

**OWNERSHIP STRUCTURE AND RISK
DISCLOSURE: THE ROLES OF CHIEF
EXECUTIVE OFFICER (CEO) DUALITY AND
BOARD INDEPENDENCE IN THAILAND
COMPANIES**

SILARAK SIRIWAN

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by

SILARAK SIRIWAN

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LIST OF ABBREVIATIONS

SET	Stock Exchange of Thailand
CGR	Corporate Governance Report
IOD	Institute of Directors
SEC	Securities and Exchange Commission
TAS	Thai Accounting Standard
OECD	Organization for Economic Cooperation and Development
IAS	International Accounting Standards
CEO	Chief Executive Officer
RD	Risk Disclosure
CS	Chairman's Statement
OR	Operation Review
MD&A	Management Discussion and Analysis
VIF	Variance Inflation Factor
OLS	Ordinary Least Squares

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**STRUKTUR PEMILIKAN DAN PENZAHIRAN RISIKO: PERANAN
DUALITI KETUA PEGAWAI EKSEKUTIF DAN LEMBAGA PENGARAH
BEBAS DALAM SYARIKAT DI THAILAND**

ABSTRAK

Memastikan risiko perniagaan adalah penting bagi pihak berkepentingan kerana mereka menggunakan maklumat sedemikian untuk membuat keputusan pelaburan. Oleh itu, penzahiran risiko adalah penting, terutamanya bagi syarikat yang mempunyai struktur pemilikan yang berbeza kerana penzahiran risiko perniagaan boleh dipengaruhi oleh struktur pemilikan. Kajian ini bertujuan untuk mengkaji pengaruh struktur pemilikan terhadap penzahiran risiko dalam konteks Thailand dan kesan dualiti CEO dan kebebasan lembaga pengarah terhadap hubungan antara struktur pemilikan dan penzahiran risiko dari perspektif Teori Agensi dan Teori Isyarat. Khususnya, peranan dualiti Ketua Pegawai Eksekutif dan kebebasan lembaga diperiksa untuk mengesahkan kesan penjajaran dan kesan pengukuhan yang disebabkan oleh kedua-dua pembolehubah ini terhadap hubungan antara struktur pemilikan dan penzahiran risiko. Analisis regresi dengan menggunakan model kesan tetap dan kesan rawak dijalankan atas sampel firma yang disenaraikan di pasaran utama Bursa Saham Thailand (SET) dari 2016 hingga 2020. Kajian ini menggunakan bilangan ayat penzahiran untuk mengukur tahap penzahiran risiko. Empat jenis risiko yang berbeza diperiksa, iaitu risiko strategik, risiko kewangan, risiko operasi dan risiko pematuhan. Ujian multivariate menunjukkan bahawa pemilikan kerajaan mempunyai kesan negatif terhadap penzahiran risiko operasi, menyokong hipotesis. Sebaliknya, pemilikan institusi memberi kesan negatif terhadap penzahiran risiko strategik, bertentangan dengan hipotesis. Berkenaan kesan penyerhana, dapatan menunjukkan

bahawa dualiti CEO mempunyai kesan penyederhana ke atas pemilikan keluarga dan pemilikan kerajaan. Walau bagaimanapun, penemuan itu tidak menyokong hipotesis mengenai pemilikan keluarga kerana kesannya bertentangan dengan ramalan. Berkenaan dengan kesan penyederhanaan kebebasan lembaga, keputusan mendedahkan bahawa ia mempunyai kesan negatif terhadap penzahiran risiko kewangan dan kesan negatif dalam penzahiran risiko pematuhan apabila ia berinteraksi dengan pemilikan keluarga. Tambahan pula, apabila ia berinteraksi dengan pemilikan asing, kesan negatif diperhatikan untuk risiko strategik dan penzahiran risiko kewangan. Sebaliknya, kesan positif diperhatikan pada penzahiran risiko kewangan apabila kebebasan lembaga berinteraksi dengan pemilikan kerajaan. Ringkasnya, kajian ini memberikan pandangan baru tentang kesan struktur pemilikan terhadap penzahiran risiko dalam kalangan firma SET. Penemuan kajian bermanfaat kepada pengawal selia dalam menggubal dasar baharu atau meminda peraturan sedia ada memandangkan badan kawal selia secara konsisten memperhalusi persekitaran tadbir urus untuk meningkatkan tahap ketelusan di kalangan syarikat.

