

Audit Committee Process in the Emerging Market of Thailand

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ABSTRACT

Audit Committee Process in the Emerging Market of Thailand

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This thesis examines the effects of behavioural traits and power on the governance role of audit committees (ACs). A conceptual view implicit in most extant studies is that the AC process is similar across countries, and as such research tends to focus on the existence of, and effects associated with, structural features as stipulated in governance codes based on agency theory. In contrast, this thesis is premised on the view that, while the adoption of ACs is influenced *inter alia* by international convergence, local country factors are also potentially a major influence affecting the role and functioning of ACs. Apart from the country factors, the causes for variations in AC's impacts on the external audit have not been subject to much research. In response to the calls for additional theoretical work on AC operations and more studies on the AC process, this thesis introduces the concepts of behavioural traits and power to the study of ACs.

Semi-structured interviews of the ACs and the participants in the AC process in Thailand were conducted during 2011 and 2012. The interviewees include 11 AC members (three being foreigners in Thai ACs), 12 external auditors and 17 other participants. The research explores how "behavioural traits"—the behaviour of interviewees as conditioned by the cultural context—affect AC governance role. Power is analysed in terms of contexts and structures, sources of power, will and skill, and content of power, a model proposed by Pettigrew and McNulty (1998; 1995).

This thesis finds that while professional traits, such as AC independence, expertise, and diligence, still play a role in conditioning the AC process and related outcomes, behavioural traits and the will and skill to exercise power by the ACs and the AC participants are fundamental to the AC process. *Krengjai*, one of the most prominent Thai behavioural traits, has both positive and negative effects on the AC governance process, depending on the level of *krengjai* of the participants. *Krengjai* may lead to positive governance outcomes when the other participants in the AC process are *krengjai* of the ACs. On the contrary, governance can be compromised when the ACs are *krengjai* of the other participants in the AC process, whether of another AC member, management or external auditor. The participation of foreign AC members in Thai ACs in this research results in strong and diverse ACs because of their lower *krengjai* trait. The findings also reveal that, although there are wide variations of AC's influence on the governance process, especially in the areas of auditor selection and the resolution of disputes between management and external auditors, a majority of ACs in this research only have ceremonial effects. On auditor selection, the main causes of AC's ceremonial effect are the perception of similar quality among the Big-4 audit firms, favouring of management preferences regarding auditor choice by ACs and time constraints of AC members, all of which result in reduced will to exercise power by ACs. However, ACs with strong will and skill to exercise power can also effect auditor changes. The AC's effects on dispute resolution vary, depending very much on the AC's will to deploy power. Factors causing ACs to have weak will include the lack of AC independence and the *krengjai* behavioural trait of AC members. Inadequate power source (knowledge), skill and context also contribute to ACs only having ceremonial influence. The thesis reveals that for ACs to have significant influence, they need a combination of all power components appropriate to the circumstances.

DECLARATION

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DEDICATION

This thesis is dedicated to my beloved parents.

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LIST OF ABBREVIATIONS

AC	Audit Committee
AC-Sec	AC Secretary
Big4	Big-4 audit firm
BOT	Bank of Thailand
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CG-ROSC	Corporate Governance – Reports on the Observance of Standards and Codes
COM	Company
CPA	Certified Public Accountant
Dir	Director
FAP	Federation of Accounting Professions
IA	Internal Auditor
ICAAT	Institute of Certified Auditors and Accountants of Thailand
IMF	International Monetary Fund
IOD	Institute of Director
ISA	International Standard on Auditing
Mgt	Management
N/A	Not applicable
NCGC	National Corporate Governance Committee
NED	Non-executive Director
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SOX	Sarbanes-Oxley Act
UK	United Kingdom
US	United States

CHAPTER 1 : INTRODUCTION

This thesis aims to explore AC's oversight role, especially in the area of external audit oversight, from an alternative perspective: behavioural traits and power. The majority of the extant literature, based on agency theory and institutional theory, still cannot fully explain AC operations. This chapter starts by explaining the research interest in Section 1.1, which describes the research motivation and identifies research gaps. To address the motivation for the research and knowledge gaps identified, Section 1.2 then discusses the scope of the research by describing the institutional settings of ACs and identifying the research questions. The research design is then introduced in Section 1.3 where the conceptual framework of the research and the research methodology are discussed. The synopsis of the key findings is presented in Section 1.4, with the contributions of the research being discussed in Section 1.5. The chapter ends with descriptions of the structure of the thesis in Section 1.6.

1.1 RESEARCH INTEREST IN AUDIT COMMITTEE OVERSIGHT

1.1.1 Research interests

Following several large scale accounting scandals during the past decade in developed countries such as the US and the UK, many regulators all over the world now recommend or require an audit committee ("AC") to be set up principally to monitor the quality of firms' financial reporting. These problems, for the most part, originate from the abuse of power by company management and from issues regarding the independence of external auditors. The management and directors are generally in charge of the preparation of the financial statements, while the external auditors are responsible for the examination of financial reports to ensure that they are prepared in accordance with the relevant accounting standards and regulations. The oversight of the external audit function by the AC, preserving the external auditor's independence, is therefore critical to the credibility and integrity of financial statements.

This research is motivated first by recognition of ACs as a universal feature of governance, yet limited attention has been paid to the national context in researching

ACs. During the past two decades, ACs have become either mandatory or recommended in many countries. Though the rules and recommendations in various countries vary in detail, they share a common view in that the effectiveness of ACs is conceptualised in terms of structural features, such as independence, diligence and expertise. How country factors, such as behavioural traits, affect the social and organisational practice of governance and, in particular, influence the monitoring role of ACs, has received limited attention in extant studies.

Moreover, the AC is still perceived as less effective in the monitoring of the external audit, especially when compared to the other functions of the AC (Crawford et al., 2008; Turley and Zaman, 2007). Limited understanding is provided on the wide variation in AC influence in supporting the auditor's independence in disputes between management and external auditors (Cohen et al., 2010) and on the ceremonial effects of ACs on auditor selection and dismissal (Fiolleau et al., 2010; Gendron and Bédard, 2006). The questions motivating this research are then: Why are ACs perceived to be less effective in the area of external audit oversight? What are the missing pieces of knowledge that can contribute to a better understanding of the influence of ACs?

1.1.2 Literature gaps

There have been several archival studies on the relationships between outcomes of AC governance and proxies of formal characteristics and efforts of the AC. These studies provide a good general overview of the relationships between those proxies but their results in some areas are inconclusive, with some proxies showing statistically insignificant relationships in some studies while being significant in others, probably caused by crude proxies being used. For example, studies reveal that the relationship between AC independence and the appointment of quality auditors varies between positive and insignificant (Chen and Zhou, 2007; Chen et al., 2005; Lee et al., 2004). There are also studies which provide mixed findings, i.e., insignificant or negative relationships between ACs with financial expertise and auditor changes (Robinson and Owens-Jackson, 2009; Lee et al., 2004; Carcello and Neal, 2003; Archambeault and DeZoort, 2001).

The mainstream studies mentioned above primarily bypass the AC process. Studies of the AC process, principally based on interview and case study methods, are still limited

but have provided further understanding of the effects of AC governance in different contexts. They broaden the perspectives of AC governance that have been based on the mainstream agency theory into sociological perspectives such as power, organisational and actor-network theories. For example, the AC may deploy power from various sources, use informal processes and be involved in organisational politics to effect the desired governance outcomes (Turley and Zaman, 2007). Several ACs perform ceremonial roles in their oversight process and the display of AC's concerns about corporate governance contributes to the success of companies (Spira, 1999). Several ACs feel that they are effective in their roles based on the meaning of effectiveness within their own constitutions (Gendron and Bédard, 2006).

However, the theoretical underpinning of these qualitative studies still seems inadequate since several questions remain unanswered. For example, on auditor appointment and remuneration functions, ACs are found to be rather passive in their monitoring role while management is the main driving force in this function (Fiolleau et al., 2009; Turley and Zaman, 2007). However, the causes of such findings are still unclear. On the review and monitoring of auditor independence, while several ACs are perceived to perform their roles effectively, several others are mainly ceremonial in auditor dismissals and the resolution of conflicts between auditor and management (Cohen et al., 2010; Gendron and Bédard, 2006). Again, the rationales for such a wide variation in practice are not investigated.

Another knowledge gap relates to the fact that most extant studies are based on the contexts of the US, Canada or the UK, raising doubts over AC operations in different contexts. There has been only one study of emerging markets that focuses on AC processes. Salleh and Stewart (2012) study the mediation method used by ACs in Malaysia in resolving auditor-client disagreements. Due to vast differences in the contexts of societies in the emerging markets, additional studies are necessary to obtain a better understanding of AC operations in different institutional settings. There are a few quantitative studies published in the international journals, based on archival study or questionnaire survey, of ACs in emerging markets, but they are mainly focused on ACs in Malaysia, with only one study each for Singapore, Pakistan, Egypt and Thailand. Consistent with the studies in the developed countries mentioned earlier, the findings of these studies are inconclusive with a mix of positive and insignificant effects of ACs.

1.2 SCOPE OF THE RESEARCH

This research seeks to examine how ACs exercise power and influence in the oversight of the external audit function in an emerging market context, i.e., Thailand. With different behavioural traits of people involved in the AC process and different institutional contexts, the governance outcomes due to AC influence that are based on the concept of the western AC model may be different in Thailand. ACs in Thailand are selected for the investigation of the impact of differences in the institutional factors in the country. The focus of this research is on the effects of ACs, with more detailed investigations in two AC governance functions for which extant studies are yet to provide concrete evidence for the causes of ineffectiveness—auditor selection and the resolution of disputes between management and external auditors.

1.2.1 Institutional setting: Thailand

Thailand is chosen for the research in this thesis for three main reasons: the continued economic incentives for investing in Thailand, the limited impacts of ACs so far experienced, and the unique setting in terms of behavioural traits. Thailand is an emerging market with high growth rates of stock market performances in the past few years. In 2012, the Stock Exchange of Thailand (SET) was the fifth best performing stock market in the world (Bangkok Post, 2012), with more impressive performances in 2009 and 2010 (Royal Thai Embassy, 2012). With a number of extant studies indicating the importance of good corporate governance on firm performances (e.g., Cheung et al., 2007; Durnev and Kim, 2005; Gompers et al., 2003), the study of ACs, which are an important part of the mosaic of corporate governance, is deemed necessary. Proper understanding of the conditions and factors affecting AC influence over external audit oversight can also provide important insight into the progress of corporate governance reform efforts in Thailand that have been put in place to prevent yet another financial crisis as was experienced in Asia in 1997.

The so-called “Asian financial crisis” started from Thailand in 1997 and quickly spread to many other Asian countries (Mitton, 2002). Many critics blame weak corporate governance (e.g., Zhuang et al., 2000), including weak financial reporting systems that lacked transparency (International Monetary Fund, 1999) and were not able to provide any warning signs of problems to the investors (Rahman, 2000). In response to World

Bank mandates, Thailand started implementing a series of measures on corporate governance, a concept that was then fairly new to most Thai business people (White, 2004). Many steps in corporate governance have since been put in place (Persons, 2006). Amongst many other measures, the Stock Exchange of Thailand (SET) required all listed companies to set up an AC by the end of 1999 to enhance the quality of financial reporting (Hongcharu, 2006).

After many years of this implementation, however, several users of financial statements still perceive that the role and operation of ACs in Thai listed companies do not meet their expectations (Khanasup, 2007). The practices of ACs are still at the infant stage, performing a mainly ceremonial role (Tengamnuay and Stapleton, 2009). The Thai Securities and Exchange Commission (SEC) still, from time to time, needs to file criminal complaints against executives (Hongcharu, 2006) and continually issues a series of warnings to and suspensions of the auditors of listed companies for accounting related issues, such as significant under-recorded liabilities or major embezzlements and falsifications of documents by the directors (The Nation, 2009c; The Nation, 2009a). While investors note this governance failure (Bangkok Post, 2008), the SEC has also recently filed criminal complaints against directors, high-ranking managers and the external auditor of a listed company (The Nation, 2009b). All of these incidents lead to the questionable value of the AC and its ability to promote the reliability of financial statements. The suitability of the western world's model of AC being adopted and adapted in Thailand, and how the model is actually practised by the people involved in the process, are also in doubt.

As mentioned earlier, little is known about how ACs oversee the external audit function, especially in the institutional settings of emerging markets. A number of factors affecting AC operations in Thailand are very different from the more advanced markets, such as those in the US and the UK, where the AC models originate. The major differences in the context of Thai people, such as relationship-oriented mindset, permissiveness and face-saving practices, may influence how ACs and the parties involved in the process operate, leading to different governance outcomes. Questioning, which is recognised as one of the most important tools for ACs (Gendron and Bédard, 2006; Spira, 1999), as used in the western world, may not be so effective in the Thai context. Moreover, the official guidelines for ACs in Thailand have not been properly updated, whereas there are much more detailed updated guidelines for

ACs in the US and the UK. The insights into how all the participants involved in the AC process actually fulfil their duties and adapt themselves in the presence of these institutional contexts can contribute to a better understanding of AC's influence in monitoring the external audit and contributing to financial reporting quality in emerging markets.

1.2.2 Research questions

This thesis aims to study ACs in different institutional and cultural contexts, an aspect which has received little, if any, attention in the AC literature. More specifically, the researcher is interested in the behaviour of the AC and AC participants and how this behaviour is conditioned by the cultural context. This is labelled “behavioural traits”. Another aim of this research is to contribute to the AC literature from the power perspective. The concept of power in the AC process, previously introduced by Turley and Zaman (2007), is further examined to include the will and skill to deploy power. These two aspects are expected to provide insight and to assist in addressing the gaps identified earlier. Due to limitations of resources and time for a three-year program of PhD study, and especially the limitation of the length of the thesis, the scope of behavioural traits is limited only to the most prominent trait, called ‘krengjai’, and the AC processes of auditor selection and resolution of disputes between management and external auditors. The specific research questions are:

RQ1: How does the krengjai behavioural trait shape the AC process and practice?

RQ2: How does AC's power affect the oversight of the external audit, particularly auditor selection and the resolution of disputes between management and external auditors?

1.3 RESEARCH DESIGN

The framework for field study and the analysis of the findings are based on the concepts of power and behavioural traits of the AC and of the participants in AC processes. In summary, AC power is analysed in terms of contexts and structures, sources of power, will and skill, and content of influence, a model proposed by

Pettigrew and McNulty (1998; 1995). The sources of power are categorised into four dimensions—power of resources, power of processes, power of meaning and power of system—according to Hardy (1996). The content of influence is the area where ACs can be expected to have an influence as a result of the other three components in the model. Behavioural traits are also expected to influence and condition AC members and the participants involved in terms of the politics and power of the AC and thus are expected to affect the power components mentioned above. The analysis of the impact of behavioural traits is generally based on the cultural values that are mediated by the construal of self, which refers to how people see themselves, especially in terms of separation from or connection to other people (Markus and Kitayama, 1991). Since there are different levels of culture, e.g. at national and individual levels, this research avoids using the national cultural values as *a priori*, and thus avoids the assumption that all of the people in the country behave in the same manner. It instead explores the impacts of cultural values at the individual level. More specifically, the research focuses on the behaviour of the AC and AC participants that is conditioned by the cultural context. This thesis labels this as “behavioural traits”. Understanding the components of AC power and behavioural traits can assist in better understanding the functioning of ACs particular contexts.

This research is based on semi-structured interviews with 40 individuals involved in the AC process, including AC members, management, internal auditors, AC secretaries and external auditors. The field study was carried out in two series of interviews. The first series was during 17th January to 22nd April 2011 and the second series—follow-up interviews with some interviewees—was during 2nd May to 5th July 2012. All interviews were conducted face-to-face and the majority were audio-recorded and transcribed.

1.4 SYNOPSIS OF KEY FINDINGS

On the aspect of behavioural traits, the findings in this thesis show that the krenghai behavioural trait conditions the behaviours of the parties involved, resulting in both positive and negative impacts on corporate governance. Krenghai leads to positive governance outcomes when the other participants in the AC process are krenghai of the ACs, leading to more accommodating behaviour towards requests by the ACs. On the contrary, when the ACs are krenghai of another AC member or of other participants in

the AC process, governance outcomes can be compromised since the ACs are less challenging in their monitoring role due to their reluctance to cause any discomfort for the other parties. Krenjai by external auditors towards management also affects the incomplete reporting of internal control and issues to the ACs. Foreigners participating as members of Thai ACs in this research have a lower level of krenjai and can thus contribute to stronger governance by supporting the Thai AC members in reducing the effects of the krenjai. On important issues, they ignore the krenjai trait practised by Thai participants to arrive at the desired governance outcomes. Participants in the AC process believe that foreign AC members contribute to tough and diverse ACs.

On the second research question, with regard to power deployment in the areas of auditor selection and dispute resolution, this thesis finds that there is a wide variation in AC influence due mainly to the level of AC's will to exercise power. Only few Thai ACs fulfil such oversight roles in a substantive way, while most are more ceremonial. ACs perceive no differences in the quality of the Big-4 audit firms, accept management preferences in auditor choice, and have limited time to get fully involved in the auditor selection process and these facts contribute to AC's weakened will to exercise power in the auditor selection process. With a strong will to exercise power, ACs can effect change of external auditor when they also possess the proper skill to exercise power. Therefore, auditor appointment is the area where either ACs or management can effect change, as long as they have the will and skill to justify their proposal.

On AC's effects on the resolution of disputes between management and external auditors, a limited number of disputes are raised to ACs since all participants in the AC process, for different reasons, prefer to have disputes settled before AC meetings. The disputes presented to the ACs are mainly issues and concerns raised at the early stage, to avoid them becoming major disputes in the future. There is a wide variation in AC's influence on dispute resolution, with most ACs being more ceremonial. The variation in AC influence is due to variation in the levels of AC's will and skill to exercise power and variation in the sources of power (financial, accounting and auditing expertise). The findings reveal that the will of the AC to exercise power is weakened when AC members are recruited by management or owners. Different personal interests resulting from the background and experience of AC members also affect their will to exercise power. The findings in this research also emphasise the importance of the combination of various power components in obtaining the desired governance outcomes. AC's will

to exercise power must be supported by the proper skill and ability to convince management, which can in turn be limited by the lack of knowledge involved in the issues.

In terms of the analysis of power, the *krengjai* behavioural trait has a major effect on AC's will to exercise power. As discussed earlier, AC's *krengjai* towards management results in a weakened will of the AC to exercise power to effect good governance. Therefore, ACs do not have strong will to exercise power (a) to challenge management regarding a proposed auditor change, (b) to challenge another AC member regarding a change in internal audit methodology, and (c) to probe an external auditor over questionable accounting treatment. However, when the other parties are *krengjai* of the AC, *krengjai* is used as a source of AC's power that can be utilised to gain support from management in terms of more disclosure in annual report and financial statements, and of change to computerised accounting systems.

1.5 CONTRIBUTIONS OF THE RESEARCH

This research contributes to the AC literature in many ways. Table 1-1 shows a summary of the contributions of the thesis based on the knowledge gaps discussed earlier.

Table 1-1: Summary of contributions of the thesis

AC Responsibilities	Knowledge Gaps	Contributions of the thesis
Overall	Extensive archival studies on overall AC impacts but much less research on AC influence over external audit function.	RQ2 specifically addresses AC's influence over two areas of external auditing.
	Limited studies focussing on the AC process.	The design of the thesis enables understanding of the AC process.
	Impact of the behaviour of parties involved in the process is not much researched.	RQ1 is designed to explore the impact of behavioural traits of all participants in the AC process.
	Scant studies in the context of emerging markets.	The thesis is premised on the setting of Thailand, an emerging market.
Auditor appointment and auditor independence	Limited investigations of the causes of passive involvement of ACs and variation of AC influence in qualitative literature. Inconsistent effects of AC characteristics found by extant archival studies. Potential	The thesis frames the study of the AC process within an alternative theoretical perspective: behavioural traits and power. It finds that the framework is able to explain AC influence. Behavioural traits, will and

AC Responsibilities	Knowledge Gaps	Contributions of the thesis
	omitted or unquantifiable variables?	skill to exercise power, appropriate sources of power and power contexts help to better understand the ceremonial behaviour of ACs and the inconclusive findings in various extant studies.
AC research in Thailand	Causes of passive involvement by ACs not fully investigated.	With the framework of behavioural traits and power, it is found that potential causes of passive Thai ACs are the krenjai behavioural trait, limited will of ACs to exercise power and less comprehensive AC codes and laws.

Overall, this research adds to the limited AC research on external audit oversight and to calls for more research on the AC process. It frames the research using behavioural traits and power. The latter further expands Turley and Zaman's (2007) contributions on the importance of power and politics to include the will and skill to exercise power. The study of behavioural traits is a major contribution to the understanding of the AC process in the international arena since the implementation of a model cannot yield the same result when the people involved differ in cultural backgrounds.

The methodology employed in this research enables the study to focus on the processes of the AC, which have been given scant attention when compared to the mainstream archival studies. The findings from the interviews reveal several causes, not previously explored in the mainstream literature, of inconclusive findings of AC influence, such as the krenjai behavioural trait and the will or skill to exercise the power to achieve the good governance. It is very important for researchers to gain an understanding of the impacts of various human factors on the AC process. The will of AC members to exercise power is shown in the thesis to be an instrumental factor for AC operations. The findings show that both context and behavioural traits can affect will to exercise power. Behaviours such as avoiding causing discomfort to others, deference to others who are more powerful and compliance with the requests of others (collectively referred to as 'krenjai' in Thailand), are also common in developed countries and they can cause ACs to avoid utilising their power to the full extent (weakened will to exercise power). These behaviours might be more common in collectivistic societies but they can also be present in some people from predominantly individualistic societies, as in developed countries.

This thesis provides insights into under-researched AC processes in the emerging markets. Investors from more developed countries have been looking for higher returns from stock markets in emerging markets. The results of the research can be useful to their assessment of the reliability of the financial information. Moreover, regulators and policy makers may find the results of the research useful in fine-tuning the rules and regulations to make ACs operate more effectively in the interests of the public. Even though, by themselves, guidelines and codes do not directly result in improved governance, inclusion of measures to deal with behavioural traits and the will and skill to deploy power in Thai guidelines might provide ACs with more knowledge of good practices.

1.6 STRUCTURE OF THE THESIS

There are seven chapters in this thesis, including this one. *Chapter 2* provides evidence from extant studies and empirical literature gaps. It starts with a brief outline of the impact of ACs in general and is followed by detailed discussion of studies specific to the impact of ACs on external audit oversight in three main areas: auditor selection and remuneration; auditor independence; and audit process and reporting. The chapter then discusses related literature from emerging markets and Thailand. Overall literature gaps are summarised in the chapter conclusion. *Chapter 3* proposes the conceptual framework for the research, which stresses on the interrelationships between each power component and the behavioural traits. The detailed concepts of power and the components of power—contexts and structure; source of power; will and skill to deploy power; and content of influence—are discussed. Next, the cultural values specific to Thailand are described while possible linkages to the components of power are made. The chapter also discusses the conception of the construal of self, which is used to mediate the impact of cultural values on individuals' behaviours. The behaviours of ACs and AC participants conditioned by cultural context are called 'behavioural traits' in this thesis.

Chapter 4 discusses the Thai regulations and code, as well as the research methodology. With respect to corporate governance, brief backgrounds of the developments and requirements are discussed. The recommended best practices for ACs in Thailand are also presented, in comparison to those of the US and the UK. This chapter also includes a discussion of the communication requirements between the

external auditor and the AC as suggested by the accounting body. The rest of the chapter discusses the research methodology used in this thesis. It starts by explaining the research questions which is followed by discussions of the research approach, research methods, data collection and data analysis.

The findings of the thesis are separately presented in two chapters although they are related according to the conceptual framework. *Chapter 5* presents mainly the findings related to the krengjai behavioural trait. It starts by discussing the overall construal of self of the participants in Thai ACs being interviewed. The effect of the krengjai behavioural trait is then discussed. The chapter also presents the impacts of foreign AC members in Thai ACs. *Chapter 6* provides findings, from the power perspective, for two AC processes: auditor appointment and the resolution of disputes between management and external auditors. The discussion of the findings is based on the power components presented in Chapter 3.

Chapter 7 concludes the thesis. It briefly revisits the research gaps, the conceptual framework, and the research methodology. It then presents the summary of findings regarding the behavioural trait and the power aspects of the AC process. It also re-emphasises the linkages between behavioural trait and the power components. The contributions of the research, including its limitations and recommendations for future research, are also presented in the chapter.

CHAPTER 2 : LITERATURE REVIEW

2.1 INTRODUCTION

ACs are set up to assist boards of directors, which are in charge of the overall governance of the company, mainly in the financial reporting area (Cadbury, 1992). The AC members are normally the independent directors from the boards and are therefore expected to act in the best interests of the shareholders who appoint them. The shareholders also demand a good external auditor to examine the financial reports of the company they invest in, so that the results of the stewardship of the resources by the boards of directors is examined and reported fairly. Independent directors in the ACs have less conflict of interests in facilitating the audit process and monitoring the external audit.

The regulators around the world encourage AC monitoring of external auditor appointment and remuneration, auditor independence and audit process in order to improve the audit quality by the external auditors. Audit quality has been a subject of many studies for a long time and one of the most commonly used definition of audit quality is “the market joint assessed probability that a given auditor will both (a) discover a breach in the client’s accounting systems, and (b) report the breach” (DeAngelo, 1981, p.186). Such definition implies that the auditor should be capable of discovering the breach as well as be independent enough to carry out the audit and report the breach accordingly. The AC’s role in appointing the auditor is important for both matters—approving only the auditor that is capable and independent. Awarding proper amount of remuneration makes engaging competent auditor possible while restricting or monitoring the level of non-audit fees can help maintain the independence of auditors. The oversight of audit work by ACs can also result in improved audit quality by ensuring that the auditor performs and conclude the audit work objectively and independently.

This chapter attempts to gain an understanding of the impacts of the AC and to identify the knowledge gaps in the AC literature in relation to the AC oversight of the external audits. It starts by seeking understanding of the overall impacts of the AC (Section 2.2)

and then focuses on the reviews of the extant research that has been carried out on AC in relation to the approval of external auditor appointment and remuneration, the monitoring of auditor independence and the AC's oversight of external audit process (Section 2.3). The AC literature in the emerging markets is also reviewed to gain the understandings of the AC governance (Section 2.4). The chapter ends with the conclusions of the research gap in the literature (Section 2.5).

