

Links between corporate governance and IPOs

It's hard not to notice the eager rush of businesses to the Thai capital market. Government policies to stimulate the market, including corporate tax reductions for newly listed companies, have led to significant growth since 2002 in listings, market capitalisation and trading volume.

Stimulated by incentives, a number of privately owned businesses with great potential, which include SMEs, long-established family-owned businesses, successful firms with new products and services, are attracted by the idea of "going public", opening themselves to unlimited low-cost financing and other benefits from becoming listed.

With the assistance of financial and legal advisers, these businesses spend months making preparations and restructuring their organisations to meet the criteria of the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET). During this IPO preparation phase, the minds of entrepreneurs are mostly caught up in the procedural steps of converting to a public company, due diligence, disposing of non-performing debts and directors' loans, book-building price, determining an appropriate IPO volume, and selecting which customers, creditors or employees should be rewarded with pre-IPO stocks.

Very few have knowledge or familiarity with the concept of corporate governance. Although both the SEC and SET consider it a priority, both bodies encourage rather than compel listed companies to comply with relevant rules and practical guidelines. Such ignorance among new IPO companies of this important topic could be one of the reasons why the market prices of their stocks go below the IPO prices on the first day or first week of trading, to the disappointment of investors.

IPO issuers should start early in adopting principles or code of practices to create good corporate governance in their organisations in order to send a positive signal to investors and traders, showing them integrity, transparency, accountability and commitment. The issuers should bear in mind that modern-day investors as opposed to speculators are smart and not only look at profits and dividends projected in the prospectus. They also follow the world's great value investors by studying other criteria of the company, for instance, how the executives run the company, whether they are a different group of people from the board, how shareholders can participate in decision-making and monitor the management, etc.

There are various sets of corporate governance principles for public companies to follow, such as the principles of American corporations, OECD principles or the Cadbury Report, not to mention self-adapted/developed principles by some well-respected Thai gurus, which

most directors of IPO issuers would find difficult to comprehend, as they are not well-educated professionals hired to run the business but, in fact, are second- or third-generation business owners or successful but inexperienced businessmen. They tend to prefer some realistic codes of conduct, which are easy to follow and remember, rather than a philosophy to interpret for practice.

In addition, the SET will be their principal regulatory supervising body that performs annual corporate governance evaluations of listed companies as well as rates their governance with the help of a rating agency. Listed companies have to disclose their corporate governance status in their annual report (Form 56-1) submitted to the SET. For these reasons, it is advisable and most appropriate for IPO issuers to learn the 15 principles of good corporate governance issued by the SET on March 14, 2002.

IN the first of three articles, we will lead you through these principles one by one, with some remarks and suggestions on what IPO issuers and their management should do during the preparation phase to achieve the goal set in each principle. Certain principles will not yet be relevant and applicable at the IPO stage, so they will be touched on only briefly.

1. Policy on Corporate Governance.

The board of directors should provide a report on the company's corporate governance policy as to what policies have been implemented (and what have not been implemented and why) in the company's annual report for the information of and acknowledgment by shareholders and other related parties.

2. Shareholders: Rights and Equitable Treatment.

The board of directors should encourage equal treatment of all shareholders, particularly in connection with the rights to access the company's information and to attend shareholder's meetings.

IPO issuer: The board of directors of the IPO issuer should organise and retain company books and accounts at the office and provide access to all interested parties, including new shareholders who have no participation in the business but are nevertheless entitled to equitable treatment. Most private companies in Thailand have never issued Share Certificates or created a Register of Shareholders or minutes books even though these are required under corporate law. IPO issuers should create said documents beforehand so that shareholders will feel confident about their lawful share ownership.

(To be continued in Part 2 on May 6.)

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