**OWNERSHIP STRUCTURE AND RISK DISCLOSURE: THE ROLES
OF CHIEF EXECUTIVE OFFICER (CEO) DUALITY AND BOARD
INDEPENDENCE IN THAILAND COMPANIES**

ABSTRACT

Ascertaining business risk is crucial for stakeholders because they use such information to make investment decisions. Therefore, risk disclosure is vital, especially for companies with different ownership structures because the disclosure of business risks can be influenced by ownership structure. This study aims to examine the influence of ownership structure on risk disclosure in the context of Thailand and the effect of CEO duality and board independence on the relationship between ownership structure and risk disclosure from the perspectives of Agency Theory and Signaling Theory. In particular, the roles of CEO duality and board independence are examined to confirm the alignment and entrenchment effect brought by these two variables on the relationship between ownership structure and risk disclosure. Regression analysis utilizing fixed effect and random effect models are conducted using a sample of firms listed on the main market of The Stock Exchange of Thailand (SET) from 2016 to 2020. The study utilises the number of disclosure sentences to measure the extent of risk disclosure. Four different types of risk are examined, namely strategic risk, financial risk, operational risk, and compliance risk. Multivariate testing demonstrates that government ownership has a negative impact on operational risk disclosure, supporting the hypothesis. Meanwhile, institutional ownership has a negative impact on strategic risk disclosure, contrary to the hypothesis. Regarding the moderators, the findings show that CEO duality has a moderating effect on both family ownership and government ownership. However, the findings do not support the

hypothesis on family ownership as the directional effect is against the prediction. In respect of the moderating effect of board independence, the results reveal that it has a negative impact on financial risk disclosure and a negative impact in compliance risk disclosure when it interacts with family ownership. Furthermore, when it interacts with foreign ownership, a negative impact is noted for strategic risk and financial risk disclosures. In contrast, a positive impact is observed on financial risk disclosure when board independence interacts with government ownership. In sum, this study provides novel insights on the effect of ownership structure on risk disclosure among SET firms. Findings of the study could be useful to regulators in formulating new policies or amending existing regulations given that regulatory bodies are consistently refining the governance environment to increase the level of transparency among corporations.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This study aims to investigate the impact of ownership structure and board characteristic on risk information disclosure of listed firms in the context of Thailand, where the norms of businesses, and the ownership structure are distinctly different from other countries. Chapter 1 introduces the research background, presents the problem statement, exhibits the research questions and the research objectives. Besides, it also reveals the significance of the study, outlines the definition of key terms, and discloses the organization of the remaining chapters.

1.2 Background of the Study

In the year 2020, the unprecedented outbreak of COVID-19 worldwide causes instability in the stock market and leads to a global stock market crash. Information on the pandemic is important to investors because it enables them to monitor its effect on business operations and its impact on business financial situation and firm performance. Similarly, the stock exchange of Thailand is gravely affected by this major global event because business operations of Thailand's listed companies are seriously affected by the COVID-19 pandemic. Hence, risk information and risk disclosure are of paramount important to business operators, who depend on them to make informed business decisions (Teerawongsanan, 2021).

Globalization results in uncertain business environment, and causes businesses to face various internal and external risks. The increasing frequency of unexpected risks cause disruptions in business operations, and bring unexpected consequences to many companies (Friday, Ryan, Sridharan, & Collins, 2018), which affect the attainment of

business goals, disrupting business activities, and impact negatively on the firm's financial performance. All these happenings eventually have impact on the earnings of various stakeholders. A typical example of this is the Major Cineplex Group Public Company Limited. In 2018, as a result of stiff competition from rival theaters, the income of the company dropped drastically (Major Cineplex Group Public Company Limited [MAJOR], 2018). Thus, shareholders are concerned about the risks faced by businesses and demand for risks disclosure so as to make informed judgment on their future investments.

Generally, risk reporting in annual reports has gained growing interest among various stakeholders (Oliveira, Rodrigues, & Craig, 2013). Risk disclosure aims to mitigate information asymmetries between the management and the shareholders. In Thailand's context, the Securities and Exchange Commission (SEC) demands all public listed companies to add a section entitled "Risk Factors" in their annual financial statement (Form 56-1) to disclose the risk management information, in order to reduce information asymmetry among the stakeholders. Under the Risk Factors framework, companies are required to report information on risks under four risk categories, namely, strategic risks, operational risks, financial risks, and compliance risks. However, there is no guideline and mandatory requirement with regards to the details or levels of risk information that must be provided in the disclosure. Risk reporting, which is considered as a good corporate practice, not only can maintain a firm's reputation, but also is able to lift up the investors' confidence in the company, and entice more stakeholders to invest in it (Smadi, 2017).

Hence, in Thailand, after the Asian financial crisis, risk management and risk disclosure are considered as good corporate practices. The 1997 Asian financial crisis is undoubtedly the worst financial and economic disaster experienced by Thai

companies in the last three decades. As a result of the crisis, Thai economy encountered severe credit crunch problem, and Thai banks suffered huge shrinkage in profits. As a consequence of the poor performance of the corporate sector, currencies across the region lost more than half of their value (Limpaphayom & Connelly, 2004). More severely, many Thai corporations could not survive, and had to accept the government's bailout operation. By the end of 1997, the index of Thailand Securities Exchange dropped sharply by 55%, closing at 373 as compared to 803 in January of the same year (Graham, King, & Bailes, 2000). An important factor that contributed to such a massive disaster is the failure of major capital market players to address risk issues.