2.2 OVERALL IMPACT OF AUDIT COMMITTEE

Based on the detailed review of literature in the following sections, the extant literature can be separated into two main groups: those focusing on the relations between inputs and outputs of ACs and those focusing more on the operations and interactions between ACs and external auditors. The first group of research focuses on the economic statistical models, based mainly on the agency theory, while the second category concentrates more on the process, operations and interactions of the ACs in discharging their duties through other theoretical perspectives, such as institutional or power theory. Majority of the extant research focuses on the first category, relying on the agency theory which suggests that ACs can improve information quality by monitoring both the management and external auditors (Bédard and Gendron, 2010).

Over the past decades, the AC research literature has mainly focussed on the AC's effects in relation to various formal characteristics of the ACs, such as presence, independence, size, diligence and expertise. In one of the earlier review of AC literature, Turley and Zaman (2004), using the studies during 1991–2002, argue that there are limited and mixed evidence of the AC's effects based on the studies on statistical associations. More recent reviews of the AC literature still show that the studies based on statistical associations are pervasive but the results yield more positive trends. Bédard and Gendron (2010) analyse the AC studies during 1994–2008 and find that the AC's presence, independence and expertise in most cases are found to have positive relationships with several effectiveness measures while the AC's diligence and size seem to have weaker effects. Carcello et al. (2011) conclude similarly, based on their reviews of the corporate governance studies during 2003–2010, that in general, the better AC characteristics, such as more independence and more expertise, are associated with various aspects of better accounting and auditing outcomes and with more effective internal controls. Based on the meta-analysis of related literature during

1996 to 2007, Pomeroy and Thornton (2008) argue that the ACs with more independence play a more supporting role in increasing audit quality by enhancing auditor independence, such as reducing the chance of auditor resignation, than fostering the financial statement quality.

At a more detailed level of the AC functions, AC's effects in the extant research are studied in three main categories: the financial statement reliability, internal control effectiveness and external audit. These three main functions are generally recommended as the roles and responsibilities of the AC in regulations and codes, such as FRC (2012a) and SOX (2002).

Generally, the regulators suggest that the AC monitors the integrity of the financial statements and reviews the major financial reporting judgements involved. The extant research has shown that higher financial reporting reliability is quite often associated with AC's higher levels of independence and accounting/financial expertise (Ghafran and O'Sullivan, 2012; Cohen et al., 2008). Several studies also reveal that the adoption of the AC is related to "fewer misstatements, less earnings management, and higher voluntary disclosure of information" (Bédard and Gendron, 2010, p.185). The measures of the financial reporting reliability in the extant research focus mainly on the levels of earnings management, financial statement restatements or voluntary disclosures, with earnings management being the most popular measure of financial reporting reliability in extant research.

On the AC's effects over the internal control, the extant research mainly focuses on the internal audit function, which is considered a part of internal control. Most studies finds that the AC's independence and expertise are more likely to provide positive effects on internal control while there are no significant relationships between the AC's size and the internal control effectiveness (Bédard and Gendron, 2010). This is largely consistent with the review made by Ghafran and O'Sullivan (2012) which shows that independence, expertise and the number of meetings of the ACs are perceived by the internal auditors to be essential to AC's work.

The last major function of the AC normally recommended by the regulators is the oversight of the external audit, which includes the recommendations to the board for the auditor appointment and remunerations, the monitoring of auditor's independence

and the review of the external audit effectiveness. The extant research shows that, in many cases, stronger governance, especially from the stronger boards and ACs, is associated with stronger external audits (Carcello et al., 2011). Bédard and Gendron (2010) also find that seven analyses (70%) in their review of AC literature show the positive relationships between the AC adoption and the various proxies of auditor selection, extent of audit work and auditor independence.

Despite the trends of positive impacts of AC mentioned above, there are also a number of insignificant relationships between the measures of AC effectiveness and the proxies of AC's characteristics in those studies, e.g., 31%–40% of the analyses of the studies showing insignificant relationships in the review by Bédard and Gendron (2010). Beasley et al. (2009) also find that 31% of their interviewees reflect that the ACs perform rather ceremonial roles over the oversights of the financial reporting process and the internal and external audit processes. Such a large proportion of the insignificant relationships or AC ineffectiveness without proper explanations of the causes means that the extant research provides only a partial understanding of the AC effect.

The extant research on AC effectiveness is mainly driven by the archival studies based on secondary data and thus needs the proxies of AC effectiveness and of the AC's inputs. For example, the AC's process of oversight is represented by diligence (DeZoort et al., 2002), which is mainly based on the number of AC meetings. Since the frequency of AC meetings might reflect the level of inefficient operations of the management and does not reflect the abilities to resolve the issues at hand, the weak explanatory power of the proxy in several extant studies is not surprising. Moreover, the proxy of AC's financial expertise varies from studies to studies, from accounting qualification to financial management experience, making the results of those studies inconsistent and difficult to interpret generally (Ghafran and O'Sullivan, 2012; Bédard and Gendron, 2010).

2.3 AC OVERSIGHT OF THE EXTERNAL AUDIT

With the financial statements being of the primary interests of the company by outsiders, the AC involvements in financial reporting is thus crucial. However, the impacts of ACs are generally limited only to the oversights and reviews, as prescribed

by the regulators. The external auditors who are the third parties in charge of the audit of the company's financial records have more crucial role. However, the external auditors are generally under pressure to maintain independence because the management normally have incentives to show good results of operations despite the accounting standards. With proper supports and oversights by the AC, the financial reporting quality of the company is expected to be less compromised. The interactions between the AC and the external auditors are thus of importance and should be studied in order to better enhance the possibilities of high level of financial reporting quality. This section reviews prior research on the relationships between the AC and external auditors.

2.2.1 Auditor selection

One of the responsibilities of the AC is to approve or propose for approval of the external auditor to the boards of directors or the shareholders. Many regulators and researchers believe that the AC is in a better position, when compared to executive management, to select auditors to examine the financial records on shareholders' behalf because the AC comprises of independent directors and thus there is less likelihood of incurring the conflicts of interests. This in effect ensures the objectivity of the relationship between the auditor and management, with the ability of the auditors to express their views on any disagreements with the management (Cadbury, 1992). This role enables the auditors to carry out high quality audit of the financial reports for the public. Several regulators thus require that the AC is in charge of auditor appointment and provides opportunities for the auditors to raise their concerns, such as the regular meetings with the AC or the private meetings with the AC without management's presence (FRC, 2012a; SOX, 2002; Ramsay, 2001; Cadbury, 1992).

Wallace (1985) suggests that there are three inter-related sources of external audit demand of a firm: agency demand, information demand and insurance demand. The agency demand relates to the needs for the auditor to play an intermediary role between the shareholders and the management to reduce agency costs relating to the risk of improper financial reporting by the managers (Jensen and Meckling, 1976). Such risk arises from the information asymmetries between the owners and the agents, and the resulting agency costs can be imposed on the managers by the owners to ensure manager's proper behaviours. However, the managers can reduce those costs by

making their actions more observable through the use of independent external auditors to examine and report their performances to the owners. The information demand involves the agency costs for information (similar to the agency theory) and the effects on signalling the third parties of the honesty and quality of the management based on the use of credible auditors (originally studied by Dopuch and Simunic, 1980 and 1982 cited by Beattie and Fearnley, 1995). The insurance demand is concerned with the demand deriving from fund owners, such as creditors and investors, for the compensation or remedy in the case that the auditors fail to perform their work properly, resulting in damages to them. The three demands can then be the basis of auditor selection and remuneration used by the AC if the AC is to act as a good agent of the shareholders.

The literature on the effectiveness of ACs in relation to the selection and remuneration of external auditors mainly focuses on the impacts of audit quality obtained from the auditors meeting the agency demand and also indirectly the information demand, via auditors' reputation with presumably high audit quality. The insurance demand is however normally studied under the 'deep pocket' assumptions of the Big 4 audit firms and is not the main focus of the extant research on the AC effects on the external audit function.

Most of the extant research studies the effectiveness of the AC on auditor selection based on formal characteristics as discussed in various recommendations, such as Blue Ribbon Committee (1999) or Cadbury (1992). The proxies used include the independence, size, number of meetings and financial expertise of the ACs. The criteria of auditor selection used in the literature are normally based on the choice of industry-specialist and choice of "quality" audit firms, such as Big-4 or top-tier audit firms. Both the industry-specialist and the quality audit firms are likely to represent the audit quality, reducing the agency conflicts, and meeting the information demand, with the latter also serving for the insurance demand.

On industry-specialist criteria, Abbott and Parker (2000) find that the ACs that comprise only outside directors and convene at least two meetings a year are more likely to use the industry-specialist auditors. The study, based on 1991–1995 data of 500 randomly selected US public companies from 11 industries, tests the hypothesis using three most common definitions of industry specialists and the results are

consistent. The hypothesis tested is based on the assumptions that the outside directors in the AC who perform their duties diligently prefer auditors with industry-specific knowledge in order to increase audit quality and therefore reduce the risks of AC's own reputation loss as the financial monitoring expert. Also, the industry-specialist auditors should be more capable of detecting errors and frauds in financial statements than the non-specialist auditors. The results are confirmed by Chen et al. (2005) who, based on top 510 companies in the Australian Stock Exchange in 2000, report that ACs with more independent directors are more likely to engage industry-specialist audit firms. Their results also suggest that larger firms with ACs tend to use industry-specialist auditors, when compared to smaller firms.

On the selection of high quality audit firms, such as Big-4 auditors, Chen and Zhou (2007) find that the ACs of Andersen's clients in the US that have more members or meet more frequently are more likely to hire Big-4 audit firms as the successor auditors. The study reveals no significant relations between choosing Big-4 auditors as successors and AC independence or AC accounting financial expertise, although these two characteristics are positively related to early dismissal of Andersen as the auditor. However, Lee et al. (2004) report that full independence in ACs is positively related to the quality of successor auditor, based on 380 auditor switches during 1996 to 2000 in a sample of US firms.

Some other research also reveals the importance of external auditor appointment being emphasised by ACs. The study by Krishnan and Ye (2005) indicates that ACs with more accounting financial expertise are more likely to request for shareholder ratifications of the auditors, resulting in more monitoring of the financial reporting. However, they find that the independence and diligence of AC are not significantly related to such decision. The results are based on the study of 383 companies from S&P 500 in 2001 in the US where requesting ratifications of auditor selection is voluntary. In addition, Mangena and Taurinana (2008) report that based on 258 UK firms during 2001–2002, ACs with more independence or financial expertise are more likely to engage external auditors for the review of interim financial statements voluntarily while AC size and diligence are not related to such engagement.

Overall, as summarised in Table 2-1, the archival studies of AC effects on auditor selection tends to provide inconsistent results for each characteristics. This might be

attributable to the different proxies being used or different sets of samples and time span involved. While some studies find that the ACs with more independence and diligence are more likely to engage specialist auditors or high quality auditors consistent with the agency theory, the others find insignificant relationships. Moreover, most studies are based on the US firms under the governance environment before the implementation of the Sarbanes-Oxley Act (“SOX”) in 2002. Subsequent studies with more present environment and context can provide a better up-to-date, overall picture of the AC work. With the significant changes in regulations for AC after the SOX implementation and similar changes by regulators in many countries in recent years, the influence of AC should be reconsidered. AC presence is now mandatory in most countries and its effects on the governance are thus an important issue for researchers. With the corporate governance and law landscapes also changed, the effects of the AC deserve a fresher look.

Table 2-1: AC effects on auditor selections

Study	Effects on (Y)	AC Characteristics (X)			
		Independence	Diligence	AC Size	Fin. expertise
Abbott & Parker (2000)	Specialist auditors	+ *	+ *		
Chen & Zhou (2007)	Big-4 firm	0	+	+	0
Chen et al. (2005)	Specialist auditors	+			
Krishnan & Ye (2005)	Auditor ratification	0	0		+
Lee et al. (2004)	Quality auditor	+	0		0
Mangena & Taurigana (2008)	Voluntary appointment	+	0	0	+

Note: * = Must meet both characteristics at the same time.

"+" = positive relationship; "-" = negative relationship; "0" = Insignificant relationship.

Another set of studies focusing on the data not publicly observable provides further insights into the AC effectiveness over the auditor appointments. Most of such studies reveal that AC’s influences over the auditor appointments are rather weak when compared to the company’s executives and management. Turley and Zaman (2007), based on a case study of a UK public company in 2000, find little impact of the AC on auditor appointments and fee determinations. The AC in the case is involved only in contributing to the discussion during the decision making while the board of directors, other directors and chief executive are the ones who make the decision on the auditor selection. Gendron and Bédard (2006), based on interviews with parties involved in the AC process of three large corporations in Canada during 2000–2001, also report an

opinion of an external auditor that the AC normally endorses the CFO decision on the appointment of a new auditor and is not involved with the selection process. They also report that an AC member indicates that the AC is not likely to reverse the management recommendation on which auditor to select.

In the field work investigations of auditor bidding process concerning 2 large and 5 small Canadian firms conducted in 2008 by Fiolleau et al. (2009), ACs are found to be involved with the auditor selection process but not as the main driver of the process. The management, particularly the finance director, plays a rather active role in controlling information of the bidding process and are the focal points of information exchange to and from the AC and auditors, i.e. determining what, when and how information should be exchanged to all related parties. Based on a case study company, Fiolleau et al. (2010) find that executives and management decides which auditors to choose based on recommendations from CFO and VP Finance after auditor presentations to the selection team. The decision by the selection team is then forwarded to the AC and the AC approves it. It should be noted that such a weak role of AC in practice still exists after the period that the Canadian regulator has already applied the concepts similar to those of the Sarbanes-Oxley Act (“SOX”) of the US and assigned the duty of auditor appointment and remuneration under the charge of the AC. Fiolleau et al. (2010; 2009) then raise doubts over the ability of the auditors to maintain its independence while the AC members are not critically involved in the auditor selection process and the auditors focus more on establishing good relationship with management to gain clients rather than pushing hard for information about the company’s risk profile, internal controls or prior year’s unadjusted entries prior to accepting the audit engagement. They also report the practice where the auditors rely on relationship and reference from their current clients to gain another client, leading to doubts over auditor ability to maintain independence of their existing and potential clients.

In the US where SOX requirements are mandatory, many external auditors in the post-SOX era still perceive that the management, rather than the AC, has significant influence over auditor selection, with even more influence when the CEO dominates the board of directors (Cohen et al., 2010). Their study is based on the interviews of 30 audit partners and managers from three of the Big-4 audit firms. Many auditors also believe that the auditor appointment is a joint decision between the management and

the ACs, reflecting that AC has certain level of influence over the appointment. From the perspectives of 42 AC members in the US, Beasley et al. (2009) find that the AC members in the US have been more active in selecting new audit partner at the time of audit partner rotation, as evidenced by the questioning and reviewing of the relevant experiences of the audit team members and the requirements for the new audit partner. The quality of the Big-4 audit firms might be indifferent but the quality of the partners and their characteristics that would fit the clients and the AC demands are found to affect the AC member decision.

Based on the survey of the perceptions of 156 AC members mostly from European countries during 2011–2012, Bauwhede et al. (2013) find that on average the ACs are quite involved with the auditor selection, with a mean of 7.82 on a scale of 0 to 10. The management's involvement in the same process is almost equally high. Such involvements are in the areas of decision to issue a request for service; development of the proposal; evaluation of the proposal obtained; determination of the shortlist; attending of the presentation of the shortlisted firms; and decision on the selection of the audit firm. Such high average score of the AC involvement with the selection process is inconsistent with the findings of the other studies discussed earlier. This might be a result of the tool used in the survey and the participants in the study who are all the AC members with a potential bias to provide socially desirable answers about themselves. Bauwhede et al. (2013) also report that the four most frequently used sources of information by the ACs for auditor selection in that study includes the experiences of the ACs, the input from management, knowledge from the AC's colleagues and the private information provided by the external auditors. Moreover, the study finds that the ACs generally do not use audit fee as a main selection criterion but instead their decision is based on the auditor's skills, experience and expertise of the auditor.

In summary, the studies based on case study and interview methods provides different perspectives of the audit committee effect, with most studies indicating that the AC influences the auditor selection decisions rather passively. However, most of such extant studies do not probe into the causes of such weak impacts on the auditor appointment by the ACs, even though the ACs are assigned to be directly in charge of such matter. Moreover, those studies focus on the ACs in the developed countries, with different contexts from other parts of the world where behaviours of people involved in

the process may be also different. Further studies on the different context for people from varied behavioural traits might shed light into this area and provide benefits for the improvement of the AC effect. Therefore, this research attempts to investigate levels of AC involvements and effect and to explore the potential reasons for those involvements in the substantive or ceremonial roles in the auditor selections through the lens of power and behavioural traits in the context of less developed countries.

2.3.2 Auditor remuneration

The study on the AC relationships with audit fee is one of the most popular areas of research. It mainly focuses on the impacts of the AC characteristics on improving audit quality, using the audit fee as a proxy. The main argument is that the level of audit quality is driven by the amount of audit work, which depends on the stronger of the two AC effects: the lower level of external audits from the improved governance by the ACs, or the higher demands of rigorous audit by the ACs. The main AC characteristics used to determine the effect in the extant research are also based on archival data, such as AC's existence, size, independence, diligence or expertise.

AC existence effects

The literature generally supports that existence of ACs has a positive impact on the quantity of external audits (using audit fees as a proxy). Collier and Gregory (1996) explore the effectiveness of the AC in managing external auditors in term of audit quality, in presence of the effects of improved internal control from the existence of the AC. The samples under study consist of 315 UK firms whose shares are parts of the calculation of Financial Times All Share Index in December 1991. The results indicate that companies with AC presence are more likely to be related to higher audit fees, suggesting that the effects of any improved internal control from the presence of AC are less than the effects of higher quality of audit being required by the committee. The positive impact of the AC existence on audit fees is confirmed by Goodwin-Stewart and Kent (2006), using survey and financial statement data from 401 Australian listed companies in 2000, and by Knechel and Willekens (2006), based on data of listed companies in Belgium. Using the data in New Zealand during 1998–2000, Redmayne et al. (2011) find that such the positive relationship exists in profit-oriented companies but ACs do not interact with audit risk. Their findings support the claim that AC

presence does not reduce the audit risks but instead requires additional audit work from the auditors to prevent their personal reputation loss.

AC size effects

The studies of the impact of AC size on audit fees show mixed results of positive and insignificant relationships. Hoitash and Hoitash (2009), based on data of 2,393 US public companies, find that the audit quality (using the audit fee as a proxy) is higher when there are more members of AC in a company. Similar results are obtained by Vafeas and Waagelein (2007), using the data of the Fortune 500 companies during 2001–2003, although the results are not consistent between years under study. Zaman et al. (2011) confirm similarly that the AC size is positively related to higher audit fees, based on their study of UK companies during 2001–2004. However, Yatim et al. (2006) analyse 736 listed firms in Malaysia in 2003 and find no significant relations between audit fees and AC size, which is consistent with another study of 146 largest companies in London International Stock Exchange, excluding financial services companies, by O'Sullivan (1999).

AC independence effects

Independence of ACs in extant research is primarily measured by the number of independent directors, the presence of all independent directors in the AC, or the proportion of the independent directors in the AC. It is frequently hypothesised that more independent directors will result in better quality of audit, at certain level because the independent directors needs to be more careful about their reputations as financial monitor (Fama, 1980). The studies of the impact of AC independence on audit fees also show mixed results of positive and insignificant relationships. Abbott et al. (2003a), based on 492 US listed companies audited by Big 5 audit firms with SEC proxy statement filing during 5 February 2001 to 30 June 2001, find that the independence of ACs (measured by the AC comprising only independent directors) are positively related to audit fees. Lee and Mande (2005) obtain similar results when using the number of independent directors in the ACs of 780 US listed firms in year 2000 as the proxy of AC independence, which is supported by another US study in 2000 by Mitra et al. (2007). The positive relationship is also found by Vafeas and Waagelein (2007), Goodwin-Stewart and Kent (2006) and Zaman et al. (2011), based

on their US, Australia and UK samples, respectively. However, certain studies report insignificant relationships. Krishnan and Visvanathan (2009) find that, using 2000–2002 data of S&P 500 companies, the level of independence of both the board of directors and the AC is not significantly related to the audit fee. Rainsbury et al. (2009), based on samples from New Zealand in 2001, also do not find any significant relationship between the two variables. Yatim et al. (2006) and O'Sullivan (1999) obtain similar insignificant relationships. Interestingly, Carcello et al. (2002) find that the relation is not significant only when the AC independence proxies are included in the same model where proxy of board of directors' independence is also present. They posit that there is a positive influence of AC independence on the audit fees but it is not as strong as that of the board of directors. However, the independence is negatively related to audit fees in more regulated industries, such as finance and utilities, in the US in 2001 as the ACs may feel less benefit of external audit or the auditors has decreased their tests when the firms have already been under strict regulations (Boo and Sharma, 2008b; Boo and Sharma, 2008a).

AC diligence effects

The diligence of AC is commonly measured by the number of meetings. In line with the notions that AC which meets more frequently demands more stringent audit, leading to higher audit fee, many studies find positive relationships between the AC diligence and audit fees (Zaman et al., 2011; Hoitash and Hoitash, 2009; Krishnan and Visvanathan, 2009; Goodwin-Stewart and Kent, 2006; Yatim et al., 2006; Lee and Mande, 2005). However, there are also other studies that do not provide results of any significant associations (Boo and Sharma, 2008a; Mitra et al., 2007; Vafeas and Waagelein, 2007; Abbott et al., 2003a; Carcello et al., 2002).

AC financial expertise effects

On the AC financial expertise, most studies use the presence of accounting or finance expertise (by experiences or education) as an independent variable in regression models and find a positive relation with audit fees (Hoitash and Hoitash, 2009; Yatim et al., 2006; Abbott et al., 2003a), implying higher demand of audit work when ACs are more knowledgeable. However, when more detailed proxies of expertise are used, the results are rather mixed. Accounting financial expertise, i.e. possessing experiences as a

certified public accountant, auditor, chief financial officer, controller, or chief accounting officer, seems to be negatively associated with audit fees while non-accounting financial expertise, i.e. possessing experiences as a supervisor of the accounting financial experts (such as chief executive officer or president), has no significant statistical association with audit fees (Krishnan and Visvanathan, 2009). This suggests that AC members with accounting expertise are able to reduce the risks of financial reports of the companies, which results in less time spent by the auditors, thus lower audit fees, while the member with non-accounting financial experts in the ACs are not. However, some studies find that there are no significant relationships between audit fees and AC financial expertise even when measured with the qualified chartered accountant, or with accounting, finance or professional accounting qualifications (Zaman et al., 2011; Rainsbury et al., 2009).

Other characteristics of AC

Apart from financial expertise, there are also studies on the effects of the experience of the AC members on the audit fee. When expertise in other Fortune 500 ACs is used as a proxy, there is a positive association with the audit fees (Vafeas and Waagelein, 2007). The association between AC expertise and the audit fee is also positive when the expertise is measured as numbers of directorship in other boards (Boo and Sharma, 2008b; Carcello et al., 2002). However, multiple AC memberships by an AC member are not significantly related to the level of audit or non-audit fees (Hossain and Monroe, 2011).

There is also a study focussing on the AC's remunerations as another type of characteristics of the AC in relation to the governance, based on audit fee. Engel et al. (2010), based on the US data during 2000–2004, find that total compensation and cash retainers paid to ACs have positive relationship with the audit fees.

Combined effects of AC characteristics

Certain research has shown that the relationships between the audit fee and the AC characteristics, like AC expertise, the AC independence and the number of AC meetings, are complicated and can be traded off. For example, the financial expertise of the AC may not be significantly associated with audit fees when tested on a

standalone basis; however, the association is positive when there are low numbers of meetings and less independence of the AC (Goodwin-Stewart and Kent, 2006). Moreover, the interaction between various characteristics of AC in the model also provides insights into the situation. For example, the composite proxy of AC effectiveness, as determined by full independent directors in the AC with at least four meetings per year, is statistically significant and positively related to audit fees (Lee and Mande, 2005). Hossain and Monroe (2011) find that the AC members who are on many companies and encounter the same audit partner are associated with lower audit fees because they are more likely to be able to get the discounts on the audit fee from that partner, as a result of frequent interactions between the two and the audit partner's attempt to employ such network to increase the audit client portfolio. However, the number of multiple AC memberships alone is not significantly related to the audit fee or non-audit fee levels.

Table 2-2 summarises the main effects of the publicly observable AC characteristics on the audit fees. The findings of most extant studies on the AC effects on the audit fee reveal mixed results of positive and insignificant relationships to the audit fee, except for the AC presence. Most researchers interpret their positive results that the AC requires more audit work from external auditors to improve the financial reporting quality and that the time the auditor can save on audit work from better governance activities promoted by the AC is less than the additional time spent on more audit demands by the AC. Studies that use the statistical interactions between various AC's characteristics indicate that the relationships of those AC characteristics and the audit fee are complicated and somewhat interrelated.

Table 2-2: AC effects on audit fees

Study	AC Characteristics				
	Existence	Independence	Diligence	AC Size	Fin. expertise
Abbott et al. (2003a)		+	0		+
Boo and Sharma (2008a)		-	0		
Boo and Sharma (2008b)		-			
Carcello et al. (2002)		+/0 ⁽³⁾	0		
Collier and Gregory (1996)	+				
Goodwin-Stewart and Kent (2006)	+	+	+		+ ⁽¹⁾
Hoitash and Hoitash (2009)			+	+	+
Hossain and Monroe (2011)					-/0 ⁽⁴⁾
Knechel and Willekens (2006)	+				
Krishnan and Visvanathan (2009)		0	+		-/0 ⁽²⁾

Study	AC Characteristics				
	Existence	Independence	Diligence	AC Size	Fin. expertise
Lee and Mande (2005)		+(5)	+(5)		0
Mitra et al. (2007)		+	0		0
O'Sullivan (1999)		0		0	
Rainsbury et al (2009)		0			0
Redmayne et al. (2011)	+				
Vafeas and Waegelein (2007)		+	0	+	
Yatim et al. (2006)		0	+	0	+
Zaman et al. (2011)		+	+	+	0

Note: "+" = positive relationship; "-" = negative relationship; "0" = Insignificant relationship.

(1) Only when the number of AC meeting and proportion of AC independent directors are low.

(2) Negative effect for accounting expertise and insignificant effect for non-accounting expertise.

(3) Positive effect when tested individually but insignificant effect when board characteristics are included.

(4) Insignificant effect for multiple AC memberships alone but negative effect when the ACs repeatedly meet the same audit partner.

(5) Only when all AC members are independent and meet at least 4 times a year.

