

Chapter 5

Conclusions and Suggestions for Future Research

Using the data of non-financial listed firms in Thailand, we investigate the impact of bank connections on the likelihood of corporate restructuring activities and their value to the restructuring firms covering the 1997 East Asian economic crisis. Our analyses are divided into three sample periods; the pre-crisis (1996), during-crisis (1997-1998) and post-crisis (1999-2000) periods. This chapter concludes the empirical findings and provides suggestions for future research.

5.1 Conclusions

In this research, we study the characteristics of restructuring versus non-restructuring firms and bank-connected versus non-connected firms. Then we examine the effect of bank connections on corporate restructurings, which will in turn suggest the role of connected banks on a firm's financial strategies. We also examine the effect of the connection strength on the restructuring likelihood. Finally, we investigate if connections are valuable to the firms.

Our results show that firms that undertake restructuring activities during the East Asian economic crisis are more likely to be affiliated with a business group. This result is also reported in Polsiri and Wiwattanakantang (2006). Consistent with previous literature, we document that restructuring firms tend to have higher level of leverage and total assets, and poorer firm and industry performances, relative to non-restructuring firms. Regarding the attributes of bank-connected firms, we find that they are more often part of a business group and are larger than non-connected counterparts.

Considering the impact of bank connections on restructuring actions, we provide supportive evidence for our hypothesis. Specifically, univariate specifications show that in the pre-crisis period, connected firms engage in restructuring activities more often than non-connected firms. This result is driven by the higher probabilities of dividend cut and capital raising in connected firms. During the crisis and in the post-crisis period, connected firms are more likely to replace their top management and raise new capital. As for the connection strength,

director connections and ownership connections appear to have little impact on corporate restructurings. More precisely, only the likelihood of dividend cut and capital raising in the post-crisis period is marginally different between the firms with the different connection strength.

Consistent with the findings of univariate analyses, our probit estimations show that the presence of bank connections is associated with the likelihood of restructuring activities in the pre-crisis and post-crisis periods. In the pre-crisis period, connected firms are more likely to cut dividend payment to restructure their firms; while they are more likely to engage in management turnover activity during the crisis. Surprisingly, the findings show that the likelihood of debt restructuring is lesser in connected firms in the post-crisis period. It seems that connected firms do not need to appoint more financial advisers to participate in debt restructuring activity.

Although the results discussed above indicate that connected banks play an important role on corporate restructuring activities, we find no support for the value that bank connections add to the firms. In other words, our univariate analysis shows that changes in operating performances after restructuring are not different between connected and non-connected firms. This result is similar to Sitthipongpanich (2009) who documents that connections are not valuable although they play a role in influencing firm investment behavior and financial strategy as shown in this study.

5.2 Suggestions for future research

There are some limitations in this research that, however, provide future research direction. First, the presence of bank connections is defined using available public information i.e. ownership structure and director appointments. Detailed borrowing portfolio of firms and loan data of banks could be used to quantify the presence of connections as in previous research in other developed countries. Second, the sample periods in this study cover the macro-economic crisis in 1997; therefore, the future research could be conducted for firms experiencing financial performance decline (i.e. firm-specific crises) during normal period. Third, this study focuses on the institutional characteristics of bank connections and business groups in Thailand. There are also other institutional factors, such as the role of controlling shareholders and qualifications of board of directors, which might affect the possibility of

restructuring activities. Thus, future research could include these institutional aspects in the analyses to provide additional evidence.

DISCUSSION