Subsequently, the Board of Governors of the Stock Exchange of Thailand (SET) stipulated policies on enterprise risk management in order to foster public trust on the listed companies. The enterprise risk management policies take into consideration not only the internal determinants but also the external factors of risk management (Camfferman & Cooke, 2002). Some examples of the external factors are economic environment, political issues, and information technology; whilst internal factors include strategic planning, organizational structure, and information management. As a result, the stakeholders of listed companies are able to obtain more accountable, fair, and transparent information (Suttipun & Nicholson, 2020).

In 2016, the Thai Institute of Directors (IOD) surveyed 416 board members and company directors, and found that 54% of the respondents considered risk management as a key driver of performance (Thai Institute of Directors [IOD], 2016). A company's value is protected when its risk is at a low-level (Bushman & Smith, 2003). Risks associated with businesses can be tackled by implementing comprehensive risk management plans, which includes reporting risk management activities voluntarily to the various stakeholders. Such risk disclosures are believed to increase the investors'

confidence and increase transparency in business activities and risk management system (Linsley & Shirves, 2006).

It is believed that a company's value will diminish when there is a lack of information about credibility, transparency, and risk disclosure (Mohammadi & Nezhad, 2015). As such, companies that have significant level of information disclosure would possibly bring down the level of risks and those undesired consequences that are related to inefficient decision-making. Consequently, investors have increasingly demand for more disclosure as it would enable them to assess the level of the firms' risks more accurately (Abdullah, Shukor, Mohamed, & Ahmad, 2015).

Although companies in Thailand have demonstrated improvements in corporate governance after the financial crisis, the present state of risk disclosure in Thailand may not be able to play an effective role in providing useful information to the stakeholders to make good judgment on future undertakings. As there is no specific guideline or specific risk disclosure standard in place, the decisions on the substance of risk disclosure depends on the discretion of the management. Hence, the disclosure may suffer from issues related to form and substance. In reality, the risk information disclosed to the outsiders varies widely among the companies.

1.3 Risk Disclosure of Thai Listed Companies

Voluntary disclosure refers to the practice of a company providing information voluntarily to the stakeholders, but without having uniform standards or standardized reporting form (Wahl, Charifzadeh, & Diefenbach, 2020). Companies may choose to disclose information to enhance transparency, to build trust, and to meet the information needs of the stakeholders (Oncioiu et al., 2020). However, mandatory disclosure requirements are regulations or laws that demand companies to disclose specific

information to the stakeholders (Gerged, Matthews, & Elheddad, 2021). These requirements are established by regulatory authorities, stock exchanges, or legislation. Thus, voluntary disclosure involves companies providing information at their own discretion, without limitation on the amount or extent of the disclosure. On the other hand, mandatory disclosure is a legal obligation to disclose, using a standardized reporting form, in order to protect the interests of the investors and to promote transparency in the marketplace.

Although high levels of risk disclosure are beneficial, the level of voluntary disclosure is generally low and far below the expectations of the investors (Neifar & Jarboui, 2018). This problem is more severe in emerging market countries such as Thailand. In Thailand, companies are not willing to reveal information about their strategic intentions, as well as their key weaknesses and threats (Kuasirikun & Sherer, 2004).

To tackle this issue, SET has made an initiative to issue the Good Corporate Governance Code in 2012, which makes it compulsory for all the listed companies to disclose both financial and non-financial information, as an effort to provide more accurate, complete, and transparent information to the stakeholders. Under the novel Good Corporate Governance Code, the two new elements of risk disclosure and risk management are introduced (The Stock Exchange of Thailand [SET], 2012).

For public companies listed on SET, there is a requirement for them to provide risk disclosure in the annual report under a specific section entitled “Risk Factor”; however, there are no minimum disclosure requirements or standard disclosure criteria (Panpapao, 2015). In other words, the disclosed contents are of voluntary basis. Therefore, it is at the discretion of the company to decide how much risk information is to be disclosed or what information to be disclosed under the Risk Factors section.

Thai accounting standards adopt a mixed approach (Federation of Accounting Professions, 2023). The Thai financial reporting standards is simultaneously being influenced by IFRS, and being moderately affected by the U.S. standard. On this account, companies are encouraged to use IFRS or GAAP as a guideline for voluntary disclosure in the absence of the local Thai financial reporting standards (or commonly known as the Thai Accounting Standard [TAS]) (Kongprajya, 2010).

The annual report is the primary document for the disclosure of risk information, which includes both financial and non-financial information of Thai listed companies. Guidelines that have been outlined by SEC explicitly pointed out that companies are obliged to present the risks arise from business operation under the section of “Risk Factor”, while the “Internal Control and Risk Management” section should include the elements of risk management and risk supervision.

1.4 Norms of Business Practices in Thailand

Thailand is a pro-business country, with laws and regulations encouraging foreign investments under the free market system. This is reflected in the country’s ranking as the top 30 economies in the World with “the ease of doing business” (The Nation Thailand [Nation], 2018). From the cultural dimension, Thailand, which is a collectivist country (Hofstede, 2001), has a very low level of individualism, which is evidenced by the presence of a substantial number of family-controlled companies (Pimpa, 2012).