It should be noted that, in general, the level of impact of the AC characteristics on audit fees from the above research is rather minimal, as Hay et al. (2006) have pointed out that the company size alone (as normally measured by total assets or sales volume) is generally attributable to more than 70 per cent of the variations in most audit fee research already. Humphrey (2007) also question usefulness of the research methodology for audit fee determinants that is based solely on statistical model. This type of research bypasses the process which the AC uses to effect the governance results. Good formal characteristics of AC—the input to the governance process—may not necessarily result in good outcomes because the outcomes are also subject to the process and methods used to achieve the results (see Turley and Zaman, 2004).

The studies based on surveys and case studies provide other perspectives into AC effect over the auditor's remunerations because more are focused on the AC process. In a case study of a UK company, Turley and Zaman (2007) find little impact of the AC on auditor's fee determination. The experimental survey conducted by Stewart and Munro (2007) with 75 audit partners and manager from the Big-4 and middle-tier audit firms reveals that the AC presence in a company is however perceived by the external auditors to result in higher audit fees. This is because the auditors need to attend the meetings with ACs, resulting in higher amount of time to be spent by audit partners and managers for preparation and reporting in those meetings. However, the AC presence and more frequent AC meetings only slightly affect the audit hours of the lower level

audit staff. The net increased costs are then passed on to the clients. This may support many archival studies in the previous sections that the AC presence and AC meetings result in higher audit fees, but only in the sense that the higher audit demand by the AC is actually the level of partner and manager involvements with the AC meetings, not related to the higher demands for audit work in terms of procedures additionally requested from the ACs as might be inferred from the extant archival studies.

2.3.3 Auditor independence

The independence of auditors is a main supporting determinant of high quality financial reports and thus is a central responsibility of the AC. Audit quality is a function of the auditor's ability to find errors in the financial systems and to report them properly (DeAngelo, 1981). Independence of the auditors play a vital role on whether the auditors are able to objectively report the errors found. The role of AC in reviewing and monitoring the auditor independence is one of the most important roles in reducing the management interference over the auditor's judgement. Apart from the oversight of the auditor appointment and remunerations, the mainstream research on AC effects on auditor independence mostly concentrates on relationship between the AC characteristics and three main threats to auditor independence: the auditor changes, the disputes between management and auditor, and the use of external auditors for non-audit services.

2.3.3.1 AC effects on auditor changes

When the ACs are more independent, extant research shows that there is less chance of auditor change as a result of accounting disputes, disclosure of reportable events, issuances of modified audit reports or fee disputes (Bronson et al., 2009; Robinson and Owens-Jackson, 2009; Lee et al., 2004; Carcello and Neal, 2003; Archambeault and DeZoort, 2001). The AC with more governance expertise, such as sitting on other boards, is also more likely to prevent auditor dismissal after the auditors issue the going-concern reports (Carcello and Neal, 2003). On the effects of the financial expertise, the extant research shows mixed results. Archambeault and DeZoort (2001), Robinson and Owens-Jackson (2009) and Lee et al.'s (2004) find the negative relations between ACs with financial expertise and the number of auditor changes but the relations is not significant in the study by Carcello and Neal (2003). The existence of

ACs also has inconsistent effects over the auditor changes, with McMullen (1996) finding AC's mitigating effects on auditor changes while Archambeault and DeZoort (2001) finding insignificant effects. The number of AC meetings do not significantly affect the auditor changes following the disclosure of reportable events, issuances of modified audit reports or another recent audit change (Robinson and Owens-Jackson, 2009; Lee et al., 2004; Archambeault and DeZoort, 2001). When there are auditor dismissals following the issuance of a going concern report by the auditor, the turnover rate of the independent AC members are higher, when compared to the ACs of the firms which do not dismiss the auditor (Carcello and Neal, 2003). This may be interpreted that ACs that disagree with management over the auditor dismissal try to signal certain message to the public or that ACs depart the firms as a result of some irreconcilable difference over such issue. Overall, many studies show that most characteristics of ACs, except for the diligence, are effective in preventing auditor dismissal by management. The effects of the AC characteristics on the auditor changes, based on those publicly observable data and statistical relationship studies, is summarised in Table 2-3.

Table 2-3: AC effects on auditor change

Study	AC Characteristics				
	Existence	Independence	Diligence	Fin. expertise	Size
Archambeault and DeZoort (2001)	0	–	0	–	–
Bronson et al. (2009)		–			
Carcello and Neal (2003)		–		0	
Lee et al. (2004)		–	0	–	
McMullen (1996)	–				
Robinson and Owens-Jackson (2009)		–	0	–	

Note: "+" = positive relationship; "-" = negative relationship; "0" = Insignificant relationship.

Studies based on interviews show a rather different perspective of the AC's effects of the oversight role. Gendron and Bédard (2006) report that the attendees in the AC process have different opinion on the effectiveness of the AC on auditor dismissal although the attendees have never experienced the dismissal decision yet. An external auditor in their study believes that the AC normally endorses the CFO decision on the dismissal. An AC member believes that the AC can only get involved in the audit process enough to ensure that there will be no big disagreements between the two parties. Once disagreements reach certain points, the AC believes that there are no

benefits for the AC to side with the external auditor anymore, because the working relationship between the auditor and the management will be unproductive afterwards. On the other hand, a few other AC members and an external auditor are still positive that the ACs can affect the auditor's renewal decision, especially when the change is initiated by the ACs themselves. These mixed effects of AC on auditor termination are consistent with the study of the US auditors, even after SOX implementation. Cohen et al. (2010) report that several auditors believe management has more influence than ACs in auditor termination decision while there are also many other auditors believe that it is a joint decision between the management and the AC, implying that ACs do have some influence.

2.3.3.2 AC effects on management–auditor disagreements

The ability of the AC to support the external auditor when there are conflicts between the management and the auditor has received attentions from researchers for over a decade. Such intervening role of the AC is one of the main mechanisms to ensure that the auditors are not under undue pressures from the management, which might result in inaccurate financial reporting (Knapp, 1987). The study on the AC effects on the management-auditor disagreements are generally not observable by public and therefore most studies are based on questionnaires and experiments. The focus of these studies is mainly on whether the expertise or experiences of the AC members affect the AC's support of auditors' position in the disagreements.

AC members with audit knowledge are generally found to be more supportive of auditors when they face with disputes between management and auditors. For example, AC members who have a CPA qualification tend to be more supportive of auditors, according to an experimental study of AC members in the US over the conflicts between auditor and management over the materiality justification and accounting precision issues by DeZoort et al. (2003a). Other studies also confirm that ACs are more supportive of auditors when AC members have more audit reporting knowledge (DeZoort and Salterio, 2001) or possess an auditor background (Singtokul, 2010). However, another experiment by DeZoort et al. (2003b) finds that AC members with a CPA qualification in the US are less supportive of audit adjustments proposed by auditors. The study argues that this might be because the proposed adjustments in

that particular experimental case are less than the general 5% materiality threshold generally applied by the external auditors.

According to the study by DeZoort and Salterio (2001), ACs with more experience of independent directors are more supportive of the auditor's position, when being faced with conflict between the management and the external auditors over "substance over form" argument. The study is based on a survey study carried out with AC members of the 500 largest Canadian companies. The result is also supported by another experimental study by DeZoort et al. (2003a) which reveals that AC members who sit on more ACs of other companies tend to be more supportive of the auditors.

Apart from the experience of being independent directors in other firms, AC members with active corporate manager background are also more likely to support the auditor's position in disagreements between management and auditors, compared with AC members from other backgrounds (Knapp, 1987). However, a later experimental study in the US reveals that AC members with manager background are more likely to support the auditors' stand only when they are aggressive type of managers (Singtokul, 2010). Other conditions for the ACs to be supportive of the auditors' position include the ability to make a concrete identification of errors, the clarity of the related accounting standards, the persistence of the auditors or the financial status of the company being audited. For example, ACs are more supportive of auditors when the auditors can justify the materiality quantitatively (DeZoort et al., 2003a). Other factors affecting AC's support for auditors are the facts that auditors have consistently pressed for the proposed adjustments or the adjustments would make the reporting entity to miss the earnings forecast (DeZoort et al., 2003b), and that the companies being audited are financially vulnerable (Knapp, 1987).

On other general AC characteristics, the study by DeZoort and Salterio (2001) reveals that the financial accounting knowledge of AC members is not related to whether the ACs will side with the auditors or the management. They argue that this might be because of the limitation of the questionnaire used to gauge the financial accounting knowledge of the respondents. However, ACs that meet more frequently are found to be associated with the AC's support of auditors' position (Singtokul, 2010). There is also a study on the effects of AC's compensation on the resolution of conflicts between management and external auditors. Bierstaker et al. (2012) experiment on the 67 AC

members in the US and find that there are positive relationships between the AC's support of the auditor in an accounting dispute and the long-term stock options provided to the ACs.

Table 2-4 summarises certain major AC characteristics and their relationships to the AC support of auditors in disagreements between management and auditor. Overall, the prior literature on the AC's effects in the dispute resolutions reveals the ACs support the external auditors' position when they have prior experience of managers or independent directors in other firms (Singtokul, 2010; DeZoort et al., 2003a). However, the literature is still inconclusive in various aspects. There are no rationales provided for the insignificant effects in some cases or only general conjecture is suggested for the unexpected results.

Table 2-4: AC effects on supporting auditors upon management–auditor disputes

Study***	AC Characteristics				
	Diligence	Fin. accounting expertise	Audit knowledge	Independent director**	Manager experience
DeZoort and Salterio (2001)		0	+	+	
DeZoort et al. (2003a)			+	+	
DeZoort et al. (2003b)			-		
Knapp (1987)					+
Singtokul (2010)	+		+		+*

Note: "+" = positive relationship; "-" = negative relationship; "0" = Insignificant relationship.

** Only past experiences as aggressive manager, not the conservative type.*

*** Being independent directors or AC members in other companies.*

**** Based on surveys or experimental results and statistical relationships with AC characteristics.*

The studies that focus on interviews provide other perspectives of AC effects on the management–auditor disputes. The study by DeZoort et al. (2008), based on interviews with US external auditors, finds that AC members with CPA background are perceived to be more supportive of auditor's proposed adjustments after the SOX implementation, in contrast to the experiment study by DeZoort et al. (2003b) mentioned above. However, Cohen et al. (2002) indicate that many auditors find the ACs to be ineffective and not powerful enough to resolve issues with the management, based on their interviews with 36 auditors in Big-5 audit firms and a national audit firm in the US during 1999–2000. Subsequently, Cohen et al. (2010) find that the situation does not change significantly even after the SOX passage because several external auditors still feel that ACs are still not actively involved in resolving such conflicts. Certain auditors

in their study express concern that ACs expect auditors and managements to resolve their disputes on their own first before the resolutions are reported to them and such ACs do not see themselves as a referee in this matter, consistent with the findings in Beattie et al. (2011). Instead, the participants in the AC process feel that ACs are considered effective when their existence and status can prevent the potential conflicts or situations from reaching the ACs in the first place (Gendron and Bédard, 2006). This practice of having the issues resolved before reaching ACs might post a concern on the auditor's independence since it prevents ACs from direct involvements in the process where the auditors might be forced into decisions that are not in the best interest for the shareholders. However, it should be noted that the AC members themselves generally feel more responsible for resolving the accounting issues with auditors after the SOX implementation (DeZoort et al., 2008).

Even in the cases that ACs are normally informed about the major accounting decisions, they are not made aware of the negotiations or compromises being made between management and auditors before the decisions are presented to them (Gibbins et al., 2007; Gibbins et al., 2005; Gibbins et al., 2001). In an experimental study with the business professionals acting on an AC role, Pomeroy (2010) finds that ACs feel less comfortable with the knowledge of negotiations being made between management and auditors on important accounting decisions. However, the efforts put into the probing of the issues by those ACs to alleviate their discomforts are not significantly different between the group of ACs that knows about the negotiations taken place and the group that does not. It should be noted that such slight differences might result from the facts that the study is carried out with business professionals who are not actually the AC members, or that the participants in the study just try to be very critical of any issues in the experiments without other factors that may have mitigated their efforts in the real situations.

However, Pomeroy's study (2010) also reveals that investigations by ACs are more rigorous, in terms of both the number of total and probing questions, when those accounting decisions are aggressive and the AC members possess proper accounting experiences. Moreover, based on interviews with the US external auditors by DeZoort et al. (2008), the AC members with CPA background are perceived to be more supportive of auditor's proposed adjustments after the SOX implementation, confirming the results of experimental studies mentioned earlier.

On the negotiation of issues arising from the audits, the CFO, rather than the AC, plays a vital role in the process, with the negotiated results being reported to the AC and the CEO (Gibbins et al., 2007). The CFOs do not involve the AC early in the negotiation process. However, if the issue is unsolved and raised to the AC, the institutional power vested in the AC can make an impact, as illustrated in the case study by Turley and Zaman (2007) where the external auditor's concerns over a specific accounting treatment are brought up in a formal meeting with the AC and the issue is subsequently resolved satisfactorily through the influence of AC members who feel strongly against such practice.

Contrary to the findings in the western countries above, Salleh and Stewart (2012) finds that ACs in Malaysia is quite active in the resolution of disputes between management and auditors in the cases that the issues involved are very material. Using mediation techniques, the ACs in their study do not take sides with either management or external auditor and the results of the mediations are usually based on the compromise position.

Since the above extant studies show a mixed of substantive and ceremonial roles of ACs in the resolution of disputes (Cohen et al., 2010), different level of AC involvements between developed countries and Malaysia (Salleh and Stewart, 2012), and the inconsistent impacts of auditing expertise in dispute resolutions (DeZoort et al., 2003a; DeZoort et al., 2003b), there seems to be a need to use other theories that can help researchers gain better understanding of the AC's effects on this area. This research thus attempts to use behavioural trait and power framework (see Chapter 3) to shed light into this area.

2.3.3.3 AC effects on non-audit services

The use of the company's auditor for non-audit services has been argued to decrease auditors' independence in the literature. After a series of major accounting scandals, SOX (2002) prohibits some types of the non-audit services while requiring the AC to approve others. The studies of the efforts of ACs to enhance auditors' independence by decreasing non-audit service by external auditors show quite consistent results. Abbott et al. (2003b), based on a study of 538 US listed companies that report the fee information during mid-March 2001 to June 2001, find that ACs consisting of directors who are all independent and have at least four meetings a year have a negative relation

to the non-audit fees to total fees ratio. They argue that the ACs try to limit the non-audit services of the auditor to increase both the actual and perceived independence of auditors. ACs with all independent directors who meet at least four times a year and consist of at least one member with financial expertise are also found to monitor the overall level of services provided by the auditor, both audit and internal audit outsourcing, to maintain the auditor independence (Abbott et al., 2007). In particular, ACs with such characteristics are less likely to award the routine internal audit outsourcing to the company's auditor, which is considered a potential threat to the auditor independence. Such study, using the US firm data in year 2000, also indicates that those characteristics are not associated with the awarding of non-routine internal audit outsourcing to the auditor (which is assumed to pose less threat to auditor independence) or awarding either routine or non-routine internal audit outsourcing to other external auditors that are not the company's auditors (no threats to the independence of the existing auditor).

A study of data from listed companies in Australia during 2004 to 2009 by Lary and Taylor (2011) reveals that higher number of AC meetings and AC sizes, taken together, are significantly related to lower non-audit fee ratio while there are no significant relationships between the independence or financial expertise and auditor independence measured by non-audit fees to total fees. However, a study in the US during 2004 to 2007 by Bédard and Paquette (2010), reveals different impact of AC's financial expertise. They find that ACs with accounting financial expertise are less likely to approve the purchase of any tax service than other AC members. Moreover, the levels of the tax non-audit service fees approved by ACs with accounting expertise are relatively less, compared to the audit fees. The study does not find any significant relationships between the level of non-audit fees and ACs with non-financial accounting expertise.

In contrast to most studies in this area, Zaman et al. (2011), based on the data in UK during 2001 to 2004, find that the ACs which consist of at least three members who are all independent directors, with at least one financial expert, and meet at least three times a year are positively related to the non-audit service fees for larger companies. The relationship is insignificant for the smaller companies. They suspect that the necessity for non-audit service is driven by the sophisticated operations in those larger companies where the ACs need to agree to such services. However, when the AC

characteristics are regressed separately in the model in the pool of the total samples, the results are mixed between positive, negative and insignificant relationships. The summary of effects on the non-audit services is present in Table 2-5 below.

Table 2-5: AC effects on levels of non-audit service fees

Study	AC Characteristics			
	Independence	Diligence	Fin. expertise	Size
Abbott et al. (2003b)	– ⁽¹⁾	– ⁽¹⁾		
Abbott et al. (2007) ⁽²⁾	– ⁽¹⁾	– ⁽¹⁾	– ⁽¹⁾	
Bédard and Paquette (2010)			–	
Lary and Taylor (2011)	0	– ⁽¹⁾	0	– ⁽¹⁾
Zaman et al. (2011) ⁽⁴⁾	–	0	–	+

Note: "+" = positive relationship; "–" = negative relationship; "0" = Insignificant relationship.

(1) Must meet all characteristics at the same time.

(2) Based on questionnaire survey of companies outsourcing internal audit function to external auditor.

(3) Negative effects on accounting expertise but no significant relationship on non-accounting financial expertise.

(4) Positive relationship if all characteristics are combined.

Additional evidence is provided by an experimental study conducted using one hundred experienced directors in the US by Gaynor et al. (2006). Their study suggests that AC members are more reluctant to recommend the auditor to be engaged in non-audit service when such joint provision of services is required to be disclosed to public, even though the joint provision can improve audit quality. However, without disclosure of such joint provision of services, the AC members generally tend to allow using non-audit services from the incumbent auditor if the non-audit service complements the audit, leading to improved audit quality. The avoidance of using the auditor for non-audit services is also confirmed by the study by Beasley et al. (2009), in which the interviewees suggest that although it makes more senses to use the existing auditor for certain non-audit services, the AC refrains from doing so in fear of wrong perceptions from the public.

The questioning skill of the AC members with proper business or financial backgrounds and experiences are considered crucial to the effective monitoring by ACs, especially when the committees are presented with lots of information (Spira, 1999). Even in board meetings, the directors who are keen and free to ask questions are found to be mostly preferred (Neill and Dulewicz, 2010). The ACs must then possess analytical and investigative mind to identify the incoherence in the huge

amount of data being presented to them and ask challenging questions to management and auditors (Gendron and Bédard, 2006). As in an interview in the study by Gendron and Bédard (2006), an AC challenges the independence of the external auditors by contextually asking them to clarify themselves on accepting non-audit service assignments. Such questioning sends a message to the executive management in the meeting that the AC is concerned about independence and might urge them to reconsider the engagement of the auditor. The presence of the AC and the AC's ability to ask the management to answer their difficult questions might also make the management more reluctant to the manipulations, thus protecting, to a certain extent, the integrity of the AC meeting process (Spira, 1999), enhancing the possibilities of maintaining the auditor independence.

Other research on ACs promoting auditor independence reveals that ACs with more independent directors are less likely to select audit firms that the company's officers are an alumni, reflecting the importance of independence stressed by the ACs (Lennox and Park, 2007). Turley and Zaman (2007) suggest that the auditor independence is protected by the AC influencing the power balance between the auditor and the management. Such influence is dependent upon the standing, quality and experience of each AC members, especially with the AC chair possessing strong characteristics and clear understanding. However, they argue that such independence of auditor is adversely affected by the fact that the management in the case study is in control of the auditor selection and remuneration process and plays a rather passive role of the AC over the oversight of the external audit in general.

2.3.3.4 Concluding remarks

The studies based on archival data, experiments, interviews and case study indicate mixed effects of AC influences on auditor independence, indicating that further study with other theoretical views is needed. As in the case of auditor appointment and remuneration process, the qualitative studies indicate rather weak influence of ACs over auditor dismissal and resolution over disputes between management and auditor but are short of further investigations into the rationales behind such incidents. The facts that the management still retains influence over auditor independence issues even after SOX requires the ACs to be in charge of the matter further raise doubts over AC

influence in the jurisdictions where the penalties are less hefty and the monitoring of laws is less effective, as in emerging market.

Also, many studies use crude proxies of independence of auditors from public data, such as auditor resignation and changes, which might be due to other reasons than independence issue, such as the audit risk involved exceeding the audit fee level and might exclude other factors that are not quantifiable. Other studies use experiments and the responses are therefore based on how the respondents believe they would react to the specified situations only, which might not be the same as in the actual situations where other factors omitted in the experiments have to be factored in. There are only few studies based on case study method and interviews of the AC members and other participants in the actual process.

It is worth mentioning that the requirement of the US SEC for the auditors to report any disagreements with the management leading to a change in auditors may not have any significant effects in protecting the auditor independence (Gendron and Bédard, 2006). As indicated by a comment of an external auditor in that study, the auditors will not report such incidents in a straight-forward manner; otherwise, the audit firms may never get any audit client from the industry again. Therefore, the influence and power of the ACs to protect the independence of the external auditors are practically the last chance of the external auditor independence. If the ACs do not demonstrate any strong power in such matter, the external auditors might consider compromising their position and integrity to preserve their client base and fees instead, especially in case of large clients with high value of audit fees. Such condition may be even worse in the environment of the emerging market where people are more relationship-based.

2.3.4 Audit process and reporting

The oversight of the audit process is another area that the AC should influence to ensure an effective audit to be carried out by the external auditors. FRC (2012a) recommends that the AC consider the overall external audit plan and discuss the audit findings, similar to the requirements in the US (SOX, 2002). The research in this area generally covers the interactions with the external auditor from the planning visit until the issue of audit reports.

2.3.4.1 AC effects on audit planning

In the audit planning process, Cohen and Hanno (2000) find in an experimental study that auditors perceive that strong AC environment impacts the control risk assessment of auditors in the planning stage of their audit work, including the number of substantive tests both in terms of number of locations to be audited and the timing of the substantive work to be performed. Such strong AC environment involves the conditions where ACs contain only outside directors that meet with the auditors without management presence, rely less on CFO, have enough resources and possess technical expertise. Similarly, a study by Stewart and Munro (2007) reveals that the auditors in Australia believe that the existence of AC decreases the perceived audit risks through more frequent meetings that the auditors join. However, the archival study by Pucheta-Martinez and De Fuentes (2007) using Spanish companies during 1999-2001 reveals that the AC presence and AC characteristics are not associated with the audit reports containing uncertainty and scope limitation, which can be interpreted as ACs having no influences over the scope of auditor's work.

The study based on the interviews of the actual AC operations by Cohen et al. (2002) reveal that the meetings with the ACs during audit planning tend to be only a reporting session by the external auditors, without much questioning from the committee members. In another study based on case method by Turley and Zaman (2007), the AC provides only limited contributions to the audit designs and procedures proposed by the external auditor. The questions being asked by the AC focus more on business related issues of the plan, rather than audit procedures. Therefore, the existence of the AC affects only marginally on how the external auditors perform their audit work. However, another recent study by Cohen et al. (2010) reveals that, after SOX passage, about half of the auditors interviewed report that results of the meetings with ACs are beneficial for assessing audit risk and in audit planning. Since this study is based on US data, the results might not be similar in other countries and further recent research in other environment is needed.

2.3.4.2 AC effects on audit process and results

AC members are also rather passive during the formal meetings with external auditors when the audit results are presented to the AC. Turley and Zaman (2007) report that

the external auditor presents the findings and key issues experienced while the AC members generally do not ask any questions. Cohen et al. (2002) also find that only minimal interactions and questioning from the ACs are witnessed by the external auditors when the audit results were presented. Certain auditors also raise doubts over the suitability of certain AC members who are not capable of asking good questions and hence do not contribute to effective monitoring. However, after the passage of SOX, which stresses more responsibility of financial reporting upon the ACs, Cohen et al. (2010) report that the external auditors perceive that the ACs are more proactive in asking questions about financial reporting matters and the questions also involve challenging management practices, not just the auditors, which is considered an area with big improvements after the passage of SOX.

The use of informal meetings and processes between the ACs and the external auditors can also contribute to significant impacts on the audit work. For example, Turley and Zaman (2007) find that the general matters discussed informally in one-to-one meetings between the AC chair and the auditor can result in a revelation of control issues relating to executives where such matter may not be discovered in the formal structured meetings with many members present. Turley and Zaman (2007) also argue that the external auditors can employ the informal contact with the AC members to gain support of power, if and when necessary, since there are incidents where the informal meetings are used by various parties in the organisation, involving lobbying of the AC members by various parties. The informal meetings also contribute to the preservation of the ceremonial status of the AC chairs by preventing any surprise at the formal structured meetings (Gendron and Bédard, 2006), resulting in a sense of effectiveness of the ACs (Spira, 1999).

The use of informal meetings might have affected the AC's satisfactions of its oversight roles. The survey study by Bauwhede et al. (2013) finds that ACs in several European countries generally perceive that they have sufficient information and communications with the external auditors for effective oversight of the external auditors. The ACs also consider that appropriate auditor communications are crucial for effective monitoring of the external auditor, which can lead to high audit quality.

In the period after the passage of Sarbanes-Oxley Act ("SOX"), Cohen et al. (2010) report that, as a result of the SOX 404 requirement for the CEO and CFO certifications

of internal controls, auditors witness more active ACs on the oversight role over controls and consider the financial reporting processes to be significantly improved. The number of meetings between the external auditors and the ACs increase from two or three times a year to over six times a year in post-SOX era. Some auditors also indicate that the certification requirement leads to a decrease in unadjusted errors as the CFO pays more attentions to the details and avoid having unadjusted errors being reported by the external auditors to the ACs repeatedly.

The capability of the AC to protect the independence of the external auditors is also challenged by the informal networks being created by the executives and the management to circumvent the formal processes stipulated by the regulations or best practice guidelines (Spira, 1999). Based on the interviews of AC members, finance directors, internal auditors and external auditors, totalling 21 persons, involving AC processes in the UK, Spira (1999) argues that the ACs can be manipulated to the benefit of the executives because most information to be presented to the ACs must pass through a 'gatekeeper', such as finance director, who can tone down the incidents or promote the matters, through the assistance in agenda setting, in minutes of meeting preparations or in timing arrangement of the AC meetings. External auditor's reports and documents to the ACs are also subject to such the process. The practice of the management screening documents to be sent for AC meetings is also confirmed to be common in the case study of a UK company by Turley and Zaman (2007).

