III. THEORETICAL FRAMEWORK

Agency theory

In Agency theory, the owners or Principles are those who set up principles of the firms and managers or Agents are those who execute principles. The agency cost occurs when the return to the Principles are lower than what it would be if the owners made the direct control of company (Jensen and Meckling, 1976). One of the mechanisms that helps reduce agency cost is to financially reward managers for maximizing shareholders' interests. This typically includes incentive company shares that executives receive as reward or obtain them at a discounted price, purposely to align the interest of executives with those of shareholders (Jensen and Meckling, 1976).The similar scheme is to attach the executives' compensation to the level of shareholders' returns and partly on long-term value maximization of the company to reduce the potential risk from focusing on short-term investment by executives (Donaldson and Davis, 1991). This agency cost is also referred to by Villalonga and Amit (2005) as Agency Problem I, which can be reduced when the large shareholders focus more on monitoring the executives. However, the second type of conflict arises, which is called Agency Problem II, this means that the large shareholders who hold the controlling decision of the firm may have potential to privately generate benefit for themselves at the expense of minority shareholders (Villalonga and Amit, 2005). "If the large shareholders are an individual or a family, it has greater incentives for both expropriation and monitoring, which are thereby likely to lead Agency Problem II to overshadow Agency Problem I." (Villalonga and Amit,2005, p.387). From the study of Williamson (1985) it was suggested that managerial "opportunistic behavior", which means managers will try to take excessive self advantage at the expense of shareholders interests. A major structure to control this managerial behavior is by having board of director to monitor the management team on behalf of shareholders (Donaldson and Davis, 1991). It is better justified when CEO and chair of board are independent, but if one person holds both positions, the judgment of misbehaving managers will be compromised (Donaldson and Davis, 1991). The agency theorist has noted on CEO duality that when CEO holds the role of chair the interest of shareholders or Principles have to depend heavily on the degree of indulgence in preference of management (Donaldson and Davis, 1991). The "model of

man” underlying agency and organizational economics state that “self-interested actor rationally maximizing their own personal economic gain” (Donaldson and Davis, 1991, p.5). This clearly states the motivation of management to misbehave and create conflict between managers and owners.

In contrast to the view that family firms are more efficient due to reduced agency costs through relationships that align the goals and incentives of family owners and managers, is the alternative perspective that family firms are breeding grounds for relationships fraught with conflict (Dyer, 1986; Kaye, 1991; Lansberg, 1999; Ward,1987). The question why reduced agency costs may not be realized in family firms has been asked by Dyer (2006). In the context of a family business, differing views within a family about the distribution of ownership, compensation, risk, roles, and responsibilities may make the family firm a battleground where family members compete with one another (Dyer 2006). Consistency, Schulze, Lubatkin, and Dino (2003) said that family members are not equally yoked in pulling the firm and family forward, but are fighting for their own interests. From this perspective, the family firm may, in fact, incur significant agency costs due to the conflicts that accompany family involvement. Another reason that is often posited for family firms not realizing reduced agency costs is the idea that altruism (or particularism) makes it difficult, if not impossible, for families to effectively monitor family members who work in the firm. Altruism, treating people for who they are rather than what they do, is often seen as the cornerstone value in family firms (Schulze, Lubatkin, Dino, & Buchholtz, 2001). Rosenblatt, de Mik, Anderson, and Johnson (1985,p.112), in their extensive study of family firm dynamics, quote a senior family manager who articulates why family members may be monitored differently than nonfamily employees “If my sons or my wife make mistakes, I let it go, because it’s not worth fighting over. You have to live with your family. A nonfamily member, you can fire him.” This quoted has consisted with the study of Gomez- Mejia, Nuñez-Nickel et al. (2001). They found that the Spanish family firms they studied were much more reluctant to fire a family CEO than were nonfamily firms, but when the family CEO was replaced, the firm performed significantly better after the transition than those nonfamily firms that also replaced their CEOs. The implication is that family owners, as a result of altruism, are unwilling to monitor and discipline their CEOs; hence the family CEOs became entrenched. As a result, the family waits too long (until performance falls precipitously) to make a

leadership change. Nonfamily firms, on the other hand, monitor their CEOs more carefully and are not hamstrung by altruism; hence they are more willing and able to replace a CEO when the CEO's performance is deemed unacceptable (Dyer 2006).

According to the famous study of US family business by Anderson and Reeb (2003), Villalonga and Amit (2006) and recently Miller et.al (2007), the outcome indicates that Tobin's Q is positively related (increases). It means that family business bring a better performance comparing with nonfamily. The reason why family firm has better performance is that it has an authorization for control and/or management. Then, the agency cost between principle and agent can be reduced and close to minimize if family firm has majority control or fully management.

In this study expectation, Tobin's Q for Thai public family firm should have consisted to the result for developed country like US. It belongs to many factors as industry movement, investment policy, market risk, leverage, minority shareholder empower, firm's experience and firm's revenue.

Hypothesis: In Thailand, All Public Firms, family firm performance will greater than nonfamily firm. In this study, I have interested in details of family firm and separated like All types of Family firm, Family firm for which the family is the largest shareholder, Family firm for which the family member serves as CEO, Family firm for which the family member serves as a Chairman and CEO (CEO Duality), Family firm for which the family is the largest shareholder and the family member serves as CEO, and Family firm for which the family is the largest shareholder and the family member serves as a Chairman and CEO (CEO Duality)