Thai business culture resembles the family culture, whereby interpersonal relationships are governed by the kinship values, that is, authority, hierarchies, and seniority; and status are respected and highly valued (Jingjit & Fotaki, 2010). Such a unique culture leads to a large number of Thai companies possessing highly

concentrated business ownership structure with family members as founders of the company.

1.4.1 Ownership Structure of Thai Companies

The corporate practices of Thai companies attributed mainly to the ownership structure. Prior researchers found that ownership structure impacts corporate values strongly in traditional industries, which suggests that there is a direct impact of ownership mechanism on corporate value (Liang, Huang, & Lin, 2011).

Some researchers argued that in family-controlled firms, family members tend to provide good monitoring, and this results in lower agency costs (Panyasrivanit, 2005). Given that a company's net profits may be converted to the wealth of family members eventually, Thai companies are incentivized to monitor closely the business operations, with the aim of increasing the firm's value (Chancharat & Chancharat, 2019). It is therefore possible that there is a positive effect of family-controlled companies on business performance. In other words, monitoring and disciplining the management of family members could be efficient in ensuring proper business operations (Panyasrivanit, 2005; Wiwattanakantang, 2001).

According to the characteristics of the shareholders, ownership structure can be classified into two major types, that is, dispersed and concentrated ownership structure. Dispersed ownership structure happens when there is a large number of shareholders, whereby each shareholder has a low percentage of shareholding. As a result, the shareholders do not have controlling power over business operations. In contrast, concentrated ownership structure exists when there is a small number of shareholders, with each shareholder having a high percentage of the share ownership. Thus, the major shareholders would tend to possess the controlling power over business operations.

Majority of the ownership structure in Thailand is characterized by a few major shareholders or having a concentrated ownership structure (Wiwattanakantang, 2000). More precisely, many firms are majorly owned by a few wealthy families. Many firms only have a few shareholders, and most of this handful of shareholders are close relatives. Hence, large family business groups remain dominant in most of the business organizations in Thailand.

A total of 95% of the enterprises consists of family-owned businesses in Thailand (Chienwittayakun & Mankin, 2015). Based on the profiles of Thai business groups, it indicates that most companies are controlled by the 150 wealthy families (Bertrand, Johnson, Samphantharak, & Schoar, 2008). It is noticeable that ownership structure in Thailand simply refers to concentrated ownership, where most shares are held by a few owners (Wiwattanakantang, 2000). As supported by Chancharat and Chancharat (2019), families own or control approximately 80% of all businesses in Thailand, and families run around 75% of the firms listed on SET.

A major characteristic of family business in Thailand is that the family firms are in favor of having a successor from the family members, even though there are more capable candidates either internally or externally (Yabushita & Suehiro, 2014). In addition, in Thailand, the operation of family businesses can be further classified into three types as follows:

- 1) The family business group that is closely controlled by an owner family;
- 2) The family owner appoints paid managers, but still plays a major role in the company's top management structure; and
- 3) The family business group is eager to permit non-family managers to office in important positions of the company, such as the CEO, in order to prepare and target

their organizations for better growth in the context of this new global economy (Yabushita & Suehiro, 2014).

With regard to the nature of business management of a family company in Thailand, most of the Thai family businesses are owned by the Chinese. Typically, business leadership is being customarily passed on to a male family member (Wiwattanakantang, Bunkanwanicha, & Fan, 2013). In other words, the eldest son is implicitly selected as the President or the CEO, even though sometimes other siblings may have a larger share ownership. The succession by eldest son helps to avoid harsh battles, as well as intergenerational conflict in a large family (Wailerdsak, 2012).

The most common typical trait of a family business is that the decision-making process always, if not impossible, is made within the chairman or/and the CEO; although sometimes the decision is made together with the senior management personnel appointed from family members or trusted associates. In this context, non-family members are rarely involved in the decision-making process, more specifically when it concerns crucial issues (Jiang & Peng, 2011). For example, the successor of a family business Charoen Sirivadhanabhakdi, the founder of the Thai Beverage group, has appointed his eldest son Thapana Sirivadhanabhakdi as both the President and the Chief Executive of the Thai Beverage Plc. since 2008 (Thai Beverage Public Company Limited [ThaiBev], 2018). Likewise, Central Department Store Group, which is the largest retail conglomerate, has appointed the owner's family members as the key management personnel. To be precise, the Group's Executive Chairman is Sudhitham Chirathivat, while the Group's CFO is being held by Prin Chirathivat, and the CEO position is served by Tos Chirathivat, who are the second and third generations of the founder (Yabushita & Suehiro, 2014).

Besides, equity is also held by institutional ownership, government ownership, and foreigner ownership in Thailand. As such, it will be interesting to see how the ownership structure, particularly concentrated ownership by family members affects firm performance, specifically in a business environment where information asymmetry is high.