On the AC's effects on the auditor's report, the number of the AC memberships alone does not have any significant relationships with the number of qualified audit reports (Hossain and Monroe, 2010). However, the number of relationships between the AC member and the same audit partner on different companies, which lead to frequent interactions between the two parties, is negatively related to the likelihood of the auditor issuing qualified audit opinion. Their results imply that the auditors can compromise audit quality by developing familiarities from frequent contacts between AC member and the same audit partner in more companies. However, it is also possible that such frequent interactions lead to resolution of matters and thus result in fewer qualifications.

2.3.4.3 AC effects on general audit practices

In the US study by Ng and Tan (2003), the external auditors perceive that effective ACs can be a substitute for a lack of an authoritative guideline that clarifies for more precise accounting practices. On the same token, the availability of an authoritative guideline can also be a compensating mechanism for ineffective ACs. They argue that although the ACs play little justification role over the accounting choice, they effect the increased bargaining power for the auditors, based on their financial monitoring role. The study is based on an experiment using the external auditors to judge whether or not the management would agree to immaterial adjustments that make the operating results miss the analysts' target. The effect of the ACs on financial reporting is then comparable to the power of the authoritative guideline.

On another study by Libby and Kinney, Jr. (2000), the auditors perceive that the management would not agree to any immaterial adjustments if they result in the company missing the analysts' targets. This is even though the summary of those unadjusted entries needs to be communicated with the ACs according to the auditing standards, thus implying that auditors do not expect the ACs to be powerful to prevent financial statement manipulations. It should be noted that the study does not include specific factors indicating whether the ACs are effective or not in the experiments and therefore the results might reflect the auditors' general perception of AC ineffectiveness in general or genuine disregards of AC presence.

However, AC presence might have no influence over external auditor's predetermination to side with management on their preferred accounting practices (Kadous et al., 2003). Based on an experiment on external auditor reactions, Kadous et al. (2003) find that, when the auditing authoritative guideline requires the auditors to assess the quality of the accounting methods being adopted by the management, the auditors with a predetermination to side with the management's preferred practice tend to justify that the client's method is the most appropriate method. However, on another related experiment referred to in the same paper, Kadous et al. (2003) argue that the auditors' predetermination can change when ACs are able to hold the auditors accountable for high quality financial reports or it is demonstrated to the auditors that the cost of such predetermination is high enough. However, it should be noted that the

latter experiment is based on auditing students as participants and thus may not necessarily reflect the professional auditor's actual practice.

2.3.4.4 Concluding remarks

Overall, there is still room for further research on AC involvements in the external audit process and audit reports. The limited knowledge in this area might be a result of little involvement by the ACs in this area in the first place. For example, there are no studies on how the AC reviews the financial statements and other financial reports before approval to the public; how the AC ensures that the audit plan by the external auditors is appropriate for the company's risks; or how the AC reviews, reacts and interacts with management on the management letter and representation letter.

The area of improvements witnessed in the literature seems to be in terms of more active questionings during the audit result presentations by the auditors after the SOX implementation in the US. However, whether this more active questioning will result in better oversight by the AC is still unclear, especially in the emerging markets.

Before moving to the literature from the emerging markets, it should be noted that the overall findings of the above literature review are to an extent different from the literature review papers discussed in Section 2.2, in terms of more inconclusive findings. This might mainly be caused by the different criteria used to select the papers in the review or additional updated papers included in this chapter.

2.4 ACADEMIC LITERATURE ON EMERGING MARKETS

This section discusses the academic studies carried out in countries in emerging markets, with a separate section dedicated only to Thailand. The emerging markets¹ are diverse in terms of institutional settings but all together have great potentials in terms of economic developments. The corporate governance reforms in these countries can thus contribute significantly to the world economies.

¹ Various investment sources define the term 'emerging markets' differently. They differently categorise 19 to 35 countries as emerging markets (Economy Watch, 2010). Most of them include fast-growing, developing countries in the list. Thailand is included in most of those sources, such as The Economist, S&P, Dow Jones, MSCI and FTSE.

2.4.1 Emerging markets

2.4.1.1 Corporate governance literature in emerging markets

The extant research on emerging markets in relation to corporate governance involves mainly associations between firm performances and certain aspects of corporate governance, such as disclosure quality and ownership concentrations (Baek et al., 2004; Nam et al., 2004; Mitton, 2002), management shareholdings (Dekle et al., 2005) and corporate governance index (Cheung et al., 2008; Cheung et al., 2007). There are also a few studies on relationship between earnings management and corporate governance indicators such as management ownership (Jaggi and Leung, 2007; Saleh et al., 2005), and independent director presence (Jaggi and Tsui, 2007; Kao and Cheng, 2004). Other studies include recommendations on corporate governance from laws perspective (Yuan, 2009; Walker and Fox, 2002).

As a part of the corporate governance mechanism, quite a few studies are carried out to provide overall pictures of the ACs in the emerging markets, revealing the development at different stages in different markets. In a study of the ACs in Saudi Arabia during the period that the concept of AC was rather new there, concerns are raised over the independence and expertise of the AC members and the loose working relationships with the external auditors in 2002, with the ACs being set up only to satisfy the local requirements (Al-Twaijry et al., 2002). Although the concept of AC is not new in India, the formation of ACs is slow even though it became mandatory in 2002 (Al-Mudhaki and Joshi, 2004). Most ACs in India however still lack independent directors and the performances of the AC in large- and medium-sized companies are statistically different. Moreover, during 2005–2008, the proportion of independent directors in the Indian ACs in all firm sizes has dropped due to a relaxation of certain local regulations (Sarkar and Sarkar, 2010). In China, various stakeholders perceive that the AC presence is ceremonial but beneficial to boost the images of the company and improve communications with the board and external auditors; however, both executives and independent directors still do not fully recognise the AC's monitoring roles over internal control, compliance, financial reporting and auditing processes (Lin et al., 2008). Similarly, the ACs in Malaysia are set up just for compliance and not for practical monitoring of companies because there are no significant differences in the compliances by the companies under financial distress and those not under the distress

with respect to the minimum requirements of the codes (Rahmat et al., 2009), and there are only few companies providing more than the minimum disclosures required in the AC reports (Sori and Mohamad, 2007).

2.4.1.2 AC literature in emerging markets

On the more specific impacts of the ACs, most studies from the emerging markets focus on the relationships between AC's observable attributes and earnings management and firm values/performance, similar to those in the developed countries. A study in Hong Kong indicates that the AC presence has an effect in constraining earnings management, even for those companies with high owner concentration (Jaggi and Leung, 2007) while, in Malaysia, the proportion of independent directors or of the ethnic directors in ACs has no significant relationships with earnings management (Abdul Rahman and Mohamed Ali, 2006). Independence, size and financial expertise of the ACs of Chinese firms listed in Hong Kong Stock Exchange are related to lower levels of abnormal accruals (Lin et al., 2009). On the relationship with firm performance, the existence of ACs is perceived by the senior managers of listed companies to have positive effects in Malaysia (Mohd Saad et al., 2007). However, when measured based on different proxies, the relationship is not conclusive, with a positive relationship when accounting net profits to total assets are used (Joher et al., 2005), but with insignificant effects when abnormal market returns are used (Sori and Karbhari, 2006). Another study which includes both Malaysian and Singaporean firms in the sample reveals that AC size and proportion of independent AC members are not related to firm performance measured using Tobin's Q (Mak and Kusnadi, 2005). Based on a study of the ACs in Hong Kong, Singapore and Malaysia, independent ACs that also have financial expertise are found to strengthen the reliability of the accounting earnings (Woidtke and Yeh, 2013). Based on data from Korea, there is some evidence that the presence of ACs is associated with higher firm value (Black and Kim, 2012).

2.4.1.3 Literature on AC oversight of external audit in emerging markets

On the specific studies on the AC impacts on the external audit function, the extent research in emerging markets on AC oversights over the external audit function mainly concentrates in Malaysia, with few studies in other emerging markets. Most of those

studies are based on questionnaire surveys, with some experimental or archival studies. The establishment of ACs in Malaysia is perceived to affect increase in auditor independence (Abu Bakar and Ahmad, 2009; Abu Bakar et al., 2005; Teoh and Lim, 1996). The majority of bankers and senior managers believe that the higher number of independent directors in ACs, the higher number of AC's meetings and the AC's review or approval of audit fees can increase the auditor's independence (Sori et al., 2009; Sori et al., 2008). The AC's roles in auditor appointment and in the review of the external audit scope work are also perceived to contribute to the safeguard of the auditor's independence (Sori et al., 2009; Sori et al., 2008; Sori et al., 2007). Based on the perceptions of the audit partners, Jaffar et al. (2005) find that ACs in Malaysia feel uncertain whether audit firms that also perform consulting services will lead to better or worse audit quality, reflecting unclear effects over auditor's independence. The changes in AC chair is also not related to the auditor switches (Ismail et al., 2008).

The studies on AC's effects on audit fees provide rather mixed results. In a statistical relationship study in 2003, using data from Malaysia companies, AC financial expertise and AC meeting frequency are found to be positively related to audit fee levels while there are no significant relationship between the audit fee and the AC size and AC independence (Yatim et al., 2006). However, the associations are totally different in another study based on 2005 archival data, with the AC financial expertise and AC meeting frequency having insignificant relationships with the audit fee level while the AC independence having a positive relationship (Johl et al., 2012). The latter study also finds different effects of the variables representing the presence of Bumiputera, which is an ethnic group of Malaysians with different styles of governance based on their beliefs in Malaysia. While the first study finds a strong negative relationship between audit fees and the Bumiputera-owned firms, the latter finds no significant relationship between the audit fee and the Bumiputera-dominant ACs. Samples from different time periods and focus of the area of Bumiputera dominance are cited as the causes of the different results. On the study of fifty Pakistani firms during 2007–2011, Rustam et al. (2013) find a negative relationship between AC independence and audit fees while there are no relationships between the audit fees and AC size or AC financial expertise. However, they find a positive relationship between audit fees and number of AC meetings.

The literature on the AC's impacts on the external audit process from other emerging markets is limited. An experimental study in Egypt with 49 audit partners and managers carried out by Ebaid (2011) suggests that auditors assess higher favourable client acceptance judgments when the AC is stronger, being an AC without non-executive directors, having at least one financial expert and meeting at least two times a year. Based on the hypothetical role play study by Goodwin and Seow (2002), the auditors in Singapore also perceive that ACs with more independent directors who meet more frequently can influence and facilitate effective audit process and resist pressure from management.

The overall effects of ACs on the external audits based on the literature in the emerging markets are summarised in Table 2-6.

Apart from the archival, experimental and survey studies mentioned above, there is a study using case study method on the AC's role in dispute resolution between management and external auditors. Based on the case study of seven listed companies in Malaysia, Salleh and Stewart (2012) find that ACs are quite active in the resolution of disputes between management and auditors when issues are very material. Using mediation techniques, most ACs in their study do not take sides with either the management or the external auditor and the results of the mediations are usually based on the compromise position. These findings are in contrast to the findings in developed countries as indicated by Gendron and Bédard (2006) that the ACs are rarely confronted with disputes between management and external auditors, probably contributable to different cultural values towards the acceptance of mediations.

Apart from Salleh and Stewart (2012), there has been no research in the emerging market context that focuses on the AC oversight processes over the external audits.

Table 2-6: AC literature in Emerging Markets

Study	Country	Effects on	AC Characteristics				
			AC size	Independence	Financial expertise	Meetings	Presence
Johl et al. (2012)	Malaysia	Audit fee		+	0	0	
Yatim et al. (2006)	Malaysia	Audit fee	0	0	+	+	
Rustam et al. (2013)	Pakistan	Audit fee	0	-	0	+	
Ismail et al. (2008)	Malaysia	Auditor change		(2)			
Abu Bakar and Ahmad (2009)	Malaysia	Auditor independence					+
Jaffar et al. (2005)	Malaysia	Auditor independence		(3)			
Sori et al. (2007)	Malaysia	Auditor independence		(4)			
Sori et al. (2008)	Malaysia	Auditor independence		+		+	
Teoh and Lim (1996)	Malaysia	Auditor independence					+
Abu Bakar et al. (2005)	Malaysia	Auditor independence					+
Sori et al. (2009)	Malaysia	Auditor independence					+
Goodwin and Seow (2002)	Singapore	Auditor independence		+(1)		+(1)	
Ebaid (2011)	Egypt	Auditor's client acceptance		+(1)	+(1)	+(1)	
Salleh and Stewart (2012) ⁽⁵⁾	Malaysia	Disputes resolution					

Note: "+" = positive relationship; "-" = negative relationship; "0" = Insignificant relationship.

(1) Must meet all characteristics at the same time.

(2) Not related to the AC Chair change.

(3) Non-audit service is not perceived to be related to the auditor's independence.

(4) Perceived to be related to the AC's reviews of auditor appointment, audit fee and audit scope.

(5) A qualitative study and thus no testing of hypothesis.

2.4.2 Thailand

Accounting research pertaining to Thailand includes mainly the relationships between accounting and socio-religious, economic and political practices, and corporate social responsibility (Kuasirikun and Constable, 2010; Kuasirikun, 2005; Kuasirikun and Sherer, 2004); the politics and practicality of IAS 41, “Agriculture”, in Thailand (Kosonboon, 2004); political connections to firm values (Sitthipongpanich, 2008) and the implementation of International Accounting Standards in Thailand (Srijunpetch, 2004). This set of research reveals that Thailand has made somewhat progress in those areas while still struggling with several detailed issues.

The East Asian economic crisis has triggered a lot of attention on corporate governance in Thailand. The study by World Bank reveals that Thailand needs to, amongst other things, accelerate its legal reforms, especially on bankruptcy and foreclosure laws; improve bank monitoring of the borrower’s management; introduce better accounting standards and disclosures and improve the corporate governance framework and its enforcement (Alba et al., 1998). Overall, the corporate governance policy adoption in Thailand has since improved significantly from year 2000, with only slight improvements in the areas of separation of the positions of the CEO and the board chairman and the proportion of the independent directors in the board (Kouwenberg, 2010). The roles of independent directors and updates of accounting and auditing standards have also been improved, thus resulting in higher quality of disclosure (Jongsureyapart, 2006). Larger companies adopt more of the recommended governance policy due mainly to the cost-benefit factors. Listed companies in Thailand on average tend to comply in substance with governance codes, since companies which adopt higher level of governance policy are found to be associated with the lower level of listing rule violations in subsequent years (Ananchotikul et al., 2010). Large shareholding by foreign industrial companies does not enhance the corporate governance of the Thai listed companies while the investment by foreign institutional investors, even not at a very large proportion, does improve the corporate governance (Ananchotikul, 2007).² In comparison to the other East Asian countries, Thailand has made big improvements in governance from 2007, based on the CLSA survey carried

² The paper argues that major foreign industrial investors might exploit minority shareholders while institutional investors normally invest in companies with good governance already.

out in 2010, with a total score of 55%, ranked at the fourth, compared to the top rank by Singapore at 67% (CLSA, 2010). However, the level of corporate governance disclosure in Thailand is higher than Singapore and Malaysia, possibly due to the less developed capital market, the needs to show improvements after the East Asia economic crisis, and high uncertainty avoidance nature of Thai people (Suphakasem, 2008).

Corporate governance research related to Thailand mainly focuses on the corporate governance impacts on firm value and performance, based on archival study. Major obstacles for good governance in the Asian countries, including Thailand, are the concentration of major shareholders and family-owned business, with family members as representatives in the board of directors, and duality of chairman and CEO (Jongsureyapart, 2006; La Porta et al., 1999). The research shows inconsistent results, with one side finding that ownership concentration is negatively associated with the firm performance (Suphakasem, 2008; Chaithanakij, 2006; Limpaphayom, 2000); and the other side shows that ownership concentration is positively associated with the firm performance or values (Preedanant, 2005; Wiwattanakantang, 2001). Some studies show that the ownership affiliated with foreign companies is positively related to the performance (Chaithanakij, 2006; Mitton, 2002). Shareholding by managers of the companies has a positive relation to the firm performance up until the point that the holding is more than 25% when the relation become negative, indicating that too much control by the managers leading to entrenchment (Dhnadirek and Tang, 2003) while the ownership by managers in the Thai banking industry does not help alleviate the agency problem (Jaikengkit, 2004). However, having CEO from founding family is not significantly related to firm performance (Dekle et al., 2005). Influence from the major shareholders or the founding family also lead to doubts over the independence of the outside directors, especially when Thai people place high value on connected relationships and much respect for other people (Jongsureyapart, 2006). These inconclusive results of the concentrated shareholders naturally raise doubt over the ability of the AC members to carry out their responsibilities independently when there are major shareholders and management involved.

Further studies of the relationships between corporate governance and firm performance or value show that the adoption of corporate governance code, as suggested by the SET, is positively related to firm value or performance (Pathan et al.,

2008; Kouwenberg, 2006; TIOD, 2002) although some researchers doubt the causal relationship (for instance, Matin, 2006). Moreover, the negative market reactions, as measured by abnormal returns of stocks, to any rule and regulation violations for firms with good governance is stronger than those of the firms with lower level of corporate governance (Phunnarungsi, 2010). More specifically, the corporate governance practices based on evaluations according to OECD's guidelines have positive effects on firm performance, measured by net profit margin, return on equity and Tobin's Q ratio (Limpiangkanan, 2007). However, the corporate governance scores, assessed by the Thai IOD, are not significantly associated with firm performance based on the Tobin's Q measurement (Limpaphayom and Connelly, 2004).

Few studies are available on the relationship between corporate governance factors and the areas other than firm value or performance. Issarawornrawanich and Jaikengkit (2011) find that there are no significant relationship between the corporate governance index, developed based on the OECD guidelines, and the stock investment risks. Such corporate governance index is also not significantly related to earnings management but family ownership and institution ownership are positively associated with earnings management by Thai listed companies (Issarawornrawanich, 2011). However, a prior study conducted in 2005 by Pornupatham (2006) indicates that ownership concentration are only positively related to earnings management when those companies are audited by non-Big-4 audit firms while the relationships are insignificant when measured using overall market or when audited by the Big-4 firms. His study further indicates that the other corporate governance factors, such as proportion of independent directors on the board, the duality of chairman and CEO and board size, are not significantly related to the earnings management.

2.4.2.1 Thai AC research literature

On matters related to Thai ACs in particular, the majority of the participants in the AC process, including the AC chair, CEO, CFO and chief internal auditor, perceive that the establishment of ACs have positive impacts on internal control and financial reporting process (Tengamnuay, 2005). However, the problems of AC implementation include, for example, limited pool of qualified AC members, lack of understanding of AC functions by ACs themselves, insufficient experiences in accounting and finance matters, time devotion and no independence from management. Tengamnuay (2005)

also finds in her survey study during 2002–2003 that the majority of Thai ACs consists of three independent directors, being mainly selected by the board, with one or more members having accounting or finance background. The Thai ACs mainly meet four times a year, with a few having 5–7 meetings, at the duration of 2–3 hours per meeting. More than 10% of the AC members are former employees of the company or related company and almost half of the AC members are former or retired government officers.

According to Tengamnuay and Stapleton (2009), the ACs roles in Thailand are considered rather passive, which can be referred to as at the ‘infant’ stage in the Spira’s (1998) model of evolutionary development of ACs. The Thai ACs perform more functions relating to internal audits than those associated with external audits and financial reporting. They are normally active in the visible issues, such as having written terms of references, comprising of at least three non-executive directors appointed for fixed term, and meeting regularly with proper agenda. Those activities are mainly considered as activities to establish their presence; hence little impact on the monitoring role. The Thai ACs are rather passive in those less visible activities, such as engaging the AC members who are affiliated to the company, external auditors not attending the AC meetings, and minutes of meetings not being distributed to board members, chief internal auditors or external auditors. The impacts of the AC presences in Thai listed companies are perceived to be relatively high in the areas of strengthened internal control, improved quality and integrity of financial reporting process (Tengamnuay, 2005).

A more recent study conducted in 2006 by Namsirikul (2007) confirms a similar picture where the highest average scores are in the areas of the AC report preparation, AC membership, AC meetings, AC responsibility over financial reporting, and AC’s compliance with laws and regulations. The areas with the average below 80% include, for example, the assessment of AC’s performance, the review of AC’s terms of reference, authority and responsibilities of the AC, AC’s influences over internal control, and working with external auditors.

It should be noted that the timing of the above studies (i.e. Tengamnuay and Stapleton, 2009; Tengamnuay, 2005) is only few years after the forced implementation of the ACs by the SET in late 1999. Moreover, major regulations and law have been subsequently amended in 2008 to mandate private meetings between ACs and external auditors and

to increase the independence of the AC members by disallowing appointing persons affiliated with the company, such as employees from group companies, as AC members (SEC, 2008).

The majority of studies of ACs in Thailand focus on archival studies on the relationships between ACs and firm performance or earnings management. What those studies reveal are that the level of education of AC members is positively associated with firm performances while there are no significant relation between firm performances and the level of AC trainings in the directorship courses (Chaithanakij, 2006). The proportion of independent directors in the boards is not likely to influence firm performance, based on Tobin's Q measurements (Yammeesri and Herath, 2010; Ruengsuwan et al., 2009). Also, the effect of the proportion of financial or accounting experts is not statistically related to firm performance (Ruengsuwan et al., 2009).

On earnings management issue, average AC tenure is negatively related to earnings management while there is no significant relationship with the number of AC meeting and proportion of financial expertise in ACs (Thoopsamut and Jaikengkit, 2009). In a survey, most ACs and external auditors believe that, to effectively mitigate the earnings management, the Thai ACs should review related party transactions, internal control system, risk management system, changes in accounting policies (Pornupatham, 2006).

2.4.2.2 Literature on AC oversight of external audit in Thailand

There are only few studies specifically relevant to the operations of the ACs in the area of the external audit oversight function. However, they provide a useful overview of Thai AC operations. Tengamnuay (2005) finds that the presence of ACs is perceived by participants in the AC process—including chairman of the board, AC chair, chief internal auditor, CFO, external auditor and investors—to benefit the external audits of Thai listed companies although few external auditors believe that the impacts have not been materialised. The impacts of the AC presence to the external audit include improved communications between the board and external auditors, enhanced auditor's independence and opportunity for arbitration between the management and auditors. These impacts, however, are ranked relatively low to moderate when they are compared to the AC's impacts over internal audit or financial reporting. The levels of

those three impacts are also found to be statistically associated with the attendance of the AC meeting by the external auditors.

On the issue of auditor appointment and selection and auditor's remunerations, the Thai ACs are active in both areas, except for the review of auditor's non-audit fees (Tengamnuay, 2005). The majority of the Thai ACs do actually nominate the external auditors and review the proposed audit fee before they are approved by the boards (Namsirikul, 2007; Tengamnuay, 2005). However, these two functions are ranked 7th and 9th (out of the 10), respectively, in terms of importance to the AC's function relating to external audit (Tengamnuay, 2005), reflecting the low importance of the functions from the perspectives of the ACs and the participants in the AC process. In the area of audit fees, the AC's main concern is the negotiation for the cheapest fee. However, Pornupatham (2006) finds that the AC's review auditor's remunerations and auditor appointment are perceived to be less effective in mitigating earnings management while the AC's review of auditor's independence are expected to be more effective. In the areas of audit work, most Thai ACs and external auditors perceive that the AC's review of audit scope and audit plan are much less effective in reducing earnings management, when compared to AC's other involvements, i.e. review of material weaknesses in the management letter, discussion with the auditors on a quarterly basis, review of key accounting adjustments and review of unadjusted errors.

However, less than half of the Thai ACs consider the policy regarding the approval of non-audit services (Namsirikul, 2007). Even though both auditor appointment and remuneration are the main focus of the Thai regulations over the AC responsibilities, the rationales behind such low ranks are not examined in extant research. Moreover, even these two matters are admittedly performed by the ACs, the manner in which the decisions are carried out is not explored, making it very difficult to judge the influence of the ACs on these areas.

On the matter of the oversight of the external auditor's independence, Thai ACs are less active (Tengamnuay, 2005). Only about three-fourths of the Thai ACs review the independence of the external auditors while only slightly more than half of the ACs are involved in arbitrating the disputes between the management and the external auditors. Moreover, less than half of the external auditors indicate that they have a private meeting with the AC without the presence of the management (Namsirikul, 2007;

Tengamnuay, 2005). The external auditors perceive that the overall impact of the AC presence over the auditor's independence is rather limited (Tengamnuay, 2005). Low levels of AC's involvements in resolving the disputes and AC's meeting with the auditors privately have made it unclear how the Thai ACs are able to help maintain the independence of the external auditors.

In relation to the Thai AC's involvements in the audit process, the ACs are less active in participating at the audit planning stage, with only about one-fourth of the respondents indicating that the ACs discuss the scope and timing of the audits with the auditors (Tengamnuay, 2005). About only two-thirds of the ACs read the audit engagement letter that the management has sent to the external auditors and consider the details of engagement (Namsirikul, 2007). However, the Thai ACs are quite actively involved after audit completion—such as in discussing the problems arising from the audit, discussing the meaning and significance of the audited financial statements with the auditors, reviewing the management's responses to the auditor's internal control recommendations or reviewing the auditor's internal control evaluation and recommendation (Namsirikul, 2007; Tengamnuay, 2005). AC's less involvements at the planning and execution stages might compromise the AC's oversight effectiveness but the reasons for less involvement have not been subject to much research focus.

In summary, the limited extant studies do not provide much insight into causes of such passive role of the Thai ACs over external audit functions in many areas at that moment. Due to the limitations of the methodology employed, the detailed operations of the AC's functions have not been studied, resulting in lacks of information to determine the influence of the Thai ACs. Moreover, those studies are also based on information before the introduction and amendment of certain laws and regulations to strengthen Thai ACs, such as the strengthened definition of independent directors, the mandatory requirement of a private meeting between the AC and the external auditor, and the whistle-blowing program required on the external auditors.

2.5 CONCLUSIONS

The majority of the AC literature in relation to the work of the external auditors involves the use of economic models to capture the associations between the inputs

from the AC characteristics and the outputs of corporate governance. Those studies are mainly based on agency theory, with AC acting on behalf of the principal in controlling the manager's behaviour and employing the help of external auditors. The method bypasses the process of how ACs exactly discharge their responsibilities, including interactions between themselves and with the external auditors. The results in many studies are inconclusive, which might be caused by crude proxies being used or some other qualitative factors being omitted. The explanations on why certain proxies are statistically significant and not others are not strongly or thoroughly supported. The proxies may include noises and could also be interpreted in many other ways that do not represent the effectiveness of ACs, especially when being presented under different contexts. For example, the increase or decrease in the audit fees might be from the competitive level of certain industries, not the effects of the ACs. Moreover, since the contents and contributions of the meetings used in those studies are unknown in the models, the AC meetings may not actually contribute to the measured outcomes because a lot of informal meetings may have been arranged before the formal meetings take place already (for example, Turley and Zaman, 2007; Gendron and Bédard, 2006). The number of AC meetings may even actually reflect the lack of expertise in various matters or simply reflect the recommended number of meetings by regulators, and hence have no causal impact on the governance process. Most importantly, the human factors involved in the process are hardly studied. The AC characteristics used under the extant studies do not include the personal characteristics of the participants in the process. For example, the presence of favouritism between the independent directors in the ACs and executive directors, derived from the relationship orientation, may also affect the monitoring effectiveness but is not captured in the model used. Such favouritism is noted by some interviewees in the study by Gendron and Bédard (2006) and it might even be more epidemic in the case of emerging markets.

