such, any pay-performance relationship may be dependant on whether family control is present. The background for this idea is that family firms are associated with expropriation from minority shareholder [see Akerlof and Romer’s (1993) looting hypothesis and Johnson, La Porta, Lopez-de-Silanes and Shleifer’s (1999) tunneling hypothesis]. For example, wealth may be expropriated from minority shareholders by a controlling family through the allocation of excess pay to family managers or by ignoring poor performance indicators when allocating pay to family managers [see Villalonga and Amit (2004)].

This study offers some distinct advantages compared to prior, related research. First, prior research of the pay-performance relationship for firms in Asian countries has studied this relationship for either top managers (CEOs) or members of board of directors (directors), but not both. This is a consequence of data constraints due to reporting standards. Companies in Japan and Korea are required to report aggregate compensation data for directors, but not CEOs. Few other countries have followed the United States in requiring individual compensation data to be disclosed for top managers. In Asia, these countries include China, New Zealand, the Philippines, and Thailand. However, Thailand is the only Asian country having compensation data available for both directors and top managers. Second, prior research has relied on general proxy measures of corporate governance at the firm level, based on single variables, such as, the percentage of independent board members or the percentage of ownership concentration. In contrast, this study utilizes a corporate governance index (CGI) measure based on six sets of variables related to (1) board accountability, (2) financial disclosure and internal controls, (3) shareholder rights, (4) remuneration, (5) market for control, and (6) corporate behavior. Third, this research will utilize data on family groups, family
ownership, family relationships, and board composition that is not widely available to other researchers.

We expect that this paper will be the first to report on the pay-performance relationship for executives of Thai firms and whether this relationship differs between directors and managers. We also hope to offer a unique perspective of how family business groups and the strength of a firm’s corporate governance affects the pay-performance relationship.

2. How this project enhances my teaching and research
Work in this area will provide me greater insights into various corporate governance issues that pertain to emerging market economies. This insight will be brought into the classroom as a means of enriching the student’s classroom experience. In addition, I envision that this research will lead to a written manuscript targeted for publication in a high-quality international Finance journal (targeted journals include the Journal of Banking and Finance and the Pacific-Basin Finance Journal). I also plan on presenting this study at professional meetings [e.g. the Financial Management Association Meetings (FMA), which is the primary meeting for Finance faculty] and at international policy-oriented meetings (e.g. International Conference of the East Asian Economic Association).

3. Time-line
Summer 2009: Collect and organize data, analyze data, and begin writing paper.
Fall 2009: Polish draft of paper and submit for presentation and publication.