1.5 Problem Statement

Risk identification and management via the design and implementation of business strategy in different sectors and industries locally and internationally have become a central function of modern corporations. Besides managing risks, organizations are expected to provide risk disclosure to allow various stakeholders to enhance their decision-making process. Risk disclosure is being defined as the communication of information related to the companies' strategies, characteristics, operations, and other external elements that have the probability of impacting on the expected company outcomes (Khan, Yau, Marsidi, & Ahmed, 2022). Investors, who strive to make the most efficient portfolio investment decisions, are keen to grab all sorts of risk information, such as risk profile, risk management, and risk appetite.

In Thailand, companies are required to disclose risk information in annual reports for the users and the readers, or they should explain to SET the reason for non-disclosure of the risk information (Suttipun & Nicholson, 2020). However, the practice of risk disclosure by Thai companies is still not in its mature stage. It is found that the overall level of risk disclosure in Thailand is low (Suwansin et al., 2018). As argued in prior studies, there is a vast information gap between the company, who is unwilling to share the risk information, and the external shareholders, who are keen to view all risk related information so as to make informed investment decisions (Linsley & Shrides,

2006). Such issue is more significant in emerging markets such as Thailand, where the risk disclosure practices among companies are immature, due to lower level of transparency.

In reality, concerns over tarnishing a company's image or making available confidential information to competitors cause the management team to be less willing to present all the risk-related information (Kongprajya, 2010). As such, some companies are providing only minimum risk disclosure in order to meet the requirement of SET. With that in mind, they do not focus on the actual needs of their users and readers, who are unable to demand for more information thereafter.

In addition, companies' diverse culture and diverse regulatory environment may lead to differences in the corporate governance practices, which further influence its approaches on corporate disclosure. In Thailand, challenges on corporate governance fall basically into two aspects. First, poor governance practices at the firm-level, which included overinvestment and over-borrowing (Chancharat & Chancharat, 2019). Second, Thai companies generally rely on bank financing to get funds for growth (Chancharat & Chancharat, 2019). These practices could lead to negative consequences for the minority shareholders.

Such condition prevails among companies controlled by shareholders who own a substantial amount of company shares. This is probably due to the ultimate power of the shareholders to influence information disclosure, and also the private access to insider information by the controlling shareholders, giving rise to more information asymmetry problems. This is also known as Type II agency problem where the welfare of the minority shareholders could be exploited by the major shareholders (Nurim, Sunardi, & Raharti, 2017).

As noted by Chienwittayakun and Mankin (2015), family-owned business represents 95% of Thai companies. In this vein, family members are gaining almost full control of the company, in aspects such as company resources, employees, and operations. Consistent with this view, the company is said to have ineffective corporate governance mechanism, caused by highly concentrated shareholdings. The ownership concentration has led to poor investment decisions, with excessive risk-taking by external investors (Alba, Claessens, & Djankov, 1998).

Furthermore, past studies suggested that family business tends to protect the interests of the family rather than the interests of the shareholders. More specifically, the family member employees/managers are likely to implement company policies that are beneficial to them, because they have greater voting power over the non-family shareholders (Panyasrivanit, 2005). There are many cases where family businesses are not performing well after the predecessor had passed over the controlling power to his family successor (Arosa, Iturralde, & Maseda, 2010). With that said, comparably, the performance of firms manage by family-related successors are less satisfactory than firms run by non-family members (Chancharat & Chancharat, 2019).

Apart from that, Thai family businesses encounter serious problem when they want to increase the foreign direct investments or international trade, owing to a lack of capable individuals who are given the title “global managers”, that is, individuals with international experience in business management (Yabushita & Suehiro, 2014). Compared to family owned businesses, companies owned by other groups of investors, such as foreign investors, institutional investors, and government entities have greater level of transparency, and hence hold more liberal view on risk disclosure. Therefore, it will be interesting to see how the ownership structure of Thai companies affect the

corporate risk disclosure practices, especially in a business environment where information asymmetry is likely to be high.

Prior studies found inconclusive findings on the relation between ownership structure and risk disclosure. As such, on the grounds that there is no cohesive evidence on the effects of ownership structure on risk disclosure; there is a need to examine further in order to determine the relationship (Al-Maghzom, Hussainey, & Aly, 2016), in particular, in Thailand, where knowledge about the above relationship is very much lacking (Suttipun & Nicholson, 2020). Nonetheless, extant literature regarding risk management and risk disclosure are numerous in developed countries (Linsley & Shrives, 2000).

Based on previous literature reviews, it can be seen that studies on disclosure of risk information are scanty. Moreover, existing disclosure practices of risk and risk management are insufficient, with lack of transparency, and lack of informativeness (Bao & Datta, 2014; Dobler, Lajili, & Zeghal, 2011; Dobler & Luckner, 2018). Therefore, the present study is interested in studying how ownership structure influence risk disclosure among the companies listed on SET.