Quantitative research on AC effectiveness in relation to external audits generally provides fairly good average pictures of the AC effectiveness; however, different angles of effects of the ACs and auditors can be gained from the studies that employ field work, such as case study or interview methods, which can provide more details of the operations and adopt perspective from other theory besides agency theory. There are however only a limited number of studies on the processes or operations of the ACs and auditors in relation to AC influence.

The limited qualitative research literature focusing on AC oversight of the external audit work has provided further detailed understanding of the operations, interactions and effectiveness from different viewpoints, such as the frequent uses of informal communications between the AC chairs and the external auditors and the effects of politics and power plays, which lead to alternate effective ways to solve an issue (e.g., Turley and Zaman, 2007; Gendron and Bédard, 2006), the effects of AC ceremonial roles on the financial reporting oversight role (Spira, 1999), the importance of questioning in the monitoring process (Gendron and Bédard, 2006), and how the ACs go through the auditor selection and remuneration process (Fiolleau et al., 2009).

However, the focus of those qualitative studies is mainly on the AC monitoring process in general, without particularly focusing on the external audit process and the interactions with the external auditors who play a major role on the reliability of financial reporting. The study in a post-SOX era by Cohen et al. (2010) still reveal a large proportion of ACs performing a ceremonial role. The rationales for the limited influence of AC on auditor dismissal, appointment and audit fees, including in resolving conflicts between external auditors and management, are still unclear and can be further probed into. Only Salleh and Stewart (2012) study the roles of the ACs in resolution of disputes between management and external auditors. However, their findings are specific only to the contexts of Malaysia and more studies in different contexts are needed to further understand AC operations.

Moreover, the few studies on the AC operations are also mainly from the developed countries where ACs have long been practised, such as the US, Canada or the UK. The operations of the ACs under the context of the emerging markets are still very much unexplored, especially where the interactions between people are affected by certain characteristics that are not usually encountered in the western context, such as relationship-orientation contexts more often witnessed in emerging markets.

Table 2-7 below summarises the major knowledge from the literature relating to AC influence over external audit oversight responsibility, together with the knowledge gaps.

Table 2-7: Summary of literature and knowledge gaps

AC Responsibilities	Literature	Knowledge Gaps
Approval of auditor appointment and remuneration	Mix of positive and insignificant relations between AC characteristics and choice of Big-4 and specialist audit firms. Management are key driver of the process, not the AC.	The causes of the inconsistent effects of AC characteristics from each study. Potential omitted or unquantifiable variables? Limited investigations of the causes of such passive involvement by ACs.
Reviewing and monitoring auditor independence	Mixed effects of AC from both the studies based on archival data and those based on interviews and case study. Rather weak AC influence on auditor switches and resolution of auditor-management disputes. More AC influence on non-routine, informal process and meetings. Necessity of good questioning skill	The causes of the inconsistent effects of AC characteristics from each study. Potential omitted or unquantifiable variables? Limited investigations of the causes of such passive involvement by ACs and wide variation of AC influence.
Oversight over audit process	Positive impacts on auditor's perception of reduced audit risks but mixed results on promoting financial reporting quality. Rather passive roles of ACs during the audit planning meetings and finding meetings. Only pieces of AC's process of audit effectiveness oversight, such as in audit finding meeting, planning meetings, being studied. More AC influence on non-routine, informal process and meetings. Power relation effects on behaviours of parties involved with ACs. Necessity of good questioning skill.	The causes of the inconsistent effects of AC characteristics from each study. Limited investigations of the causes of such passive involvement by ACs. Little is known over other AC process of audit effectiveness oversight, e.g., review of financial reporting, management letter, representation letter, etc.
Monitoring of audit quality	Audit quality being inferred from the relationships between proxies.	No study specifically designed to investigate the AC monitoring of audit quality.
All three areas		Limited studies focussing on the AC process in the context of emerging markets Impact of the behaviour of parties involved in the process is not much researched.
AC research in Thailand	Weak AC effectiveness in external audit area, during the 'infant' stage.	Causes of such passive involvement by ACs.

To address the knowledge gaps identified above, the next chapter discusses the conceptual framework to be used in exploring the AC operations. The proposed framework is expected to assist in obtaining a better understanding of the factors contributing to AC influence in particular contexts and thus address some of the limitations in existing literature on AC oversight of external auditing.

CHAPTER 3 : CONCEPTUAL FRAMEWORK

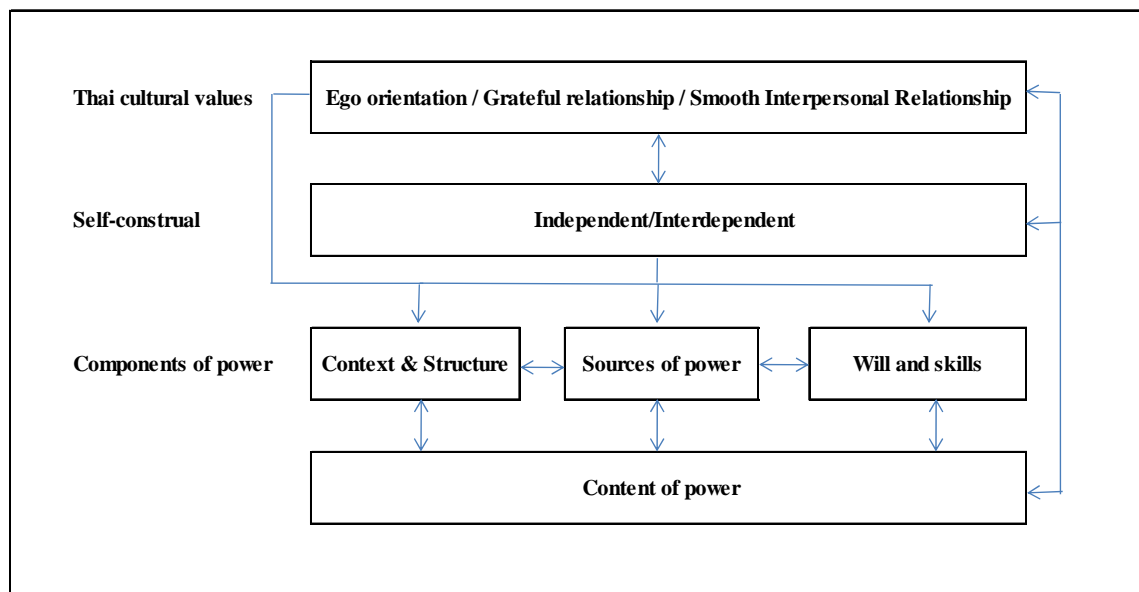
As described in Chapter 2, the extant research on AC process is scarce, even in the developed countries. National and institutional contexts are largely ignored by the mainstream studies. The agency and institutional theories do not seem to adequately explain the actual AC operations, resulting in some knowledge gaps. For example, there is a large portion of AC participants, especially the external auditors, indicating that the AC's roles in the auditor selection and dispute resolution are more of a ceremonial nature, consistent with the institutional theory although a bit higher proportion of the participants perceive the AC operations in the substantive ways in accordance with the agency theory (Cohen et al., 2010; Gendron and Bédard, 2006). Bédard and Gendron (2010), Beasley et al. (2009) and Turley and Zaman (2004) thus call for more theoretical work on the issues.

Literature on the operations of ACs and the related interactions with external auditors is rare but provides a general idea that they are affected by the politics and power, and formal and informal processes (see for instance Turley and Zaman, 2007; Gendron and Bédard, 2006). This research aims to explore such AC–auditor relationship in Thailand and argues that behavioural traits and power should be the focal framework in studying the AC operations. The implementation of any model cannot yield the same result when the people involved in the process are different in terms of cultural and institutional contexts. The term “AC process” in this thesis generally refers to actions and operations of the AC or AC members performed to achieve AC's oversight roles.

This research is thus based on a conceptual framework which incorporates both the behavioural traits and the power analysis, as illustrated in Figure 3-1. In short, the politics and power of the AC members and the participants in the AC process are analysed in terms of contexts and structures, sources of power, will and skill, and content of power, a model proposed by Pettigrew and McNulty (1998; 1995). The content of power is the areas where ACs can influence, which is the result of the other three components in the model. Understanding the components of AC power can provide a much clearer picture on how power is formulated and deployed by all

players, potentially addressing some of the limitations in prior literature. The behavioural traits of AC members and the related parties involved in the AC operations can condition the AC role and can play a vital role in the formation of the power and politics. The national cultural values do not directly affect the behaviours of each individual because people also use the construal of self to form behaviours. The construal of self is related to thinking of how people see themselves, especially in terms of separation or connection to the other people. The common behaviours influenced by the national cultural values and mediated by self-construal at each individual's level are labelled 'behavioural traits' in this thesis. The interactions between parties involved in the AC oversight of the external audit are expected to be driven by how the AC deploys its power in response to the behavioural traits and self-construal of all the parties involved.

Figure 3-1: Conceptual framework



Sources: Influenced mainly by Pettigrew and McNulty (1995; 1998); Markus and Kitayama (1991); and Komin (1990)

The rest of this chapter discusses each of the three elements of the framework in more detail. It starts with discussion of power components and is followed by the concept of behavioural traits, which are the results of the cultural values and self-construal.

3.1 ORGANISATIONAL POLITICS AND POWER

Organisational politics and power are parts of the daily business life in any organisation where people drive the environment surrounding them for their individual or group

benefits. To accomplish any task in an organisation, the use of power and influence is common and it is one of many techniques used to get the work done, such as the hierarchical authority, the reliance on other people for helps, the shared vision of the organisation or the corporate culture (Pfeffer, 1992). The effective operations of ACs in fulfilling their stipulated responsibilities are also significantly influenced by power and politics (Turley and Zaman, 2007).

In a very broad sense, power is considered “a force that affects outcome” (Hardy, 1996, p.3) while organisational politics is concerned with the activities taken “to acquire, develop and use power and other resources” to achieve some desired outcomes when there are differences or uncertainty (Pfeffer, 1981, p.7). In short, politics is power in action (Hardy, 1996).

The definition of power differs between scholars, but most definitions include an element of “a capability of one social actor to overcome resistance in achieving a desired objective or result” (Pfeffer, 1981). In early research literature, Dahl (1957) proposes an intuitive idea of power as follows: “A has power over B to the extent that he can get B to do something B would not otherwise do” (p.202-203). Dahl’s (1957) definition of power is based on a relation between people and it describes power as something only evidenced through B’s observable behaviour (Clegg, 1989, p.66). Subsequently, Bachrach and Baratz (1970) expand the definition of power so that it also includes the possibility of actions that are not observable. Their definition involves the idea of conflicts and the possibility of non-decisions. They suggest that, when power is used in any decision-making situation, there are also attempts to avoid some other decisions, so-called ‘non-decision’. As an example of non-decision-making situations, an organisation needs to employ power to handle also the potential, subtle issues, apart from the current issues at hand at the same time. Therefore, power can result in both observable and non-observable actions.

As with Dahl (1957), Bachrach and Baratz’s (1970) definition of power also includes the idea of a conflict that exists as a precondition to the exercise of power. However, this aspect of the power definition is disagreed by Lukes (1974) who points out that the presence of conflict is not necessary for power to be employed as there are situations that power is involved with influencing and changing the other people’s desires or thoughts to what the person exercising the power wants and therefore avoiding any

conflicts to be incurred at all. Lukes (1974), therefore, proposes the definition of power in the following context: “A exercises power over B when A affects B in a manner contrary to B’s interests” (p.34). His definition of power employs a notion of contradicting interests of people, thus extending the conflicts between people to both those actual and latent. In addition, Lukes’ (1974) definition can explain a situation where the exercise of power is unintentional by the person holding the power, which is excluded from the previous definitions provided by Dahl (1957) (see also Berger, 1994) and Bachrach and Baratz (1970).

The power to be mobilised by the ACs over the oversight of the audit process is likely to also involve latent disagreements among the interests of ACs, the management and the external auditors, especially matters relating to the independence of the auditors. Moreover, in the exercise of power, the ACs and the auditors may as well need to consider the non-decision issues, such as the implications on other parties indirectly involved in the audit and governance processes, such as the shareholders and bankers. Therefore, the definition of power that best suits this research is that of Lukes’ (1974) version, i.e. “A exercises power over B when A affects B in a manner contrary to B’s interests”.

Pettigrew and McNulty (1998; 1995) proposes a framework for analysis of non-executive director’s power and influence, which involves four interrelated components: context and structure, power sources, will and skill, and content of influence. The four components are interrelated and their dynamics must be fully understood in order to appreciate the impacts of power and how the power is formed and mobilised. A change in one component may have an impact on the others and then provide different power relation and outcomes.

3.1.1 Context and structure

Understanding the context in which agents use power is necessary because power developments, power deployments and power losses are inherently dynamic, varying from situation to situation (Knoke, 1990). The context and structure involve both apparent and more subtle features (Pettigrew and McNulty, 1995). The apparent features include, for example, the experiences and education background of the directors, while the more subtle features include those concerning the attitudes and

assumptions of other board members in determining how non-executives should operate and be regarded. These less apparent features also include culture and attitudes towards decision making and control, such as the degree of discussions and influences by board members when decisions are made in the boardroom (whether the non-executive directors can influence discussion of the issues, or only the executive directors in the board normally discuss and decide all issues). The beliefs and understandings shared by other members of the organisations can also groom the behaviours of directors (Golden-Biddle and Rao, 1997). The information flows and pattern of relationship building also contribute to the change of the context and possibilities of non-executive influence (Pettigrew and McNulty, 1995). Both features are essential in the success or failure of the operations of the non-executive directors because they can either nurture the environment to support the power of non-executive directors or create obstacles for the non-executives to exercise their power and influence.

The contexts can also be categorised as outer or inner (Pettigrew and McNulty, 1998). The outer context is concerned with the political, social and legal context, including codes of practice and business performance of the firms. According to Golden-Biddle and Rao (1997), the political context, such as the pressures from the non-business organisations, can also influence the role of the directors. The inner context affecting the power analysis mainly involves board history and culture, specifically “norms of conduct in the boardroom, patterns of selection and socialization into board roles, and expectations of those roles” (Pettigrew and McNulty, 1998, p.203). This inner context can be affected by the outer context and then, together, shape what is expected of the board, influence board culture and provide legitimacy for power of non-executive directors.

The structure of the boards also contributes to the potential influence and roles of the non-executive directors. The key features of the structure suggested by Pettigrew and McNulty (1998) are proportion of the non-executives in the board and the chairman and CEO duality. The non-executive directors can use these two structural features, together with the context surrounding the board, to shape the power and influence in the firm. Moreover, the involvement with the board of the other companies, through director interlocks, can also impact the functioning of board members (Golden-Biddle and Rao, 1997).

Based on in-depth interviews with 20 part-time UK board members, being chairman or non-executives directors, Pettigrew and McNulty (1995) find that the major impact of power by the non-executive directors (“NED”) is only found in the most extreme crisis circumstances, such as serious scandals. Attitudes and behaviours of the chairman and chief executive, and the non-receptive culture for the non-executives have dominant effects on the behaviours of the non-executives. The attitudes and behaviours of the chairman and chief executive normally set the tone of a board. They are the ones who select the non-executive directors, resulting in the context and scope of NED’s power that they want. In order to gain power, the NEDs then need to build relationships, seek informal information and provide perspective from the outside of the boardroom.

Since the AC is a sub-committee comprising NEDs reporting to the board of directors, the context and structure of non-executive directors in the main board and the viewpoints and culture of the executive directors still play important roles in determining the power relations of the AC and the related subsequent impacts. As indicated in the literature, even with the power being legitimately delegated to the AC as in the case of auditor selection and dismissal, the impacts of several ACs are still limited (Cohen et al., 2010). However, the literature hardly provides any concrete evidence for the causes of such AC ineffectiveness. This research therefore studies the context of the AC to better understand the AC setting in constituting the power and influences over the external audit function. It should be noted that this thesis does not focus on the AC involvements in the operations of the board of directors where the understanding of the structure of the NED in the board discussed in the framework by Pettigrew and McNulty (1998; 1995) is needed. In other words, this thesis does not aim to study how the AC influences the board of directors but intends to focus on the AC operations as a standalone process. Therefore the structure of the NED in relation to the board is largely untouched.

Literature has indicated that the structure and contexts of the AC do affect the governance outcomes by the ACs. As an example, the experiences and expertise of the AC members—the apparent contexts—affecting the AC effectiveness are confirmed by many studies that focus on the input-output relation, (e.g., DeZoort and Salterio, 2001; Abbott and Parker, 2000). However, only limited studies in the literature illustrate how those contexts support or impede the AC deployment of power or what different contexts, such as those in the emerging markets, might affect the power of the AC. For

example, Thailand does not have a requirement for CEO/CFO certifications of the internal control with hefty personal liability as required by SOX (2002). This can lead to less importance of the AC as the two executives might not see the importance of the ACs in ensuring the proper internal control as much as when they need to rely on the AC for effective control monitoring. The lower level of importance from the management view can be translated into lower levels of their supports. The investigation into the contexts of AC operations can contribute to the understanding of the content of the AC's influence and thus its effectiveness.

3.1.2 Sources of power

Hardy (1996) explore the use of power in organisational strategic change and propose that power can be exercised in four dimensions: power of resources, power of processes, power of meaning and power of system. *Power of resources*, which is the most common power seen in organisations, involves the use of scarce resources that other people need to influence the desired behaviours or outcomes. Other than money and other monetary assets, the resources deployed to create power may as well include, for example, information, expertise, authority, political access, creditability, stature, prestige, privilege access, rewards and sanctions. The effects of the power of resources are normally short because such power is mainly effective in a certain specific task only, and therefore continued stimuli of 'carrots and sticks' must be deployed to encourage repeated behaviour. Moreover, too much use of coercion (or 'stick') might lead to strong reactions from the people impacted by the effects of the power.

Power of process is concerned with the use of processes, procedures and routines by the actor to raise the awareness of the targeted people. The sources of the power are from, for instance, the ability to control the process, to determine the participants of the process, and to set the agenda of the meetings. The awareness of issues can be created or blocked by determining the participants, issues or agendas. The effects of the power of process can be longer lasting than the power of resources only when the expected resultant behaviour is in line with the existing norms and values of people in that organisation.

Power of meaning involves activities to utilise, for example, symbols, rituals, or languages to form perceptions, cognitions and preferences of people in order to give

new meanings of incidents to the other players. Such power might be able to modify some underlying values or norms in the organisation by altering the meaning of the incident/events but the user of the power cannot be certain of the change in outcomes as originally intended. *Power of the system* can be found in the unconscious acceptance of values, traditions, cultures and structure of an organisation and can be difficult to manipulate or change since it is vested in the status quo. Since each power can create effects to a certain levels only, the first three dimensions of power must work together for the intended behaviour to take effect against the power of the system which has been entrenched in the organisation already.

When compared to the executive directors, NED's resources are normally limited and more efforts must be put into to create any proactive action (Pettigrew and McNulty, 1995). If the NEDs choose to move forward with any initiative, they must mobilise multiple power sources and/or act in concerted manner. The sources of power of the NEDs may as well derive from "external stature and prestige; drawing on external legitimacy of groups such as shareholders and regulators; knowledge of the host sector and/or business; the quality and extent of personal networks in and outside the board; residual power to reward and sanction; the threat of public or private resignation, and derived power from a good quality relationship with the chairman or chief executive" (Pettigrew and McNulty, 1995, p.862). Knowledge and experiences are only valuable in creating power for the NEDs when it can be used in the firm's context and, even with a match, it can hardly be used without relationships with people both inside and outside the boardroom and without information obtained through personal network being developed by the NEDs. The ultimate power of the NEDs is the resignation or a threat to resign. This is a powerful tool and can be employed as a last resource since it will raise questions from other people over the management of the firm.

Using survey data gathered from the CFOs, the internal audit heads and the partners of external audit firms who interact with the audit committees of 90 US firms, Kalbers and Fogarty (1993) study the audit committee effectiveness based on the perceived power of the AC. Kalbers and Fogarty (1993) categorise power into six types: legitimate, sanctionary, institutional support, expert, referent and diligence, based on French and Raven's (1959) framework. Apart from diligence, all other types of power under the study can be categorised as power of resources by Hardy (1996). Legitimate power is comparable to authority and sanctionary is the same as rewards and sanctions. Kalbers

and Fogarty (1993) define institutional support as access to information supports from various parties, including tone from the top. Expert is measured by the perceived level of knowledge in accounting, finance, auditing, controls systems, including the knowledge of the company and industry. Referent power refers to the respects, values and leadership quality attributed to the audit committee chair and members. Diligence power refers to the preparation, vigilance, independence and level of activities of the audit committee. The results of the study show that the diligence and legitimate power is strongly related to the audit committee effectiveness. The diligence, when supported by legitimate power and institutional supports, is also important to all areas of audit committee effectiveness. Expert power is associated with the financial reporting effectiveness while the sanctionary power is significantly related to the external auditing effectiveness. The results also show that there is no direct relationship between the referent power and the AC effectiveness in any aspects but instead might be supportive of other types of power. However, the study does not provide much evidence on the causes of the insignificant relationships. This might be principally due to the research tool that does not provide much room for further investigations.

With potential conflicting interests, all parties involving in the AC process need to exercise certain levels of power to obtain their desired outcomes. This research aims to explore the sources of power that affects the operations of the ACs on audit process under the institutional context of Thailand. Even though the ACs have an authoritative power in dealing with the external auditors and the others involved in the audit process, the deployments of their power can be restrained by the power mobilised by the executive directors or management of the company based on the conflicting goals of each party. This thesis studies the power deployment by all parties involved in the AC process. The varied levels of the detailed guidelines for Thai ACs in many areas of the oversights of the external audit function discussed in Chapter 4 can affect the source of AC power since the knowledge of the best practices for the AC are also dependent on those guidelines (power of resources). The power sources for parties involved with AC operations in Thailand may also be different from other countries, especially when the personal attributes for power success are in conflicts with Thai cultural values of relationship orientation (refer to Section 3.2.2).

3.1.3 Will and skill to exercise the power

As indicated by various definitions discussed earlier, an important aspect of power is its effects on others. Therefore, besides the power sources, the analysis of power must also include the relational aspect of power, which is called ‘influence’ by Pettigrew and McNulty (1995). The analysis of the influence aspect mainly involves the will and skill in developing and deploying the power sources. Even with all the power sources, a person cannot succeed in deploying power if he or she does not have a will to do so (Mintzberg, 1983). Each non-executive director is different in his/her willingness to pursue the issues or intervene, and possesses different skills in dealing with issues under a particular circumstance (Pettigrew and McNulty, 1995). The will and skill involved in exercising power are also different when it comes to a different issue under a different context, which is why understanding both the facilitating factors and barriers present in the context and structure surrounding power plays by non-executive directors is essential to the study of the non-executive directors deploying their power.

Specifically, for the NEDs to have impact, the ability to gain trust and respect from the executive directors is crucial (Pettigrew and McNulty, 1995). Significant influence is not derived only from the technical knowledge or experience but also from the ability to apply it in a given context, making any contributions valuable and credible. The willingness and the commitments towards making oneself being heard or powerful are also important. The NED’s own persistent behaviour in tackling problems, devoting to the issues and pursuing convincing arguments are examples of the ways to influence.

Trust and respect can be created in many ways. McNulty et al. (2003) finds a set of three attitudes, behaviours and skills for an NED to become effective in monitoring role: (a) engaged but non-executive; (b) challenging but supportive; and (c) independent but involved. *Engaged but non-executive* characteristics involve delving into the matters for in-depth understanding via informal communications, or others, and contributing to the matter at hand with past experiences, knowledge and understanding of the matter. However, the NED must not take executive role and overstep the role of the executives. *Challenging but supportive* aspect refers to proper questioning the executives to instil the responsibility of the NED regarding the checking of the executive’s performances while accepting their authority. Such challenging needs to be perceived as a support to enhance the executive’s performance or to add value.

Independent but involved aspect is mainly related to the ‘independence of mind’. It means NED’s abilities to see things from other perspectives, and then test and challenge the matter based on the NED’s experiences from other entities. This type of independence is valuable to create meaningful contributions to the management. All the three sets of inter-related attitudes, behaviours and skills above are a summary on how NEDs can create accountability in the board (Roberts et al., 2005), which is formed by a mix of various techniques, including ‘challenging, questioning, probing, discussing, testing, informing, debating, exploring, encouraging’ behaviours (p. S6).

Apart from skills to build the trusts and respects of the other board members, the skills crucial to the NED influence include “tact and diplomacy, logical argument and persuasion, and respecting the people and norms of conduct on the board” (Pettigrew and McNulty, 1995, p.867). The tact, strategies or methods, used to exercise of power and influence in organisations has been of scholar interests for a period of time. The identified methods include assertiveness, rational persuasion, coalition formation, upward appeal, inspirational appeal, personal appeal, consultation, ingratiation, legitimating, pressure, manipulation, exchange and blocking (McNulty and Pettigrew, 1996). It should be noted that assertiveness and pressure are very close in operating definitions of the research. *Assertiveness* is involved with behaviours such as ordering, demanding, confronting, nagging, or setting deadlines (Kipnis et al., 1980) while *pressure* is defined by Yukl and Tracey (1992, p.526) as the use of “demands, threats, or persistent reminders” to influence other people to do something. Yukl and Tracey (1992) also provide many other useful, workable definitions of the influence methods, such as consultation, rational persuasion and legitimating. *Consultation* arises in the situation where a “person seeks your participation in planning a strategy, activity or change for which your support and assistance are desired, or the person is willing to modify a proposal to deal with your concerns and suggestions” (p.526). *Rational persuasion* happens when a “person uses logical arguments and factual evidence to persuade you that a proposal or request is viable and likely to result in the attainment of task objectives” (p.526). *Legitimating* is defined as a behaviour that a “person seeks to establish the legitimacy of a request by claiming the authority or right to make it by verifying that it is consistent with organizational, policies, rules, practices, or conditions” (p.526).

