INFORMATIVENESS OF EARNINGS AND BOARD CHARACTERISTICS: EVIDENCES FROM THAILAND

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ABSTRACT

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The main objective of this paper is to investigate whether the characteristics of board of directors which is a mechanism of corporate governance affect earnings informativeness after reform of corporate governance system in Thai capital market, which is one of the emerging markets. The informativeness of earnings is measured by the relationship between returns and earnings. The dependent variable is cumulative weekly abnormal returns. The independent variables consist of unexpected earnings, educational background of board and of audit committee, board size, CEO duality, independent directors, independent directors’ directorship, independent directors’ tenure, and audit committee meeting. The eight control variables comprise of concentrated ownership, managerial ownership, firm size, systematic risk, growth, persistence of earnings, leverage, and big 4 (5) auditor.

The sample is the listed firms on the Stock Exchange of Thailand in the year 2000 and 2004. Financial data are collected from DATASTREAM INTERNATIONAL, I-SIMS and SET SMART databases. The board characteristics, concentrated ownership, managerial ownership, and big 4 (5) auditor data are collected from SET SMART databases, Form 56-1 disclosed by listed firms, and firms’ annual report.

The cross-sectional regression is used to assess the model. The significance of coefficient of unexpected earnings is tested to find the evidence whether earnings have informativeness. The significance of coefficient of the interaction term between unexpected earnings and each interested independent variable is tested to find the evidences if board characteristics affect earnings informativeness. The significance of coefficient of the interaction term between unexpected earnings and each control variable is also tested to find the evidences if the control variables affect earnings informativeness.
According to the evidences, earnings in the year 2004 provide informativeness but those in the year 2000 do not. There is no evidence of any variable for the year 2000 impacting earnings informativeness. However, for the year 2004, educational background of board and of audit committee, CEO duality, tenure including control variables: managerial ownership and systematic risk have effect on the informativeness of earnings.

The results for the year 2004 indicate that educational background of board and of audit committee member, CEO duality, and independent directors’ tenure affect earnings informativeness. Some control variables for the year 2004: managerial ownership and systematic risk also impact the informativeness of earnings. Moreover, the effect of board characteristics on earnings informativeness is better in the year 2004 than that in the year 2000.

The results of this paper contribute the investigation line of the effect of board characteristics on the earnings informativeness. They provide the effect of educational background of board and of audit committee member, and independent directors’ tenure on earnings informativeness, that other related research does not. They also add up the limited empirical evidences of the effect of board in overseeing the quality of accounting information in Thai capital market, which is one of emerging market. Moreover, Thai corporate governance regulatory agencies, investors, and listed firms may value the evidences found in this study.

One extension of this paper is to further investigate whether board characteristics influence earnings informativeness in the year after the year 2004. This will confirm that board characteristics affect earnings informativeness not only in the year 2004. Another extension is to examine which factors lead to the change of the effect of board characteristics on earnings informativeness between the year 2000 and 2004.
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