In the context of Thai listed companies, where family ownership has resulted in highly concentrated ownership with serious Type II Agency conflict, this study makes an extended attempt to look into two specific governance factors, namely CEO duality and board independence, on their role in influencing the relationship between ownership structure and risk disclosure. In the contexts of family firms with highly concentrated ownership, it is predicted that CEO duality, that is, the top management position and the top leader of the board directors are occupied by the same individual, who have entrenchment effect that tends to strengthen the controlling power of the family ownership. In contrast, the presence of independent directors provides alignment effect

that promotes congruence of interest between the managers and the shareholders; thus, reducing agency problem.

1.6 Research Objectives

Based on the above discussion, this study aims to investigate the effects of ownership structure on the extent of corporate risk disclosure in mitigating information asymmetries arising from agency problem.

The objectives of this study are being shown as follows:

1. To examine the relationship between ownership structure and risk disclosure with regard to family ownership, institutional ownership, foreign ownership and government ownership, respectively.

2. To examine the moderating effect of CEO duality on the relationship between ownership structure and risk disclosure.

3. To examine the moderating effect of board independence on the relationship between ownership structure and risk disclosure.

In the context of this study, risk disclosures include disclosure of four types of risks, namely operational risks, strategic risks, financial risks, and compliance risks. Ownership structure is analyzed from the perspective of family ownership, institutional investors, foreign investors, and government ownership.

1.7 Research Questions

Based on the research objectives, this study intends to find answers on the following questions:

1. Is there a significant relationship between ownership structure and risk disclosure in terms of family ownership, institutional ownership, foreign ownership, and government ownership, respectively?

2. Does CEO duality play a moderating role in the relationship between ownership structure and risk disclosure?

3. Does board independence play a moderating role in the relationship between ownership structure and risk disclosure?

1.8 Significance of the Study

This study seeks to apply the Agency and Signaling theories into Thai corporate governance literature, focusing mainly on ownership structure. The Agency theory on corporate risk disclosure describes the principals of delegating the power of decision-making to agents. The agents have motivation to disclose the risk information because they need to prove to the shareholders their ability to manage the corporate risks and monitor the companies' risk management system. The executives disclose the risk information in order to signal to the shareholders or stakeholders that they can manage the company's risks better than other companies. This study strives to give novel insights on the aspects of not only ownership structure but also risk disclosure. More specifically, this study uses four types of ownership structure, that is, family ownership, institutional ownership, foreign ownership, and government ownership, as a proxy of corporate governance.

Consistent with the fact that there are not many studies conducted on the association between risk disclosure and corporate governance in the setting of Thailand, this study attempts to bring new empirical evidence with regards to ownership structure, scrutinized through the lens of agency theory.

Moreover, even though much research has examined the effects of ownership attributes, such as government ownership and institutional ownership on risk disclosure, empirical research focuses mainly on the moderating roles of board independence and

CEO duality, which have seldom been studied. With that in mind, this study selects board independence and CEO duality as the moderators.

Recently, many studies concentrate on the best practices of corporate governance, this study strives to add to the extant literature by reviewing the interacting effects of CEO duality and board independence on the relation between ownership structure and risk disclosure.

It, thus, fills the gap in the disclosure literature, especially in developing countries, and addresses calls in previous studies (such as Alhares & Al-Hares, 2020; Moumen, Othman, & Hussainey, 2015; Namsirikul, 2015; Ntim, Lindop, & Thomas, 2013), making investigations on context specific corporate governance determinants of risk disclosure. The results are of interest to not only accounting standard-setters and governance regulators, but also the shareholders, investors, debtors, creditors, and other annual report users.

1.9 Definition of Key Terms

Table 1.1 Definition of Key Terms

Term	Definition	Sources and references
Risk	The event, uncertainty, danger, loss, or harm that affect the achievement of organizational objectives and goals in terms of strategies, operations, financial, and legal aspects.	(Al-Maghzom et a., 2016).
Risk Disclosure	Disclosure of risk information related to a firm's strategies, operational, financial, and compliance aspects; in addition, they are being assessed from external and internal factors. Generally, the intended audience of risk disclosure are the investors or stakeholders of the company.	(Suttipun & Nicholson, 2020).
Ownership Structure	The ownership structure of Thai listed companies has been categorised into four types, which are family ownership, foreign ownership, institutional ownership, and government ownership.	(Al-Bassam, Ntim, Opong, & Downs, 2018

Table 1.1 Continued

Term	Definition	Sources and references
Family Ownership	Family ownership refers to firms whose major shareholders are family members and the firms are managed or controlled by founding family members.	(Wailerdsak, 2012).
Institutional Ownership	Institutional ownership refers to firms where the majority of the company's shares are owned by companies, funds, mutual funds, or other large entities.	(The Stock Exchange of Thailand, 2012).
Government Ownership	Government ownership refers to firms whose major shareholders are the state or a public body.	(Allini, Rossi, & Hussainey, 2016).
Foreign Ownership	Foreign ownership refers to firms whose major shareholders are foreign companies or foreign investors.	(Khelif, Ahmed, & Souissi, 2017).
Corporate Governance	Corporate governance is a mechanism that is commonly being depicted through forms of policies, processes, and regulations, with the aim of helping in directing, controlling, and administering a company.	(Thai Institute of Directors, 2016).
CEO Duality	The same person holds both the CEO and the board chairperson positions in a company.	(Nuanpradit, 2018).
Board Independence	A board of an organization consists of members who do not directly have a material relationship with the organization, whether in the form of being a partner, shareholder, or officer of the organization, and is being independent of the shareholders and the management.	(Alnabsha, Abdou, Ntim, & Elamer, 2018).