Ingratiation is associated with behaviours of acting humble and making the other person feel important (Kipnis et al., 1980), including attempts to get the other person in a good mood or to think favourably of oneself before asking the other person to do something (Yukl and Tracey, 1992, p.526). *Exchange* occurs when a “person offers an exchange of favours, indicates willingness to reciprocate at a later time, or promise you a share of the benefits if you help accomplish a task” (Yukl and Tracey, 1992, p.526), as well as an offer to make personal sacrifices (Kipnis et al., 1980). *Coalition* involves the use of supports of others to request for desired deeds (Yukl and Tracey, 1992; Kipnis et al., 1980) or to persuade to agree (Yukl and Tracey, 1992). *Blocking* is labelled with the behaviours of attempting to slowdown or threatening to stop working (Kipnis et al., 1980). Appeal is another common influencing method use in organisational research and can be in various forms, such as inspirational appeal, upward appeal or personal appeal. Yukl and Tracey (1992) define *inspirational appeal* as in the situation where a “person makes a request or proposal that arouses enthusiasm by appealing to your values, ideals, and aspirations or by increasing your confidence that you can do it” while *personal appeal* refers to a behaviour when a “person appeals to your feelings of loyalty and friendship toward him or her before asking you to do something” (p.526). *Upward appeal* is used in order to “bring additional pressure for conformity on the target by invoking the influence of higher levels in the organization” (Kipnis et al., 1980, p.447)

The NEDs have shown to exercise their power and influence by using tactics of assertiveness, persuasion, coalition formation, consultation, blocking, pressure, manipulation, exchange, upward appeal, ingratiation, inspirational appeal, and legitimating (McNulty and Pettigrew, 1996). Based on the interviews, in 1994, with 29 part-time board members, being part-time chairman or non-executives directors, from the top 200 U.K. industrial and commercial firms and top 50 financial institutions, the part-time chairman mainly uses the assertiveness to provide leverage against the executive directors, employing the authority in the capacity of chairman of the board to command and instruct. Other methods occasionally employed by the part-time chairmen are pressure, persuasion and blocking. Pressure is also another common method to get the desired results and can be in a form of threats to resign or forces from third parties.

With less authority inherent to the position, most other non-executive directors resort to persuasion and coalition formation methods, utilising their knowledge, experience, expertise and relationships with people (McNulty and Pettigrew, 1996). The non-executive directors, before and during the persuasion process, seek additional information other than what has been provided by the executives, by raising the issues, querying or challenging the data/ideas in a non-negative manner in order to maintain relationship with the executives. The non-executive directors are also reported to often use other methods, such as assertiveness, pressure, consultation and blocking. The assertiveness used by the non-executive directors is associated to the incidents where they gain the authority from being appointed in the sub-committees, such as nomination or ACs. Consultation is employed by the non-executive directors to influence the executives and as a way to influence the desired actions. The results of the study indicate only one incident of the use of upward appeal, inspirational appeal, ingratiation, and legitimating.

The study by McNulty and Pettigrew (1996) also reports that part-time board members claim that they have influences over a range of issues that also concern normal operations of the firms, although the non-executive directors have more potential for exercising influence in crisis or transitional situations, as also reported by Lorsch and MacIver (1989). The influence claimed by the part-time board members under study is mainly in the area of appointment, dismissal and compensation of CEO and board members, implying discharging the governance role by using their power, as opposed to acting only as a 'rubber stamp'.

The will and skill are two main aspects missing in the AC literature. The inactive participation in conflicts between auditor and management (Cohen et al., 2010; Turley and Zaman, 2007) can be further analysed in terms of the will to deploy the power by the AC. For example, the passive involvement of AC might be motivated by several factors, such as the unfamiliarity with audit technicalities or accounting literacy of AC members in such area. The AC might then prefer to let the 'experts' on this matter, i.e. the auditor and the CFO, to sort things out before reporting the resolution to them as witnessed in the literature. The lack of will might also be simply caused by few incidents of the regulator enforcing the laws and low level of lawsuits in certain environment, as in Thailand, resulting in the less active AC. As noted by Pettigrew and McNulty (1998; 1995), each power component can affect one another. The lack of

source of power (technical knowledge) or weak power context (low incidents of lawsuits) might lead into the weakened will to exercise the power, resulting in ineffective monitoring. Moreover, this research proposes that the behavioural traits of people (discussed further in Section 3.2) involved in the AC process can also affect the will of the AC to exercise its power.

The AC literature mainly focuses on the importance of the questioning by the ACs as the way to deploy power (e.g. Gendron and Bédard, 2006; Spira, 1999). Other skills and strategies involved in exercising the power of ACs are the area of little research. Only Turley and Zaman (2007) describe that the AC is used as threat, ally or arbiter by players in organisation politics. More understanding on the methods of AC power deployment can provide insights into the black box of AC process that explains the AC ineffectiveness. Moreover, the AC with proper will and resources to resolve any audit issues might not successfully enable the good governance outcomes if the skill to exercise the power is not appropriate in the contexts. As discussed further in Section 3.2, the selection of the strategies to influence the outcome by the AC members can be also expected to be driven by the behavioural traits of people involved. An AC member may use the personal appeal strategy towards the parties who value grateful relationship while the management can use the persuasion and coalition strategies towards the AC member or auditor who values smooth relationship.

3.1.4 Content of influence

The content area of influence is mainly shaped by the context, both from inside and outside the board, and the structure of the board (Pettigrew and McNulty, 1998). It is the area derived from the general rules of the game that the directors can provide contributions and have significant impacts. For example, the outer contexts of corporate governance have very much pushed the emphasis of the role of non-executive directors in the boards in the UK. The source of power and the will and skill can also affect the content of influence. The NED who is an expert on certain fields can have major influence when the firm decide to expand into that area. The will, thus persistence, and skill in certain functions can provide the NED with power. In turn, the content of influence provided by the contexts can affect the sources of power and the will of the non-executive directors. Here, the dynamic nature of power plays important

role and re-emphasises the reason why we need to understand all the other components in order to grasp importance and effects of power.

As for the case of AC, the content of influence is mainly driven by the outside contexts, following the major accounting scandals, which then result in the best practices and the AC charter of each firm. However, the extent to which the participants to the AC process, such as executives, management and internal and external auditors, can have influences on any of the content in practice has not been researched much. As mentioned earlier, the content of influence can vary from one area to another, based on the different contexts, power sources and the will and skill involved. Codes, remits or terms of reference which specify the roles and responsibilities of the AC cannot simply be equated to the content of influence because the AC might not in practice fulfil their duties effectively in the same manners specified in the documents.

In summary, this research examines how the power of AC is formed and mobilised by investigating each component in the framework proposed by Pettigrew and McNulty (1998; 1995) and its effect on one another and the whole. The next section discusses an additional perspective from the behavioural traits that is added to the power framework in this research since it deems necessary, given that people are one of the main components in the power exercise and that the framework is developed based only on the presumption of behaviours of the western people.

3.2 BEHAVIOURAL TRAITS

3.2.1 Introduction

The model of the AC adopted by the Thai authority is mainly driven by the Anglo-American model. Its effectiveness in the countries with different cultural values is therefore expected to be different because the varied behaviours of people with different cultures affect the practices (Mead, 2005). This research aims to study the 'behavioural traits', which are the common behaviours of the individuals derived from the influences of national cultural values and the construal of self, of people involved in the AC process.

Values refer to the beliefs about the preferable modes of conducts and ideal terminal goals that are not specific to any object or situation (Rokeach, 1973). The beliefs about the preferable conducts are called 'instrumental values' while those about ideal terminal goals are called 'terminal values'. Values are learned since childhood and serve as standards to guide actions, judgement and attitude of a person (Hofstede, 1991). Some values lie subconsciously in a person so deep that the person holding such values might not consciously know of their existence. Values can change over time but the changes are normally slow. When values of a specific society change, the values of most other societies are also changed in similar directions and, therefore, the differences of values between societies might then end up with marginal shifts only (Mead and Andrews, 2009).

However, individuals in the same culture differ to certain extent from the national cultural values. Variations in the degrees to which the individuals within a specific culture hold those values are observed by several researchers (Triandis, 1995). The impacts of the national cultural value are mediated through individual judgements of each person in the culture (Ting-Toomey and Kurogi, 1998). One of the common explanations used at individual level is the conception of self-construal, particularly in the aspect of how people see themselves separate or connected to the other people (Ting-Toomey and Kurogi, 1998). The mediated behaviours are labelled 'behavioural traits' in this thesis.

No research has been carried out specifically for the effects of behavioural traits on the AC operations although the effects of cultural values on the business, especially accounting, have been recognised for some time. In a research on cultural effects on auditor choice, Hope et al. (2008) examine whether the auditor choices relate to Gray's (1988) secrecy dimension of accounting value. According to Gray (1988), the secrecy value involves culture of less sharing of information to the public. Hope et al. (2008) use Gray's (1988) cultural framework and measure the secrecy level as the sum of 'uncertainty avoidance' and 'power distance' scores deducted by the 'individualism' score, all of which terms are defined by Hofstede (1980). Societies with high level of 'uncertainty avoidance' normally prefer not to disclose information, especially the one that can create controversies, while societies with high level of 'power distance' tend to accept the inequality of power distribution among groups in the societies more. The two values are more likely then to result in secrecy attitude because disclosure of more

information does not seem to create benefits for people with high orientation to these two values. However, societies with high 'individualism' value are characterised by the preference of independence and competition, thus valuing the disclosure of more information. The results of the study by Hope et al. (2008), based on non-financial service firms across 37 countries during 1992–2004, indicate that there is an inverse relation between secrecy score and selection of Big 4 auditors, indicating that management in countries with higher secrecy scores are less likely to provide high quality financial reporting. In another study based on a comparison between disclosures of airlines companies in Malaysia and in Australia, the company in Malaysia which is higher in power distance and secrecy scores, discloses less of the corporate governance statements, when compared to the company in Australia (Christopher and Hassan, 2005), supporting both prepositions of both Hofstede (1980) and Gray (1988). However, the impacts on AC influence are unknown from above two studies. Research into this area would then be needed to gain understanding on how, and to what extent, the AC members are influenced by the behavioural traits when they carry out their monitoring role.

Since according to this thesis, behavioural traits are derived from the national cultural values and are mediated by the self-construal, detailed discussions of both aspects are necessary.

3.2.2 Thai cultural values

Based on nationwide surveys in Thailand, Komin (1990) finds that the instrumental values of Thai people can be categorised into nine value orientations, ranking from most to least psychologically important: ego, grateful relationship, smooth interpersonal relationship, flexibility and adjustment, religio-psychical, educational and competence, interdependence, fun-pleasure and achievement-task. Such classification and ranking are based on the consistent results of two surveys of work-related cultural values of Thai people in government and private sectors, conducted almost ten years apart. The ranking and grouping of values are based on the significance under statistical methods and thus they do not represent the values of each and every Thai people. Overall, the results reveal that individual ego and relationships are considered the most important values while the values towards achievement in tasks are least important. A brief discussion of the nine value orientations follows below.

According to Komin (1990), *ego orientation* ranks the most important value cluster. Individual's ego and strong sense of independence, pride and dignity are the most important aspects of Thai people. Protecting own ego is essential in both the family and business contexts. *Grateful relationship orientation* involves grateful quality of a person and a *bun-khun* relationship whereby helps and favours are given to another person out of kindness and that other person is bounded to reciprocate the kindness in the future. Such *bun-khun* relationship can be manipulated or exploited by those who need power for future connections or business purposes. *Smooth interpersonal relationship orientation* is revealed in a non-assertive, polite and humble personality that Thai people value in order to foster social harmony. *Flexibility and adjustment orientation* refers to the situation-oriented and people-oriented values, as opposed to principle-oriented or system-oriented values. The leniency of laws or principle can then be seen. *Religio-psychical orientation* refers to the use of religion, fate and supernatural events to provide psychological comforts to life. *Education and competence orientation* is characterised by the perception that education is a mean to enhance one's social status, not the results of education that help people. This group of values corresponds to the 'form over content' value where things are obtained as decorative purposes. *Interdependence orientation* involves the values of collaborations and co-existence of people. *Fun-pleasure orientation* involves "seemingly easy-going, fun-loving pleasant interactions, joyful behaviours, and light approach toward things and events' (p.693), which function as supports for smooth interpersonal relationship interaction value. *Achievement-task orientation*, the lowest rank, involves achievement motivation, ambition and hard work. This value group is consistently ranked the lowest although the Thai Chinese-descendants and Thai businessmen rank it a bit higher. It is because the social relations are regarded most important for Thai people, in contrast to the self assertiveness by the American people.

More discussions are made for the first three most important orientation clusters since, as she puts it, "Thai social system is first and foremost a society where individualism and interpersonal relationships are of utmost importance" (Komin, 1990, p. 690). The following section discusses the details of these value orientations and their potential impacts on the Thai AC operations.

3.2.2.1 Ego orientation

Thai people put their own ego at the top priority of life (Komin, 1990). Individual's ego and strong sense of independence, pride and dignity of Thai people are demonstrated through three dominant values: face-saving, criticism-avoidance and *Krengjai*.³

Face saving

Thai people are generally face conscious (Thompson, 1989). Face saving is the same as sensitive ego and making other people lose face is hardly tolerated in Thai society (Komin, 1990). Even at the expense of efficiency, face saving plays a vital part for social networking purposes in Thailand (Welty, 1996) and has an important impact on the business relationships (U.S. & Foreign Commercial Service and U.S. Department of State, 2010).

Face is a concept originated from the Chinese people (Ho, 1976; Hu, 1944). Hu (1944) suggests that there are two types of face in China: *mien-tzu and lien*. *Mien-tzu* refers to the "reputation achieved through getting on in life, through success and ostentation" (p.45). People put personal efforts and manoeuvre in constructing *mien-tzu* because their ego is dependent on external environments. *Lien* refers to "the respect of the group for a man with a good moral reputation: the man who will fulfil his obligations regardless of the hardships involved, who under all circumstances shows himself a decent human being" (p.45). In effect, *lien* represents the society's confidence in the integrity of a person's morality. When people lose their *lien*, they will not be able to function properly in the society. It should be noted that the face referred to in Komin's (1990) study is related mainly to *mien-tzu*. In the western literature, Brown and Levinson (1978) propose that there are two types of face: positive and negative. Positive face is "the want of every member that his wants be desirable to at least some others" while negative face is "the want of every 'competent adult member' that his actions be unimpeded by others" (Brown and Levinson, 1978, p. 67). People are generally expected to be mindful of both the positive and negative face of one another when they engage in any social interaction.

³ *Krengjai* is a Thai word and may be written differently in English, including "*Kreng Jai*" or "*Kraeng Cai*", by different authors. It is referred to as "*Kraeng Cai*" by Komin's (1990).

However, face threatening acts (FTA) are, from time to time, unavoidable during a course of interactions. People are then expected to use politeness to reduce the threats. Depending on the level of seriousness of the threats, the efforts to save face will vary. Brown and Levinson (1978) suggest five super-strategies: do not do the FTA, do it off-record, negative politeness, positive politeness and baldly do the FTA on-record. The first is normally used when the threats of the acts are very high, so the speaker just stops performing the FTAs. In the off-record strategy, the speaker vaguely performs the act in order for the hearer to interpret the act as something else. The negative politeness is used when the speaker tries to preserve the negative face of the hearer. The strategy then involves the act to make sure that the speaker acknowledge the hearer's negative face and will not interfere. The positive politeness is the act of the speaker to accommodate the hearer's positive face want, which is normally through treating the hearer as one of members of the group. The last strategy is used when the speaker does not intend to save face of the hearer, which can be used when face threat is not relevant, such as in case of emergency. How the speaker acts will have effect on how the hearer responds.

Face has two important aspects in interactions: saving one's own face and saving other people's face. Saving of one's own face by the AC members can weaken the AC effectiveness. For example, senior and reputable members of the ACs might not be able to fully grasp the entire complex matters of the companies or all the new, advanced accounting standards. However, fear of face loss may prevent the AC members from asking questions that may reflect their insufficient or little knowledge in a particular area and place too much reliance on the auditors and the management to handle the issue without their involvements. This may end up with no AC members actually understanding the issue but all members keep silent in fear of losing own faces and let the issue pass through. Such practice might be widely acceptable to people who intend to save their face at any costs and become a norms of many AC operations. The fear of face loss which is related to reputation concerns is also evidenced in the western environment on the matters relating to the capabilities of the ACs. Hunton and Rose (2008) argue that the AC members of the US public firm samples who have multiple directorships are less likely to accept the accounting restatements proposed by the auditors in fear of reflections on their competencies and is therefore a threat to their reputations.

Saving other's people face can also affect AC operations. For example, with this cultural value, AC members are expected to stop asking difficult questions or challenging the executives in order to save their face. Such incident can develop into informal communications afterwards to solve the problems in a face-saving way. The same incident can also result in stopping further investigations at all since the face of the executives has already been threatened and nothing can be investigated further. How the ACs react in such situation depend on their will and skill in deploying their power (discussed in previous section) and their facework strategy. Their reactions to the situations determine their effectiveness.

Criticism-avoidance value

Criticism-avoidance value is related to the preserving one another's ego and can be seen as related to saving of other people's face (Komin, 1990). Thai people find it hard to separate ideas or opinion reflected in the criticism from the person making the criticism because the threats to their face make it a personal issue. Therefore, criticism is then taken personally and it will affect social interactions and relationships. Since most Thai people dislike conflicts, this may, in turn, result in restraining from expressing opinion or asking questions altogether (Siriwan, 2000). The avoidance of conflicts might be a result of "inertia, too much consideration for others, fear of danger, or fear of embarrassment" (p. 121). For example, Thai civil servants remain silent when they experience frauds or mismanagement in the organisations (Selaratana, 2009).

Criticism might be unavoidable when, for example, the ACs are involved in the evaluation of the auditor's work, either audit plan, risk assessment, conflicts with management or auditor independence in certain conducts with the management. It can as well affect the interactions between ACs and management when challenging and questioning by ACs are needed. If those challenges and questions are perceived as attacks on ego, the working relationship will be sour and any potential co-operation will become impossible. How an effective AC manages under those situations and still gets the governance results under the constraint of criticism-avoidance value is important to understand the effects of AC's operations.

Krengjai

“*Krengjai*” is a Thai word and can have several meanings in English. It is a basic, significant concept affecting normal interpersonal behavioural patterns in Thailand (Komin, 1990). It can be interpreted as “to be considerate, to feel reluctant to impose upon another person, to take another person’s feelings (and ‘ego’) into account, or to take every measure not to cause discomfort or inconvenience for another person” (p.691). *Krengjai* in many aspects can mean politeness, especially when being referred to as the “behaviour which actively expresses positive concern for others, as well as non-imposing distancing behaviour” (Holmes, 1995, p.5). Holmes et al. (1995) provide certain behaviours of the person with *krengjai*, including complying with others’ requests; avoiding assertions of opinion or needs; reluctance to evaluate colleague’s or supervisor’s performance; and reluctance to ask questions when one has no proper understanding. When used in a hierarchical setting, which is predominant in Thailand, *krengjai* can also mean deference to more powerful others or high status individuals (Klauser, 1993).

With all the definitions discussed above, *krengjai* can certainly be found in the western culture, but not at the same degree or same situations (Holmes et al., 1995). *Krengjai* is instrumental to all behaviours concerning the attempts to maintain social harmony in terms of smooth social interactions. Even after all the political, economic and social changes since 1980s, *krengjai* is still recognised in society as well as in the workplace (Nielsen, 2011; Siengthai et al., 2008).

This *krengjai* value can have also significant impacts on the AC’s ability to challenge and question, which is recognised as a necessary aspect in the AC effectiveness literature found in the western world (Gendron and Bédard, 2006; Spira, 1999). The executive director might feel being imposed on when the AC rigorously challenges or questions their proposals or position. How the AC adopts the *krengjai* value to its oversight role can therefore have a significant impact on the governance process and outcomes.

3.2.2.2 Grateful Relationship Orientation

Grateful relationship orientation comes from two main characteristics of Thai people: the pattern of *bun-khun* and grateful quality in a person (Komin, 1990). *Bun-khun*, a Thai word, refers to “the psychological bond between two persons: one who renders the needy help and favours out of kindness and the other’s remembering the goodness done and his ever-readiness to reciprocate the kindness, not bound by time or distance” (p.691). In other words, *bun-khun* can be interpreted as reciprocity of goodness or exchange of favours and is still recognised as common norms for Thai people, even after all the economic and social changes (Siengthai et al., 2008). The concept of feeling grateful for something someone has done is implanted to all children by parents and elders as a quality of a good person and is one of the highly valued qualities of Thai people. Ungrateful behaviours or actions can result in social condemnations and damages in reputations.

Both the grateful quality of Thai people and the patterns of *bun-khun* can make the work accomplished smoothly but can also be deployed to manipulate other people by people who need power (Komin, 1990). For example, a person who wants power can create gratitude in expectation of favouritism in future. In this sense, the creation of *bun-khun* is comparable to the patronage system where people use relationship in the patronage network to achieve the desired outcome. Patronage thrives in societies where formal authority cannot effectively provide what is needed to the members and in the occupations that rely heavily on social connections (Mead, 2005). This also are comparable to cronyism and nepotism, which are very common in Thai society (Jelatianranat, 2000) where preferential treatments for someone are available and requirements and processes can be altered to accommodate their needs (Vichit-Vadakan, 1989).

Contrary to the negative perception of patronage, another type of relationship that involves exchange of various resources is *guanxi*, a Chinese concept of interpersonal relationship. *Guanxi* can be defined as “a dyadic interpersonal relationship ascribed to or achieved by an individual” (Guo and Miller, 2010, p.270), which is very broad and can include relationship between any parties, such as family members, friends, friends of friends, business partners, or government officers. *Guanxi* is predominant in Chinese business entrepreneurship, where networks are used to establish a business and

then developed to cover trading or strategic partners in the long run. Such a concept of *guanxi* is not predominant in Thailand but can be equated to personal network created for exchanges of resources. Guanxi is different to patronage in the sense that it involves more equal level of power between the parties involved and loyalty and affections play more role than the economic values of the exchanges, unlike patronage where one party is in a more superior position in the relationship (Mead, 2005).

From the governance perspective, grateful relationship orientation can result in informal relationships between staff, management or even the auditor, which promote work efficiency, as in the case of grateful attitude and *guanxi*. On the other hand, it can create an environment that nurtures favouritism or frauds when this value is exploited as in the case of patronage. It should be noted that *guanxi* used in a negative ways can also result in a decrease in audit quality. The *guanxi* between the state-owned enterprises in China, or the *guanxi* between the management and the auditors might result in a decrease in auditor's independence (Liu et al., 2011). The ACs should then be well equipped to get the information on which type of relationship is dominating the business and then, among other things, work closely with the auditors to ensure proper audit plans, accurate risk assessments and high quality audit work. The informal process mentioned in the literature (Turley and Zaman, 2007) can be useful to the AC operations in this case as the ACs might also need to engage in certain types of informal process or communication themselves to gain access to such information.

In addition, if already enrolled into any relationship network, the AC members may 'appear' independent according to all the rules and regulations imposed by the SET but may not actually behave independently. The relationship-orientation mindset might influence the AC members to act in favour of the executives, instead of the other stakeholders, such as minority shareholders, creditors or external auditors. Such practice of favouritism for friends is not unique only to Thailand. Golden-Biddle and Rao (1997) also illustrate this in an US case study where the directors need to choose between the diligent monitoring role and supporting role for friends (i.e. other directors in the board). The temptations to maintain relationships are more relevant in Thailand because there are much higher numbers of listed companies in Thailand controlled by a single family, with the family members of the controlling shareholders being the managers of the companies (Claessens et al., 2000). Such controlling shareholdings are still very much the case after the 1997 East Asian crisis (Khanthavit et al., 2003).

Supporting the executives under this circumstance may benefit the AC members in the future because the same family may control many other businesses that the AC members might be able to rely on in the future. The AC might then be less inclined to side with the external auditors when conflicts between the external auditors and the executives arise. The same can apply in the case of the external auditors where the auditors may also be less willing to issue audit opinion that will upset relationships which might result in losses of other businesses relating to the same family. In certain more worrisome cases, friends of the controlling family are reported to be appointed as independent directors of the companies (SET, 2001), making it more doubtful over the capability of the ACs to perform their monitoring role over the management or to maintain the external auditor independence. However, with the strengthening definition of independent directors required in 2008 discussed in Chapter 4, such kind of directors might be limited.

3.2.2.3 Smooth Interpersonal Relationship Orientation

Thai people are more relationship-oriented than task-oriented (Mujtaba and Pornpatanarak, 2010) and tend to “maintain a friendly and genial relationship between themselves and others who can benefit them” (Runglertkengkrai and Engkaninan, 1987, p.9). This is mainly due to the value that Thai people put on persons. Persons are considered important in every aspect of daily lives. In a study of corporate social responsibility, employee information is found to be the most disclosed matter, with fewer disclosures of environmental information and community involvements (Kuasirikun and Sherer, 2004). In contrast to the Americans who give priority to self-actualisation, ambition and achievement, Thai people focus more on self-control and politeness in order to maintain interpersonal relationship (Komin, 1990). This orientation is formed by the non-assertive, courteous and humble personality, including tendencies towards relaxed and pleasant interactions, to keep the ‘surface harmony’. This is a result of what Komin (1990) calls ‘other-oriented’ social interaction values. Even with modernisation, most Thai people are still unassertive (Siriwan, 2000). *Krengjai* and *bun-khun* norms are also the social values emphasising harmonious social relations and consideration for others (Kamoche, 2000).

As mentioned earlier, to foster the relationship orientation, Thai people are more permissive, which may be demonstrated by unwilling to raise questions or by showing

indifference (Runglertkengkrai and Engkaninan, 1987). This is also confirmed in Hofstede's cultural dimension study, which suggests that "Thailand has the lowest Masculinity ranking among the Asian countries listed at 34, compared to the Asian average of 53 and the World average of 50. This lower level is indicative of a society with less assertiveness" (Hofstede, 2003).

This orientation towards smooth interpersonal relationship can influence the ACs to be considered passive in performing their work according to the roles and structure adopted from the Anglo-American framework, and to perform only rubber-stamping role. Questioning is considered one of the most important techniques that the ACs must rely on to seek out the truths, especially from voluminous data presented in the meetings and from the information being already polished from the executives (Spira, 1999). Without good questioning skill, AC influence can significantly be weakened in all areas since the AC members are already non-executive and lack in-depth knowledge of the company's operations. Showing indifference when certain conflicts arise is clearly related to the efforts to maintain good relationship and *krengjai*. The ACs can even choose to ignore the concerns raised by the external auditors or accept the management's proposal to change the external auditors, for example, without totally agreeing to it, in favour of maintaining the relationship with the company's executives instead.

