

MANAGEMENT AND FINANCIAL DISTRESS:
THE CASE OF THAI LISTED COMPANIES

by

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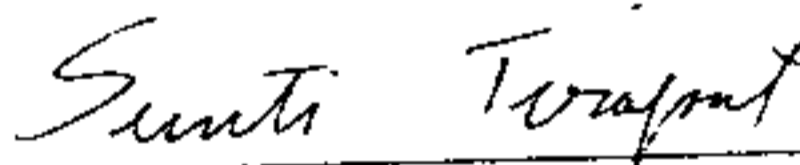
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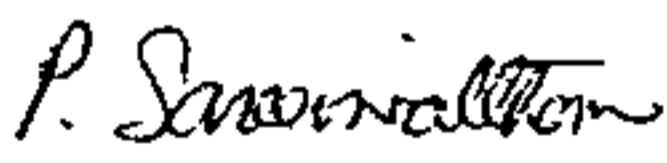
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This dissertation is dedicated to my late Father, Wing Commander Charoen Mainkamnurd, my late Mother, Mrs. Somphit Mainkamnurd, and my late beloved brother Vatcharapol Mainkamnurd--for everything, to Uncle Tad and Auntie Sa-ngob (Mr. Santad and Mrs. Sa-ngob Mainkamnurd), and to Uncle Udom and Auntie Poonsri (Associate Professor Udom and Mrs. Poonsri Pupipat)--for the continuous support.

Abstract

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Miss Surang Mainkamnurd: Management and Financial Distress: The Case of
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Management's important role on corporate success has long been recognized. However, empirical evidence on management relation of corporate efficiency is inconclusive. Also, the evidence the whether financial difficulty is a result of mismanagement has been little documented despite the wide-ranging financial distress. Most of the financial distress studies use the financial ratios as the explanatory variables (e.g. Altman (1968) and Ohson (1980)).

Apart from previous research, this study relates management to the probability of financial distress. It attempts to examine whether managers, external factors, or both are responsible for corporate distress. In addition, management quality is further investigated in the forms of integrated characteristics or a set of determinants. Such determinants are composed of six broad categories; ownership structure, managerial turnover, management's aggression in terms of investing and financing styles, skills and perspectives of managing under floating exchange rate regime, and quality of conducting financial information. An industry condition is also incorporated as an external factor proxy. Managerial determinants of financial distress are analyzed via seven patterns: The system of equations, independent equation, substituted equation, and revised equation using two managerial proxies. expect for the revised equation. Both managerial turnover proxies are the change in the board of directors and managing directors. The analytical methods used are the one-year prior to the event basis. The samples are composed of all listed companies in the Stock Exchange of Thailand in the test period from 1996 to 1998.

The empirical evidence shows that management competency coupled with the factor outside managerial control is responsible for corporate financial distress. The contributing factors relating to executive quality and thus the probability of financial distress are; managerial ownership, block ownership, managerial turnover, internal investing style, external diversification, financing structure, skill involving currency risk, and ability in conducting creditable financial information. The capability of capital management appears to be the most crucial determinant. The evidence also points out that management's role increase in financial distress situation. Further, the results are sensitive to the proxy used and timing. However, they are not sensitive to the analytical methods. The substituted equation confirms the existence of endogenous characteristics; therefore, these characteristics reveal the validity of the system of equations. The overall fit and the secondary sample results suggest that the financial distress model using managerial determinants as explanatory variables seems to be useful to classify Thai listed companies.

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