1.10 Organization of Remaining Chapters

This thesis consists of six chapters. Chapter One discusses the study's research background, culture of business practices in Thailand in relation to the ownership structure, the problem statement, the research objectives, and the research questions. In addition, Chapter One presents the significance of the study, the definition of key terms used in this study, as well as the chapter's summary. Chapter Two reviews extant literature on the topics under study, such as corporate risk disclosure and corporate governance. Besides, Chapter Two also provides an overview of the agency theory and

the signaling theory, which are the underlying theories of this study. Chapter Three outlines this study's research framework, and discusses comprehensively the hypotheses development for risk disclosure, and the moderating variables of CEO duality and board independence. Chapter Four focuses on the research methodology, which consists of the sample of this research and the methods of hypotheses testing. Chapter Five discusses the empirical results of the descriptive analyzes and the regression models. The last chapter, Chapter Six, presents the conclusions, the implications of the study, and the limitations as well as recommendations for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter begins with a structured review of the extant literature related to risk disclosure and corporate governance. Particularly, Section 2.2 focuses on corporate disclosure information, while Section 2.3 touches on aspects related to the development of corporate risk disclosure. Section 2.4 reveals some important aspects of corporate governance, such as the development of corporate governance in Thailand's capital market, the characteristics of the Board of Directors in Thailand, and the ownership structure of firms in Thailand. Section 2.5 discloses the interplay among corporate governance, risk disclosures, and information asymmetry. Section 2.6 reviews the literature about corporate governance and risk disclosures from theoretical perspectives. Finally, the last section provides a summary of this chapter.

2.2 Disclosure of Corporate Information

Investors and other stakeholders in the capital markets rely heavily on corporate disclosures as a source of information to evaluate the performance of businesses and to make informed decisions. Financial reports and disclosures are the means of providing corporate information to various stakeholders, especially the external users.

2.2.1 The Role and Importance of Corporate Information Disclosure

Information regarding the company is important to various stakeholders because they depend on the information provided for better decision-making. The disclosed information is crucial for decisions related to investment in a company or other actions by the shareholders and the stakeholders. However, not all information can be obtained

freely by parties with a vested interest in the companies. To satisfy the information needs of different user groups, companies have to make important corporate disclosures, which takes the form of financial and non-financial information (Lakshan, Low, & De Villiers, 2021). The information must be presented clearly and sufficiently in order to satisfy the minimum requirements of the users. In addition, the company should disclose a reasonable amount of information when preparing annual reports to the relevant parties with fair accuracy, to avoid mistakes in judgment on future undertakings (Svabova, Kramarova, Chutka, & Strakova, 2020).

Disclosures facilitate corporate transparency, improve corporate image, and provide information for viable decision-making. On top of that, by lowering information asymmetry between the preparers (managers) and the users (such as investors), disclosures can also be viewed as a mechanism through which adverse selection is reduced (Shakespeare, 2020). Information disclosure is essential for the trading of securities in the capital market, and to enable investors, creditors, shareholders, and all other stakeholders for making informed judgments, and feasible economic decisions. Therefore, information disclosed should be accurate, adequate, and timely so that investors can use the information for evaluating the risks and returns on their investment. Undeniably, information disclosure is an important process that helps external shareholders as this enables external shareholders to monitor the business operations of the management team. This is because most shareholders do not involve themselves directly in company management.

The relationship between shareholders and managers is known as the agency and the principal relationship. The investors or shareholders are the principals of the company, and they appoint or authorize the management team or agency to carry out business operations and to make business decisions. Based on the information disclosed

by the management team or the agent appointed, shareholders or the principals can assess the operations of the companies, as well as the companies' financial standing, including problems or events that occur in the company that they owned. More specifically, listed companies have a duty to disclose important information that may influence the price of buying or selling the securities of the company, or impact on the decisions of the investors and the benefits of the shareholders (Bourveau, De George, Ellahie, & Macciocchi., 2021). As external users do not have direct access to internal information of the companies, they have to rely on the information provided in the annual reports, where the most creditable information are made available to the external stakeholders.

Hence, financial reporting and disclosures are used by the managers as a means of transferring and communicating a company's performance and governance to external parties (Al-Shaer, 2020). The accounting information is useful to investors in assisting them to ascertain the expected firm value and the associated risk of the stock's returns (Scott, 2015). Thus, disclosures increase the level of transparency and thereby reduce information asymmetries, consequently reducing the cost of capital, which is beneficial to companies (Chu, Ho, Lo, Karathanasopoulos, & Jiangj 2019; Ho, Yen, Lu, & Lee, 2023). Since investors are the main providers of capital, firms must therefore disclose corporate information to generate and satisfy the confidence of the investors in the company (Nguyen & Nguyen, 2020).