Komin's (1990) study focuses in cultural values in general, based on the many types of workers, with about half of the samples being government officers. This research complements her work to the AC operation environment where top management, directors and the external auditors—a third party—are involved.

3.2.2.4 Komin's (1990) study vs. other studies on Thai values

Komin's (1990) study is the only recognised research specifically conducted on Thai cultural values available. In order to support Komin's (1990) findings, this section discusses the results of other studies which also cover Thailand in their populations, such as those by Hofstede (1980) and House et al. (2004). Hofstede's (1980) cross-cultural model is one of the most popular models and is frequently used in business research (Kirkman et al., 2006) although it has been criticised by many on various aspects, such as the sampling problem, the validity of the tools used and the use of

countries to categorise culture (McSweeney, 2002; Smith, 2002). House et al.'s (2004) study is carried out much later, emphasising on both the practice and the 'should be' values in each countries.

Hofstede (1980) identifies four dimensions of culture: power distance, masculinity, individualism, and uncertainty avoidance. *Power distance* involves a level of acceptance of power and wealth inequality among people in the society. *Masculinity*, versus femininity, reflects the typical characteristics of men against women where men's values are generally related to assertive and competitive while the women's values are modest and caring. *Individualism*, as opposed to collectivism, represents a culture with loose ties between individuals and nobody is expected to take care of other people who are not within the immediate family. *Uncertainty avoidance* relates to tolerance for ambiguous and uncertain situations. Later, another dimension called "*long-term orientation*" is added (Hofstede and Bond, 1988). This dimension, based on a Chinese Confucian concept, represents the preferences of a culture for a long-term and traditional view of time. The values relating to long-term orientation are thrift and perseverance while the values relating to short-term orientation are obligations to traditions and face saving. The rankings for all the five dimensions for Thailand are shown in Table 3-1. The rankings of the US, the UK and the other countries where the original models of the corporate governance and AC are from are also presented in the table for comparative purposes.

Table 3-1: Hofstede's (1991) cultural dimension rankings

Countries	Power Distance	Masculinity	Individualism	Uncertainty Avoidance	Long-Term orientation
Thailand	64	34	20	64	56
Singapore	74	48	20	8	48
UK	35	66	89	35	29
USA	40	62	91	46	29
World	55	50	43	64	45

Source: Hofstede (1991).

Based on data collections from 62 societies around the world, House et al.'s (2004) study nine dimensions of cultural values: power distance, uncertainty avoidance, assertiveness, institutional collectivism, in-group collectivism, future orientation, performance orientation, humane orientation, and gender egalitarianism. The definitions of power distance and uncertainty avoidance are generally similar to those

of Hofstede (1980). According to House et al. (2004), assertiveness refers to the degree that members are assertive, confrontational and aggressive in social relationships. Institutional collectivism describes the degree that the institutional practices encourages and reward collective distribution of resources and collective action while in-group collectivism is the dimension of collectivism that is related to the level of family integrity, such as the level of expression of pride, loyalty and cohesiveness in the organisations or families. Future orientation refers to the level of individuals engaging in the future-oriented behaviours, such as planning, investing in future and delaying individual or collective gratification. Performance orientation describes the level of encouragement of performance improvement, innovation high standards and excellence while humane orientation refers to level of encouragements of humane relationships, including being fair, altruistic, friendly, generous, caring and kind to other people. Gender egalitarianism refers to the degree where the organisation or society promotes gender equally. Summaries of selected dimensions are presented in Table 3-2.

Table 3-2: House et al.'s (2004) cultural dimension scores

Countries	Power Distance	Assertiveness	Societal In-group Collectivism	Uncertainty Avoidance	Future Orientation
Thailand	5.63	3.64	5.70	3.93	3.43
Singapore	4.99	4.17	5.64	5.31	5.07
UK	5.15	4.15	4.08	4.65	4.28
USA	4.88	4.55	4.25	4.15	4.15
World	5.17	4.14	5.13	4.16	3.85

Source: House et al.'s (2004).

According to both scores by Hofstede (1991) and House et al. (2004), Thai people tend to accept moderately high power distance when compared to the more developed countries like the UK and the USA, reflecting acceptance of inequality in the society. This reflects the acceptance of the hierarchical setting in the society, which can also be inferred from Komin's (1990) work. In Thai society, the junior people must respect the senior and the senior must be generous to the junior (Siriwan, 2000). A good boss is more likely a benevolent autocrat, acting like a good father, while the subordinates tend to obey and wait for instructions, instead of getting started with their own initiatives (Hofstede, 1991). All the top three values identified by Komin (1990)—care of other people's ego, being grateful to other people and pleasant interpersonal relationship—are instrumental for the society to this relatively high power distance of Thai people.

Thailand's ranking on masculinity is rather low, reflecting the moderately high feminine culture of less assertive, less competitive and less confrontational (Hofstede, 1991). People are expected to be modest and focus on the quality of life more than the performance. Managers should resolve the conflicts by compromise and negotiation, or obtaining consensus, rather than decisive and assertive. The low score on assertiveness in the study of House et al. (2004) confirms the stress on lower levels of confrontation and aggressiveness in social relationships. This can as well be described as permissiveness (Runglertkengkrai and Engkaninan, 1987), which is necessary to maintain smooth interpersonal relationship of people (Komin, 1990).

The very low ranking for Thailand on individualism, especially when compared to those of the US and the UK, reflect a rather collectivist society. According to Hofstede (1991), this indicates that a commitment to the member group and loyalty amongst group members is important and the members are willing to ignore most other societal rules and regulations in exchange for relationships. People prefer to maintain harmony and avoid direct confrontation. This is consistent with the high score of societal in-group collectivism (House et al., 2004). The results in this dimension is partly disagreed by some Thai scholars who see Thai culture as an individualism where maintaining individual's ego is important (Komin, 1990; Runglertkengkrai and Engkaninan, 1987). Such individualistic value based on individual ego helps shape the efforts to maintain one's dignity at all costs, resulting in the importance of the face saving customs among Thai people (Komin, 1990). The other part of collectivism characteristics about strong relationships and caring for other people are, instead, categorised as grateful relationship and smooth interpersonal relationship orientations by Komin (1990), which are ranked the second and third most important value orientation of Thai people. The difference may be the results of time lags between each research, with Hofstede's results based on his data from late 1960's (Earley, 1999).

The moderately higher ranking of uncertainty avoidance for Thailand indicates the low level of tolerance for changes and uncertainty. According to Hofstede (1991), this stronger uncertainty avoidance should result in an effort to minimize the level of uncertainty maintaining many strict rules, laws, policies, and regulations. People tend to have emotional needs for rules and regulations (although they may not strictly comply with the rules), value time, have urge to work hard, and suppress eccentric ideas. They are more likely to be motivated by security, rather than achievement, and

esteem or belongingness. This value may not be agreed by many people who see Thai laws and regulations as rather relaxed, especially when compared to the US whose ranking is much lower than Thailand but the laws and regulations are generally much stricter. This value by Hofstede (1991) cannot be easily reconciled with the values identified by Komin (1990). On a contrary, Hofstede's (1991) explanation of the urge to work hard is rather opposite of the results by Komin (1990) which indicate that task-orientation is the last priority of importance for Thai people. Moreover, the ranking by House et al. (2004) reveals that Thailand is actually quite low on the uncertainty avoidance, implying higher tendencies towards informal interactions and more tolerance of breaking rules.

Thailand's moderate ranking on the long-term orientation by Hofstede (1991) may reflect a moderate tendency towards perseverance with also moderate degree of obligations towards compliance with traditions and face saving. However, the future orientation score for Thailand in House et al.'s (2004) study is rather low compared to the world average, reflecting the acceptance of the status quo rather than planning for the future. This dimension of culture has not been subject to much scrutiny by Thai researchers. However, face saving is considered to be quite a strong tradition in Thailand as it relates to the ego preservation (Komin, 1990).

In conclusion, Komin's (1990) findings on the relationship orientations are substantially confirmed by the findings of Hofstede (1991) and House et al. (2004). Thailand is, on average, characterised by people who value relationships with the in-groups and care for the egos of other people in the group. These characteristics can have many impacts on AC influence over the external audit oversight process, such as unwillingness to aggressively probe and challenge management and auditors, the abilities of the AC or the external auditors to maintain their independence, given the relationship orientation and high tendency of frauds being committed through uses of network.

It should be noted that Komin's (1990) study was carried out more than 20 years ago and, after a long period of Americanisation and westernisation in Thailand, certain values may have shifted, such as being more individualistic (Klausner, 2002). Particularly in more recent research, Thai society is found to be primarily collectivistic but is moving towards a mixed-value orientation with individualism, especially in

newer generations (Murphy et al., 2010). However, several other studies still find that those values are still prevalent in Thai societies (Nielsen, 2011; Siengthai et al., 2008).

3.2.2.5 Impact of cultural values

The impact of the cultural values on Thai people has not been subject of much research. For those who did, four of the values of Thai people studied by Hofstede (1991)—large power distance, moderate high uncertainty avoidance, low individualism and low masculinity—are confirmed in the environment of Thai employees working in both the Thai and US owned companies (Sorod, 1991). These national cultural values are also found to have stronger impacts over managerial values than the organisational culture since the Thai employees in both Thai- and US-owned companies in the study hold similar levels of values when compared to the values of the US employees as found by Hofstede (1980). However, the degrees of difference vary between Thai employees in the Thai- and US-owned companies, suggesting some impacts of organisational culture and practices.

Based on a study on deploying influence strategy to their supervisors, peers and subordinates, Fu et al. (2004) find that persuasive strategy is considered the most effective, in term of the statistical mean obtained from the survey of managers of 12 nations⁴ while the relationship-based strategy is rated the lowest. The persuasive influence strategy includes rational persuasion, inspirational appeal and consultation. The relationship-based strategy involves giving gifts, informal engagement (making requests while in the informal environment), personal appeal (requesting for personal favours), socialising (interacting in the area of interests before the requests) and exchanging. Fu et al. (2004) argue that the managers may feel that those activities, such as giving gifts, are inappropriate or irrelevant to business settings. The managers in a high uncertainty avoidance culture, even with preference to persuasion strategy, tend to use relatively more of relationship-based strategy than the counterparts from the lower uncertainty avoidance culture.⁵ Moreover, those managers in a high uncertainty avoidance culture tend to use relatively less of persuasive strategy when compared with the managers from the lower uncertainty avoidance culture. The managers from higher

⁴ Including China, France, Hong Kong, India, Japan, Mexico, Netherlands, New Zealand, Taiwan, Thailand, Turkey and the US.

⁵ Based on the cultural value scores from House et al. (2004).

in-group collectivism culture are also reported to favour more of the relationship-based influence strategy than those from lower level of collectivism.

As mentioned earlier, Thailand is relatively high on the collectivism value according to House et al. (2004). The results of the study by Fu et al. (2004) might seem consistent with the value orientation of Thai people over relationship where people should preferably use the relationship-based strategy in exercising influences. However, the actual strategies to be deployed by the Thai AC need to be investigated since the contexts, roles and characteristics of the subjects in the study by Fu et al. (2004), being the business managers, in many aspects are different from those of the independent directors of the company as in the case of the AC. It is the aim of this research to shed light on this matter.

Bik (2010) finds that cultural values are also found to impact the behaviours of the external auditors, such as knowledge sharing within the audit team, risk awareness and analysis, fraud awareness and engagement partner involvement in the audit. Based on the interviews and questionnaire surveys of experienced auditors of one of the Big-4 audit firms, covering 29 countries, the higher level of in-group collectivism and higher power distance are related to lower audit engagements by the audit partners while high uncertainty avoidance is related to more involvements by the audit partners. Since AC is very high in the hierarchy of the company, ACs with high power distance might not act as participative leaders in teamwork. Moreover, low uncertainty avoidance might lead to less involvement by the AC members since they are capable of accepting more of the uncertainty and ambiguity. The higher level of in-group collectivism also results in more hand-offs by the leaders because of willingness to rely more on the team members. The pivotal responsibility of the ACs is to monitor and oversee the performance of the management and the external auditors and the AC members, to a certain extent, are similar to the audit partners in term of their remoteness to the actual operations and information received. It might then be argued that the Thai AC members might thus be less participative in their operations because Thailand is, according to the study by House et al. (2004), rather high on power distance and in-group collectivism and rather low on uncertainty avoidance.

3.2.2.6 The focus of the thesis: Krengjai

Based on the first three cultural value orientations by Komin (1990), this thesis chooses to focus the study only on the most prominent value, krengjai. The multifaceted definition of krengjai as discussed above makes krengjai related to two of the first three orientations. As raised by Komin (1990), krengjai is central to the protections of ego of the others in the society while Kamoche (2000) believes that it is also the social value emphasising on harmonious social relations and consideration for others, i.e. fostering smooth interpersonal relationship. Krengjai also means deference to the more powerful others (Klauser, 1993), which is connected to the other part of the conceptual framework for this thesis, i.e. power.

Krengjai also supports several dimensions of cultural values of Thailand in the intercultural studies by Hofstede (1991) and House et al. (2004). The rather high power distance scores of Thailand by both studies reflect the acceptances of higher status of certain groups of people. Krengjai is illustrated in the deference to the people with higher status. The rather low masculinity relates to the less aggressiveness, modest and caring, in which krengjai plays a vital supportive role by making people to be reluctant to impose of the others or by taking efforts not to cause discomfort or inconvenience for another person. The non-imposing behaviours by people with krengjai value also support the low individualism and high in-group collectivism dimensions of Thailand to maintain harmony and to avoid confrontations.

3.2.3 Construal of self

Intuitively, individuals in the same culture differ to certain extent from the national cultural values. Variations in the degrees to which the individuals within a specific culture hold those values are observed by several researchers (Triandis, 1995). Based on the review of the individualism-collectivism literature from 1980 to 1999, Oyserman et al. (2002) find that the differences among countries are neither consistent nor as substantial as Hofstede (1980) suggests.

The national cultural value is the general beliefs of most people residing in a particular nation while its impacts on one's behaviours are mediated through individual judgements of each person in the culture (Ting-Toomey and Kurogi, 1998). One of the

common explanations used at individual level is the conception of self-construal, particularly in the aspect of how people see themselves separate or connected to the other people (Ting-Toomey and Kurogi, 1998). Such mediation may result in compromised behaviours or separate different behaviours under different circumstances, as in the case of hybrid identity, where non-executive directors incorporates two or more contradicting dimensions of identity at the same time (Golden-Biddle and Rao, 1997). Markus and Kitayama (1991) argue that the most general, but vital, self-regulatory scheme that one uses to evaluate, organise and regulate experience and action involves the independent construal and the interdependent construal of the self.

Independent construal of the self derives from the view that a person's behaviour is mainly structured and formed by consideration of one's own internal repertoire of thoughts, feelings and actions, rather than a reference to those of the others, leading to the conception of self as an autonomous, independent person (Markus and Kitayama, 1991). The internal attributes of the independent self comprise of core inner attributes and the 'self-in-relation-to-others' attributes. The former is relatively independent and stable over time and across contexts and is principally used for a basis of forming the behaviour whenever possible. The latter is used in social relation when others are involved, and is much less important to the self than the former. When there is a need to be responsive to the others or the social environment, the person with independent self construal often strategically determines the proper ways of inserting the internal attributes of the self, using the others as a verification and affirmation of those inner attributes, not as the main influences in forming their behaviour. The main tasks of persons with independent self is to strive for their own potentials and goals, to become independent, to attain uniqueness, to be direct and to express their self. As an example of the independent construal of self, Geertz (1974) describes the western conception of a person as "bounded, unique, more or less integrated motivational and cognitive universe; a dynamic centre of awareness, emotion, judgment, and action organized into a distinctive whole and set contrastively both against other such wholes and against a social and natural background" (p.31).

On the other end, *interdependent construal of the self* emphasises on the connectedness of the self and the others in the society (Markus and Kitayama, 1991). Therefore, thoughts, feelings and actions of the others in the relationships will be parts of the

primary sources of references for one's behaviour. The interdependent self is complete and matters only when it plays a proper role in social relationships. This view of the self considers oneself a part of the social context and promotes oneself to fit in, which in turn forms the meaning and fulfilment of the interdependent self. The internal attributes, such as opinion, judgements and personal characteristics, of the person with the interdependent self construal are normally controlled to ensure the priority of interdependence with other people in the group. Examples of interdependent self include the characteristics of sympathetic concern for the others, respect and share of the others' feelings, smooth interpersonal relations, and flexibility of own behaviour in accordance with the relationship. Therefore, the focal essence of the interdependent self is the relationship with the others, not the inner self (Esyun et al., 1985). The 'self-in-relation-to-others' attributes, rather than the internal attributes, of the person with the interdependent self construal heavily affect the social interactions by guiding the person's behaviours. There are various aspects of the interdependent self to be used based on each particular contexts and the situations, such as family aspects to be used at home with family or the co-worker aspects to be engaged at office (Morisaki and Gudykunst, 1994). The others in the relationship are also expected to be mindful of the feelings, thoughts or goals of the counterpart and to act appropriately to satisfy them, which is quite contrary to the independent self where the emphasis is on expressing the self and being direct to the others on what is wanted. The attentions of the goals, desires or feelings of the others by the interdependent self are mainly for the in-group members and for those who are expected to reciprocate only (Markus and Kitayama, 1991). Those who are outside of the groups are normally treated differently.

The types of self construal can have the impacts on cognition, emotion and motivation of a person (Markus and Kitayama, 1991). On the cognition, those with interdependent selves are expected to be more attending to the others than those with independent selves, i.e. responsiveness to the attributes of the others or the self-in-relation-to-other. Since the internal attributes of the person with interdependent selves are normally restrained to meet the expectations of the others and the contexts, the knowledge about the characteristics and behaviours of others is normally accompanied by the contexts, with no generalisation of the knowledge of the others or the selves.

On the impacts on emotion, Markus and Kitayama (1991) argue that the emotional experiences and feelings vary in accordance with the construal of self. The person with

independent self is also more likely to act upon those emotions that are considered invalidating of his/her inner attributes than the person with interdependent self who cares more about the interpersonal contexts rather than his/her private feelings. Therefore, the frequent expressions of certain 'ego-focused' emotions, such as pride, anger, and frustration, tend to be related to the person with independent self for these emotions are mainly referring to the one's internal attributes (needs, goals, desires or abilities). On the contrary, the person with the interdependent self is more likely to express or experience the 'other-focused' emotions, such as shame, sympathy and feelings for interpersonal communion, as a result of sensitivity and caring to the others and the wills to maintain relationship between people. Since negative emotions may interrupt the interpersonal relationship with the others, the person with the interdependent self tends to avoid those emotions with in-group members.

The self construal can also have consequences on the motivation of a person (Markus and Kitayama, 1991). Based on a rather comprehensive list of social motives of human beings compiled by Murray (1938), Markus and Kitayama (1991) argue that some motives are particularly relevant to persons with interdependent selves because they foster the connectedness of people. Such motives include, for example, *similance*, the need to agree and imitate; *deference*, the need to respect and follow a superior; *nurturance*, the need to help and protect; or *abasement*, the need to conform and agree to punishment or self-deprecation. The motive to maintain positive view of the self can be common between the persons with independent selves and those with interdependent selves but through different aspects. The independent selves may feel happy about themselves by expressing their inner attributes, claiming personal achievements, and playing down the one's own failures while the interdependent selves may achieve the same by actions that can serve the interdependence of people, maintaining proper place in the relationships or promoting the goals of the others. The independent selves are more likely to over-rate their abilities and under-rate the others. The interdependent selves tend to more polite and modest—blaming themselves for failure and giving benefits to the easy contexts for success.

However, each individual has both independent and interdependent construal of self (Morisaki and Gudykunst, 1994). This is a matter of which construal predominates in a person. Even with predominant interdependent construal of self in Japan, persons use independent self construal to guide their behaviours in dealing with outer-group

persons that are not in close relationship while still maintaining the interdependent self construal with in-group members for guiding the behaviours. They argue that the components of self-concept can be used to confirm the co-existence of the independent and interdependent construal of self. The self-concept refers to “the set of cognitive representations of the self available to a person” (Turner, 1987, p.44) and suggests that a person’s identity, or self, is dependent on three fundamental categorisations: human identity, social identity and personal identity. Human identity is the features that differentiate human beings from the other life forms. Social identity is the representations of self that a person shows to members of the groups while personal identity is the aspect of self that makes a person unique. Morisaki and Gudykunst (1994) contend that social identity is similar to the interdependent construal of self and personal identity is similar to the independent construal of self.

Further, Morisaki and Gudykunst (1994) also argue that the independent construal of self being referred to by Markus and Kitayama (1991) is predominant in the individualist cultures, like those in the western world, while the interdependent construal of self is the majority in collectivistic cultures, as in the case of Japan. However, each culture also has people with both independent and interdependent construal of self. There exist people with predominantly independent construal of self in collectivistic culture and there are also people with predominantly interdependent construal of self in individualistic culture. As an example, women in the United States, the nation that has a predominant individualistic culture, are more engaged in the interdependent socialisation while men are more likely to be active in independent socialisation (Gilligan, 1993). Similarly, Triandis (2004) suggests that within the same culture there are both individuals who are idiocentric and allocentric.⁶ Although individualist cultures normally have somewhere between 35 and 100 per cent idiocentric people, they also have up to 35 per cent allocentric people and collectivist cultures similarly can have up to 35 per cent idiocentric people.

⁶ Idiocentric and allocentric individuals are those who think, feel, and behave like people in individualist and collectivist cultures, respectively where “idiocentrics were found to be high in expressiveness, dominance, initiation of action, aggressiveness, logical arguments, regulation of flow of communication, eye contact, tended to finish the task, and had strong opinions. Allocentrics were high on accommodating and avoidance of argument, and they shifted their opinions more easily than did idiocentrics” (Triandis, 2004, p.90).

Such co-existences of the predominantly independent construal of self in collectivistic culture, or vice versa, do not necessarily result in the conflicts or situations with one side being at loss (Morisaki and Gudykunst, 1994). For example, the individualistic values of self-direction can be promoted as goals of the whole group, serving the collectivistic culture, while the self-restraint value of people with predominant interdependent self construal do not harm the other people in a predominantly collectivistic culture (Schwartz, 1990).

The literature suggests that most Thai people are likely to have interdependent self-construal. The construal of self by each AC member and the related counterparty can determine the interactions between those parties and thus affecting the effectiveness. For example, an AC member with an interdependent self who possesses nurturance motive and sympathy behaviour can treat the same matters differently, depending on who they interact with and whether they are considered in-group membership or not. The construal of self then can affect the will and skill to use the power. The AC member needs to maintain the relationships with the executives but also assumes a monitoring role over their work. Even with the grateful relationship orientation of most Thai people, the actions and behaviours of AC members to solve such the hybrid identity (Golden-Biddle and Rao, 1997) will be based on their integrity and their construal of self. The knowledge of how AC members react to such environment can contribute to the understanding of the impacts of the cultural values on the AC content of influence.

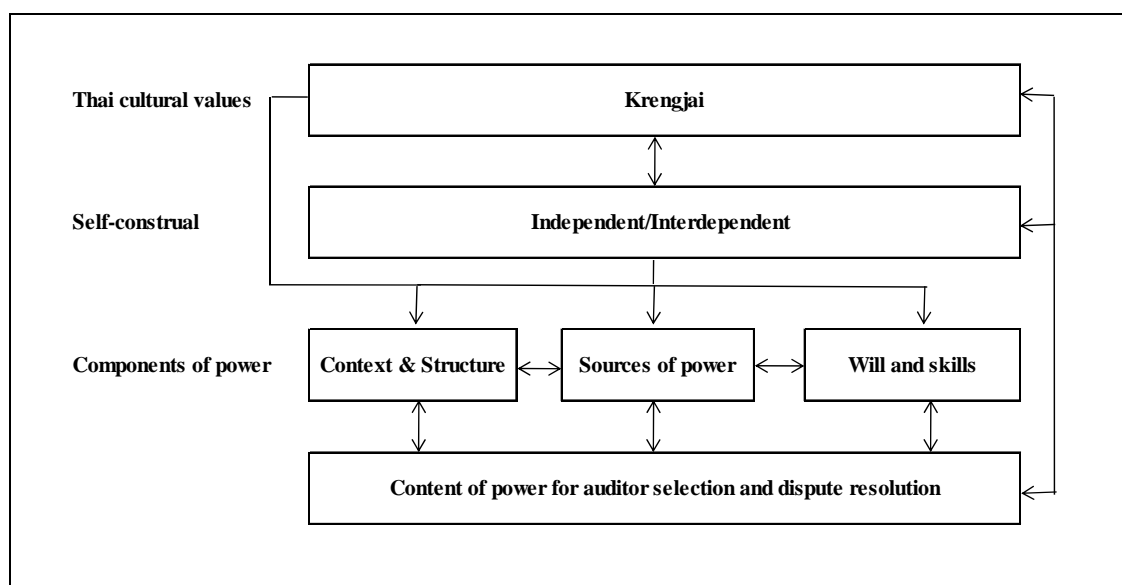
As mentioned earlier, there are different levels of culture, e.g., at national and individual levels. The extant studies using the national cultural values as a priori thus may assume all the people in the country behave in the same manner, easily resulting in inconclusive findings or insignificant relationships. This thesis however studies the participants with no such pre-assumption and thus investigates impacts of the cultural value, together with the individual self-construal at individual level. The aim of the thesis is to examine ACs in different institutional and cultural contexts. More specifically, the researcher is interested in the behaviour of the AC and AC participants and how the behaviour is conditioned by the cultural context. This thesis labels this as “behavioural traits”.

3.3 CONCLUSIONS

In response to the calls for alternative theoretical study for the AC effectiveness by many researchers, this chapter propose to study the AC operations and processes through the framework of behavioural traits and power deployments, including the contexts of power, the sources of power and the will and skill to use the power. People factor is scarcely studied in the AC literature. Paying attention to the two main unexplored factors—their behavioural traits, and their will and skill to deploy the power by individual AC members—should be able to provide better insights into the AC process and answers to varied effects of the AC in the literature.

As discussed in Chapter 1, the limitations of resources and time for a three-year program of PhD study, especially the limitation of the length of the thesis, the scope of behavioural traits is limited only to the most prominent trait, called ‘krenjai’. Moreover, the AC process studied is limited to the areas of auditor selection and resolution of disputes between management and external auditors, the two areas where empirical findings are still mixed. The overall framework for the thesis is thus limited to the areas shown in the schema below.