2.2.2 Types of Corporate Disclosures

Disclosure of corporate information is important to minimize agency problems because it allows the shareholders and the investors (that is, the principals, who could not manage the company themselves), to be able to have access to the updated

information about the company. The information disclosed are able to increase the confidence of the investors towards the company, and provide them with more details for decision-making related to the company.

Annual reports of companies include both mandatory and voluntary disclosures (Nguyen, Nguyen, & Nguyen, 2020). Mandatory disclosure refers to the minimum information that the company must disclose to comply with the minimum requirements of the country's laws and regulations. Conversely, voluntary disclosure refers to the provision of information in the company's annual reports that is beyond the legally mandatory requirements, such as the commonly accepted accounting principles, whereby the information provided is relevant to the shareholders' decision-making. In other words, voluntary disclosure refers to the information that is provided in addition to the mandatory requirements or beyond what is expected by the country's regulations and the accounting standards. Voluntary disclosure is regarded as filling the gaps overlooked by the mandatory disclosure (Bertomeu, Vaysman, & Xue, 2021), and it is a vital part of the process for building investor confidence and trust (Baroma, 2020). Zamil, Ramakrishnan, Jama, Hatif, and Khatib (2023) defined voluntary disclosure as free choices on the part of the company management to provide additional accounting and other information deemed relevant to the decision needs of the users of their annual reports. Besides, information that is strongly recommended by the relevant authoritative codes or organizational bodies is also commonly presented in the form of voluntary disclosure (Kamel & Awadallah, 2017).

2.3 Corporate Risk Disclosure

The business world has become limitless and borderless with increasing level of competition and risks. Bufarwa, Elamer, Ntim, and AlHares (2020) mentioned that risks

can be perceived as negative news or as an opportunity that can influence the financial and economic situation of a company at present or in the future (Bufarwa, Elamer, Ntim, & AlHares, 2020). Risks are denoted as the chances of occurrence of a deviation from the expected events and these deviations reduce the intrinsic value of the company, and give rise to unfavorable conditions (De Luca & Phat Phan, 2019). In addition, risks could also be depicted as the loss of wealth by a company due to the occurrence of threats or challenges that surfaced in undesirable business environment (Abdullah, Shukor, & Rahmat, 2017; Mazumder & Hossain, 2018), and the unexpected loss or consequence as a result of the associated uncertainties (Aryani, 2016). They include aspects of opportunity, prospect, hazard, harm, threat, and exposure (Leopizzi, Iazzi, Venturelli, & Principale, 2019).

Besides, the information on risks is important because risks might affect the company's stakeholders. For instance, if a company is in a risky condition, its investors may not attain the benefits of their investment in the company. Henceforth, risk management is important. In tackling the problem, companies opt to disclose all possible and significant risks to stakeholders. In this regard, similar to accounting information, risk disclosure is made available for creditors to assess the risks firms may encounter and is also accessible to the investors, especially when making major investment decisions (Thitinun, 2017). In practice, creditors and investors make decisions based on their own perceptions about firm risks. In short, risk is the impact of an unknown event which may occur and affect the achievement of the business strategy, which impacts on business operations and cash flows, and the market price of ordinary shares of the companies. Dismally, risk is still an inescapable component of any company (Hassan & Zakia, 2015; Saggar & Singh, 2017).

Despite the inevitability of risks, they can be managed with adequate control measures, which are commonly called risk management, one of the most vital issues facing organizations today. Risk management is also crucial for businesses sustainability and survival (Abdullah et al., 2017). Generally, risk and uncertainty can have negative impact on an organization because it causes financial distress and cash flow problems. To mitigate these negative impacts, managers are highly motivated to manage risks (Odongor, Osei, Abor, & Adjasi, 2011; Vitolla, Rubino, & Garzoni, 2017). Hence, top management must be well-positioned to provide assurance to the investors that both the uncertainties and risks are well managed (Shad, Lai, Fatt, Kleme, & Bokhari, 2019).

In accordance with the Committee of Sponsoring Organizations of the Treadway Commission [COSO] (2004), risk management is defined as a process that is influenced by the board of directors, the management and other personnel of a business entity. Based on the definition, risk management is an aspect of enterprise strategy. More specifically, the risk management process included elements such as identifying potential occurrences that could have an impact on the organization, managing risks so that they stay within the risk appetite, and providing reasonable assurance that the organization's objectives are met. Therefore, risk management is also regarded as the practice of using processes, methods, and tools for managing business risks. In this context, the management team focuses mainly on identifying the potential risks, ascertaining the types of risks, and implementing strategies to manage these risks.

Originally, risk management is used to manage hazardous incidents and focusing on the prevention or mitigation of the adverse effects of potential threats (Leopizzi et al., 2019). In addition, the risk management process also included activities and measures that aimed to control the various type of identified negative risks (Haj-