Figure 3-2: Conceptual framework focussed in the thesis



With the understanding of the conceptual framework to be used in this research, next chapter discusses the contexts of the requirements and codes of the AC in Thailand and the methodology of this research.

CHAPTER 4 : THAI REGULATIONS/CODES AND RESEARCH METHODOLOGY

The research gaps identified in Chapter 2 show lack of AC research in emerging markets and the conceptual framework in Chapter 3 emphasises the needs to understand the contexts and behaviours of the AC in actual operations of its oversight roles. This chapter provides a regulatory context of the AC in an emerging market, Thailand, and discusses the research methodology employed to gain understanding of the context, behaviour and the power of the AC. The regulatory contexts discussed in this chapter cover the overall corporate governance requirements, the AC requirements and codes, and the requirements for communications between ACs and external auditors. In the research methodology section, the research method used in this research is discussed, together with the details of data collections and analysis.

4.1 CORPORATE GOVERNANCE REQUIREMENTS IN THAILAND

4.1.1 Overall corporate governance requirements

In response to the 1997 Asian economic crisis, the National Corporate Governance Committee (NCGC) was established in 2002 under the government's initiative to oversee the corporate governance improvement in the country. It puts forwards its policy to protect the investors, and promote board accountability and transparency based on three disciplines: regulatory disciplines, market disciplines and self disciplines (NCGC, 2010). The regulatory disciplines involve mainly the improvements of the related laws, such as amendments of laws for protections of minority shareholders, issuances of regulations by the Stock Exchange of Thailand (SET) and Securities and Exchange Commission (SEC) to set up and define the roles of the AC, to require more disclosures in filings, and to strengthen the rules of independent director appointment. The market disciplines are concerned with the uses of market to foster the good governance environment, such as encouraging institutional investors to be more active in shareholders' meetings, and arrangement for voluntary surveys of corporate governance compliance and of annual general meeting of shareholder arrangement of the listed companies to take place. The self disciplines are the pushes for each

company to take more active role of corporate governance, such as the practice of corporate governance based on the guidelines provided by the SET, or the training courses provided by the Institute of Directors (IOD).

The first corporate governance guidelines for Thailand, called the “15 Principles of Good Corporate Governance”, were introduced in 2002 by the SET. In 2006, it was updated, with the name changed to “The Principles of Good Corporate Governance for Listed Companies 2006”. The code is principally based on the OECD Principles of Corporate Governance and certain recommendations from the CG-ROSC⁷ (SET, 2006). The code suggests the governance principles in five areas: shareholders’ rights, equitable treatments of shareholders, roles of stakeholders, disclosure and transparency, and responsibilities of the boards. It also contains certain guidelines for implementations. In summary, the first section, the rights of shareholders, requires the boards of directors to include all statutory rights of the shareholders in the corporate governance policy of the company and ensure the sending of advance notice for meetings, facilitation of the participation of the meeting and voting. The chairman of the board should also allocate enough time and encourage shareholders to participate in the meeting where all directors should be present. The second section, equitable treatment of shareholders, focuses on the rights of the minority shareholders whereby the board should offer opportunity for them to propose issues for the meeting, promotes the use of proxy forms for those who could not join and design the process to vote on individual nominee of directorship. On the third section, role of stakeholders, the board should identify each group of stakeholders and their rights, establish channel for them to communicate their concerns with the company, such as through independent directors, and consider all concerns over environmental and social issues. On the fourth section of the code, disclosure and transparency, the boards should disclose the annual registration statements to public, with a summary of corporate governance policy, in both Thai and English. The board should as well provide statements showing their responsibility for the company’s financial reports and should provide details of their roles, activities and task accomplished, including the remunerations of each member.

⁷ CG-ROSC is short for “Corporate Governance – Reports on the Observance of Standards and Codes”, which is a report of assessment of the country’s status of corporate governance initiated by the World Bank and the International Monetary Fund (IMF). Thailand has joined such initiative since 2004.

The last section of the code on the responsibilities of the board recommends the practices for board structure, committees, role and responsibilities, meetings, self assessment, remuneration and trainings of board and management (SET, 2006).

Examples of the last section of the code include the following suggestions:

- CEO and chairman of the board should not be the same person.
- Chairman should be an independent director.
- One-third of the board should be independent directors, with a minimum of three independent directors in any board.
- Another two committees should be set up: nomination and remuneration committees, with the majority of the committee being independent directors. It should be noted that the audit committee is required by the regulator, not a recommendation.
- Corporate governance policy should be established, approved and reviewed for compliance at least annually.
- Written code of conduct should be put in place.
- The board should review the conflicts of interests thoroughly based on clear guidelines.
- The board should ensure the internal control system is in place and audited annually.
- The non-executive directors should from time to time meet between themselves without management presence.
- The board should encourage continued training related to corporate governance for all parties.

When compared to the UK Corporate Governance Code (FRC, 2012b), the Thai code is more explicit on the board's responsibility under sections one to three. However, the guidelines in sections four and five of the Thai code are much less specific, especially in the area of non-executive directors, remunerations of the directors and the institutional shareholders. For example, the UK code suggests that the expected time commitment should be communicated to the NED upon appointment while the NED should ensure they can devote sufficient time for the assigned role and declare the time to be spent on other commitments the NED already has. Moreover, the NED's remuneration should not be tied to any firm's performance related measures, including share options. On the remuneration of the executive directors, the UK code suggests

that the performance-based portion should be structured to correspond with the longer term success of the company. With limited detailed guidelines on NED appointment and remuneration by the Thai code, the effectiveness of the AC in Thailand might be in doubt, in term of, for example, time contribution for rigorous monitoring.

In comparison with the requirements of Sarbanes-Oxley Act (SOX) (2002) of the US, the governance in Thailand is rather weak in the area of improving auditor independence and internal control effectiveness. There are no rules or codes in Thailand requiring the AC to review or approve the engagement of non-audit services from the auditor or prohibiting the auditor from providing certain types of non-audit services to the client. Thai regulators also do not require any reporting details of communications by the auditor to the AC in term of all alternative treatments of financial information within generally accepted accounting principles that have been discussed between the auditors and the management or other material written communications between the management and the auditor, such as schedule of unadjusted errors discovered by the auditor, as in the case of SOX (2002, Section 204). Without these stringent requirements, it may be doubtful whether Thai ACs would have enough information for them to challenge the adequacy and completeness of the disclosures in the financial reporting prepared by management or to investigate the internal control effectiveness, especially with the literature suggesting that the negotiations and compromises that the auditor might have already made with the management are not known to the AC (Gibbins et al., 2007).

It should be noted that Thai CEOs and CFOs are not required to certify the company's internal control effectiveness and the Thai auditors do not need to issue an attestation report on the internal control effectiveness of their clients, as in the case of SOX (2002). However, the Thai SEC (2005b) does require audit partner rotation every five years, the same as SOX requirement, but Thai regulators do not require that the other partners involved in the same audit client, not in the capacity of lead partner, are rotated out every seven years, with a two-year break, as in the US law.

4.1.2 Audit committee requirements and codes

The Thai SEC requires an establishment of AC by all listed companies in the SET by the end of 1999 while the practice of AC was new to many Thai listed companies at the

time. The Best Practice Guidelines for the Audit Committee (SET, 1999), referred to as the Thai AC guidelines in this research, was issued by SET in 1999 for all listed companies to follow. The guidelines cover the objectives of AC, its composition and qualifications of members, independence and responsibilities, and reporting requirements. In brief, the AC must consist of at least 3 members, all being independent directors and at least one capable of reviewing for the financial reporting reliability. The term of AC members can range from 2 to 5 years and the renewal should only be once. The AC member must not be an employee of the company or its associates or engage in any business transactions that may impair the independence of the AC functions.

According to SET (1999), the main responsibilities of the AC include the reviews of financial reporting, internal control, related parties transactions, compliances with laws and regulations; recommendation of the auditor appointment and fee; and preparation of AC report to be included in the annual report. It is also responsible for reporting the significant conflicts of interests, frauds, irregularities, material control weaknesses, or major breaches in laws to the boards of directors for corrective actions within the timeframe the AC considers appropriate. However, if the board of directors does not rectify the matters within the specified timeframe, the AC or any of the AC members can report such incident to the SET or SEC. This last guideline can be viewed as a tool to promote the AC independence. However, its practicality is doubtful. An AC member who does so may result in serious conflicts with the executives and the company management, including the future relationship and reputations in the market. The likelihood of complying with such guideline is even less given the relationship orientation values of many Thai people discussed in Chapter 3.

The other roles of the AC in relation to the external auditors suggested by SET (1999) include:

- Holding a meeting to discuss matters with the auditor at least once a year without the presence of the company's management.
- Providing opinion in annual reports on suitability of the auditor.
- Reviewing for appropriate and effective internal audit and control systems in cooperation with internal and external auditors.
- Review of internal audit plan, in co-operation with internal and external auditors.

- Holding meetings with the external auditor to discuss problems and limitations faced during the financial statement audit.
- Questioning the management and the external auditor for the existence of any significant financial reporting issue discussed during the accounting period, and the manner they are resolved.
- Inquiring external auditor on changes in accounting standards or regulations affecting the company.
- Discussing with the management and the external auditor on significant issues raised by legal counsel.
- Reviewing the management representation letter and inquiring the external auditors for any concerns.
- Reviewing plan for electronic data processing process and controls, in co-operation with internal and external auditors.
- Inquiring the scope of work performed by the external auditor on Management's Discussion and Analysis (MD&A) section of the annual report.
- Considering whether it is appropriate for the external auditor to meet with the full board of directors.
- Providing copies of the minute of AC meetings to internal and external auditors.
- Evaluating the AC work by also requesting the inputs from the external auditor.

It is noteworthy that, in 2010, the SEC has issued new guidelines for the ACs, called The Audit Committee Handbook (SEC, 2010). Such new guidelines provide more detailed suggestions in many areas and include few additional roles of the ACs. The updates from the new guidelines are not the main focus of this research because they are just recently issued, right before the data collection period and no interviewees indicated that they had followed the new guidelines yet and many had no knowledge of these new guidelines. The discussions in all chapters of this thesis thus focus on SET (1999).

In relation to the AC's specific oversights over the external audit, Thai laws and code cover the three main areas—auditor appointment and remuneration, auditor independence and annual audit cycle—as follows.

Auditor's appointment and remuneration

One of the responsibilities of the Thai ACs, as specified by SET (2008), is to “consider, select and propose for appointment an independent person to be the auditor of the company and propose the remuneration of such person...” (p.298).⁸ The existing company's laws require the external auditors to be appointed and remunerated at the annual general meetings of shareholders while it is the board of directors who needs to propose them (Public Limited Company Act, 1992). With the setup of the AC as a sub-committee of the board, the AC is then expected to propose such appointments to the shareholders via the board of directors.

The Thai AC guidelines (SET, 1999) suggest that such responsibility is to be accomplished by “considering the creditability, the adequacy of its resources, the audit firm's workload and the experiences of the audit team” (p.313). SET (1999) however does not provide guidelines on how the AC should evaluate whether the auditor's remuneration is appropriate. The newer AC guidelines (SEC, 2010), which has just been released right before the fieldwork of this research, recommend that the auditor remuneration should be compared to the peers in the same industry. However, the new Thai guidelines still do not recommend the ACs to obtain information about the audit firm's own internal quality control procedures or the audit firm's annual transparency reports or to ensure the effective audit can be conducted for such a fee, as in the case of the UK's Guidance on Audit Committees (FRC, 2012a).

Oversight of auditor's independence

There are no recommendations for the ACs to inquire about the auditor's independence in the Thai AC guidelines (SET, 1999). However, in 2005, the SEC issued an auditor independence checklist for the company to complete if the company still want to appoint the same auditor after the 5-year rotation period, as a part on the relaxation over the first implementation of the auditor rotation rule. The checklist covers many areas, such as management referral of work to the auditor, management being relatives to the auditor or borrowings between the company and the auditor (SEC, 2005a). The

⁸ It should be noted that SET (2008) covers new laws affecting the qualifications of AC members and AC responsibilities. It does not provide any AC guidelines for detailed operations.

checklist can thus be used for general-purposed evaluation of the auditor independence even though the original purpose of the checklist is not as such.

Compared to AC practices in the US and the UK, the Thai guidelines do not suggest that the AC develops policy on engaging the external auditor for non-audit services and on disclosure of how the independence and objectivity of the external auditors are safeguarded by providing the non-audit services. In addition, there are also no requirement for the AC to specifically approve any type of the non-audit service by the incumbent auditor and no requirement for the AC to monitor the employment of staff from the incumbent audit firm. These differences can have significant effects on the financial reporting integrity and the work of the external auditor.

A major piece of Thai laws that is designed to maintain the auditor independence is the introduction of the whistle blowing channel by the external auditors under Section 89/25 of the Securities and Exchange Acts B.E. 2535 (2008). Such law has forced the ACs to seriously consider the concerns raised by the external auditors. In summary, Section 89/25 requires the auditor of the company to report certain suspicious circumstances, such as frauds, being committed by the management and directors to the AC, once noticed by the auditor, without delay.⁹ The AC must then respond, after a preliminary inspection, within 30 days to the board of directors, with a copy to the SEC and the auditor. If the AC fails to comply, the auditor must report those circumstances to the SEC directly. To support such law, the SET revised its requirements in 2008, making it mandatory for the ACs to have the private meetings with the auditors at least once a year, as compared to the previous recommendation status in the AC guidelines. The practicality of this law is not subjected to any research yet and hence the effectiveness of the enforcement is still unknown. However, its effectiveness is doubtful with the consideration of the overall relationship orientations of Thai people discussed in Chapter 3.

⁹ The suspicious circumstances include, for example, destroys or conceals of property and documents being ordered to be seized by authorities; deceptions to public; violation of entrusted duties; embezzlement; or fails to perform duties with due care and loyalty.

Oversight of audit process

The Thai AC guidelines (SET, 1999) recommend the AC to review the sufficiency, credibility and objectivity of the financial reporting by coordinating with the external auditors and management. It should be noted that the role of the AC to ensure that the financial reporting are correct and adequate is mandatory according to SET (2008). Further guidelines also include the recommendation for AC inquiry of the management and the external auditor for any significant financial reporting issues being discussed during the accounting period and the resolutions to those issues (SET, 1999).

The oversight function of the Thai ACs in this area depends very much on the accounting expertise of the AC members. However, the financial or accounting expert to be designated in every Thai AC is loosely defined by the regulator. SEC (2008) just requires that one of the AC members possesses sufficient financial or accounting knowledge and experiences to be able to review the reliability of the financial statements. In comparison, the Thai AC guidelines (SET, 1999) simply require that one of the AC members must “have significant experience in accounting or in financial matters so as to keep pace with any proposed changes in the area of financial reporting or legislation”. There are no further guidelines such as the specific qualifications or experience of that AC member. In comparison to the US’s definition, the financial expert should have prior experiences in preparation or auditing of financial statements of comparable listed companies and in the application of accounting principles relating to the accounting for estimates, accruals, and reserves (Sarbanes-Oxley Act, 2002). The UK’s guidance suggests the expert to “have a professional qualification from one of the professional accountancy bodies...experience of corporate financial matters will normally be required” (FRC, 2012a). The effectiveness of the Thai AC in the oversight of the audit process in the situations where accounting sophistications are required is thus very much in doubts.

Table 4-1 summarises the major differences and similarities of the Thai practices regarding the AC characteristics and AC responsibilities on external audit oversight role, in comparison with the Sarbanes-Oxley Act (2002) and Final NYSE Corporate Governance Rules (New York Stock Exchange, 2003); and the Guidance on Audit Committees (FRC, 2012a) in the UK and the UK Corporate Governance Code (2012b). Overall, the Thai practices for ACs are generally comparable to those in the UK and the

US in terms of AC composition, competence, size and main responsibilities. However, the Thai guidelines, issued since 1999, do not provide detailed recommendations in several areas under external audit oversights.

Table 4-1: Summary of key AC characteristics and roles

	Thailand	US	UK
AC is required?	Yes	Yes	Comply or explain
Independent director as an AC member	All	All	All
No. of members (at least)	3	3	3 (2 for small co.)
Financial expert	At least one ⁽¹⁾	At least one	At least one
No. of meeting a year (at least)	4		3
Max. year of AC membership	10		9
AC is in charge of overall relationship with the external auditor	×	✓	✓
Auditor appointment and remuneration:			
1. Suggest the appointment and remuneration of external auditor.	✓	✓	✓ (Incl. removal)
2. Disclose in annual report the reason for the board not accepting AC's recommendation of auditor appointment.	×		✓
3. Probe reasons when auditor resigns.	×		✓
4. Satisfy that the audit fee is appropriate for effective audit.	×		✓
5. Review audit engagement letter.	×		✓
6. Put audit service for tender at least once every ten years for FTYSE350 companies.	×		✓
Auditor independence:			
1. Assess the independence and objectivity of the external auditor annually.	×	✓	✓
2. Assure that the auditor and staff have no financial, business employments or other personal relationships with the company.	×	✓	✓
3. Meet privately with the external auditor without management presence.	✓	✓	✓
4. Review a policy for employing the former employee of the external audit firm.	×	✓	✓
5. Develop policy on non-audit services.	×	✓	✓
6. Report to the shareholders that the auditor's objectivity and independence are properly safeguarded when engaging non-audits.	×		✓

	Thailand	US	UK
Audit process:			
1. Review audit plan.	✗ ⁽²⁾		✓
2. Review planned materiality limits.	✗		✓
3. Review accounting and audit judgements.	✗		✓
4. Discuss major issues with auditor and how they are resolved.	✓	✓	✓
5. Review adjusted and unadjusted items.	✗ ⁽³⁾	✓	✓
6. Review management letter.	✗ ⁽²⁾	✓	✓
7. Review representation letter.	✓ ⁽⁴⁾	✓	✓
8. Assess the effectiveness of the external audit process.	✗		✓
9. Resolve disputes between management and the auditor regarding financial reporting.	✓ ⁽⁵⁾	✓	✓ ⁽⁵⁾

Source: Thailand: SET (1999), SEC (2010; 2008); US: SOX (2002), New York Stock Exchange (2003); UK: FRC (2012b; 2012a).

Notes:

- (1) The definition of the financial expert for Thai AC is however loosely defined as a person having enough knowledge and experiences in accounting or finance to review the reliability of the financial statements.
- (2) The new AC manual (SEC, 2010) has included similar suggestions on auditor independence review.
- (3) The new AC manual (SEC, 2010) suggests the AC to review significant proposed audit adjustments only.
- (4) The new AC manual (SEC, 2010) no longer includes the review of representation letter in the recommendations.
- (5) The resolution of conflicts between the management and the auditors is implied rather than being stated directly.

As illustrated in Table 4-1, the Thai AC guidelines provide little detailed recommendations on how the AC should perform its oversight roles over the auditor removal, auditor remuneration, auditor independence and audit process. The objective of the AC in relation to the external audit, according to the Thai AC guidelines (SET, 1999), concentrates mainly on promoting the integrity of the financial statements. The guidelines do not cover the areas concerning the AC's assurance of auditor's independence or the effectiveness of the external audit, as in the case of UK guidance. The lacks of detailed guidelines may contribute to the ineffectiveness of Thai AC in its monitoring role of the external audit from the international point of view.

In term of the qualifications of independent directors, the Thai regulations were updated in 2008 (SET, 2008) to strengthen the directors' independence. For example, independent directors, including their relatives, cannot own more than 1% of shares issued by the group (previously 5%). They must not be a director of any listed companies in the group. Prior employments of the AC members with any of group

companies must be at least two years before being appointed. The independent directors cannot engage in any professional services to the company or its affiliates for a value of more than 2 million Baht (approximately US\$ 60,606) within the last two years.¹⁰ Moreover, they cannot engage in any other business transactions with a value of more than 20 million Baht (approximately US\$ 606,060) or more than three per cent of the net tangible assets, whichever is lower, within the past two years.

When compared to the US practice (such as New York Stock Exchange, 2003), the SET's (2008) guidelines on independent directors are less stringent. Table 4-2 summarises certain independence qualifications of the Thai regulations and those of NYSE (2003) and the UK's FRC (2012b). In comparison, the length of the affiliation in Thai regulations is reduced to 2 years in all areas, compared to the 3 years required by the US regulation. In addition, SET's (2008) qualification concentrates mainly on the director and does not include the director's immediate family member in the criteria. The Thai regulations do include a blanket clause stipulating that there should be no other characteristics or relationships that can impede the objective judgement and free deliberation of the independent director. NYSE (2003) requires that the board of directors specifically determines that the director is independent in terms of no material relationship with the company, either directly or indirectly as a partner, shareholder or officer of any entity that has a relationship with the company while there are no such requirements in Thailand. The less stringent rules on independent director's definition may result in different mindset of the Thai AC members and affect the governance process accordingly.

Table 4-2: Key independence rules of independent directors

	Thailand	US	UK
An independent director <u>cannot</u> be:			
An employee for the past ...	2 years	3 years ⁽¹⁾	5 years
A family member of the executives	✓	✓	✓ ⁽⁷⁾
Holding more than 1% of shares issued by the group	✓	×	×
A representative of other directors, major shareholders or other shareholders who are related to major shareholders.	✓	×	✓ (only major shareholder)
An employee of the current audit firm for the past ...	2 years (individual not audit firm)	3 years ⁽²⁾	×

¹⁰ The conversion from Thai Baht to US\$ is based on the rate of US\$ 1 = THB 33.

	Thailand	US	UK
A director, including immediate family member, who receives more \$100,000 within the past 3 years.	×	✓ ⁽³⁾	✓ ⁽⁴⁾
A director who has any business at least 20 million Baht (approximately US\$ 606,060) or 3% of the company's net tangible assets, whichever is lower, within the past 2 years.	✓ ⁽⁵⁾	✓ (Receive or pay more than the greater of \$1 million, or 2% of such other company's revenues, within the past 3 years) ⁽¹⁾	✓ ⁽⁶⁾ (For material relationship, within the past 3 years)
A director who engages in any professional services given to the company or affiliates for a value of more than 2 million Baht (approximately US\$ 60,606) within the last 2 years.	✓	×	×
A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the listed company's present executives serve on that company's compensation committee within the past 3 years.	×	✓	×
A director who holds cross-directorships or has significant links to other directors through involvement in other entities.	×	×	✓
A director who has served the board for more than 9 years.	×	×	✓

Sources: SEC (2008), New York Stock Exchange (2003), FRC (2012b).

Note: (1) Including the director and the director's immediate family member who is an executive officer.

(2) Including the director and the director's immediate family member who is affiliated with or employed in a professional capacity.

(3) Except for director fee and pension or other deferred benefit from prior service.

(4) Only the director, excluding immediate family member. Including the director who participates in performance-related pay scheme and a member of pension fund. No amount and year limit.

(5) In case of a company involved, including major shareholder, executive director, management or partner of such other company.

(6) In case of a company involved, including a partner, shareholder, director or senior employee of such other company.

(7) Including close family ties with company's advisors, directly or senior employees.

In summary, Thai guidelines on AC qualifications are rather relaxed and detailed recommendations on the operations of the external audit oversight are rather scant, when compared to the US and UK practices. This can pose threats over the AC effectiveness. With more orientation towards relationship, the governance effects of the AC can be worsened. Due to the lack of detailed guidelines, many AC members may not feel the need to upset the smooth interpersonal relationship with the executives or owners. Compromise in many matters with the management can be expected accordingly.

4.1.3 Auditor's communications with the AC

Apart from the communications as suggested by the regulators discussed in the earlier section, the Federation of Accounting Professions (“FAP”)¹¹, which is the Thai accounting and auditing standard setter, has issued a set of guidelines recommending the areas that the auditor should communicate with the AC (ICAAAT, 2000). Such guidelines are based on an old version of International Standard on Auditing 260 and include certain important recommendations for matters to be communicated with the AC as follows:

- Terms of audit engagement.
- Issues, including discussions regarding the applications of accounting principle and audits, which have been discussed with the management before audit acceptance or renewal.
- The choice and change in significant accounting policies and major practices.
- Disputes with management, including how the auditor resolves the disputes.
- Basis that the management use to judge the significant accounting estimates.
- Adjusted and unadjusted audit findings.
- Issues and obstacles during the audit, including the delays resulting from the uncooperative management, and inadequacy or mistakes of company's staff to finish the work within the required timeframe.

As noted above, there are few recommendations for the external auditor that are not included in the AC guidelines, such as terms of engagement, the management's basis for the estimates, and adjusted and unadjusted audit findings. The Thai ACs might then outperform the expectations from the regulator, depending on whether the external auditors are committed to such standard and how the ACs react to this additional information.

After the knowledge of the research gap (Chapter 2), the conceptual framework to be used in this research (Chapter 3) and the backgrounds of the regulations and codes of Thai AC (this section), the next section discusses the methodology of this research.

¹¹ Formerly known as the Institute of Certified Auditors and Accountants of Thailand (“ICAAAT”).

4.2 RESEARCH METHODOLOGY

This section formulates the research aims and research questions to examine AC operations in relation to the external audit oversight function and discusses the research approach and methods to study such AC activities. The research questions are derived from the literature gaps in AC oversight discussed in Chapter 2 to cover the behavioural trait effects on the AC and the power creation by the AC and its participants. To investigate the two phenomena, a research approach is designed and a particular research method is chosen: interviewing.

The rest of the section is organised as follows. The research aims and research questions are presented in Section 4.2.1. The research method, data collection process and data analysis are discussed in Section 4.2.2.

4.2.1 Research questions

In order to investigate the AC operations, this interdisciplinary research is premised on the conceptions of behavioural traits and power. The two themes are related and influence the AC process and outcomes. The discussions on each theme, together with the related research question, are made below.

4.2.1.1 Theme 1: Behavioural traits

The AC literature tends to focus on the AC effects associated with structural features as stipulated in governance codes, e.g. AC existence, diligence, independence and expertise. Those studies mainly concentrate on the ACs in the settings of the US or the UK. In contrast, this research aims to investigate how the behavioural traits of the participants in the AC process influence and condition the roles and functioning of AC. This research select one of the most prominent behavioural traits—*krengjai*—to examine such effects. How country factors affect social and organisational practice of governance, and in particular influence the monitoring role of ACs, has received limited attention in extant studies.

RQ1: How does the krengjai behavioural trait shape the AC process and practice?

This research question extends the existing theoretical arena from the mainstream agency theory and institutional theory that still cannot fully explain AC influence. The focus on national and institutional contexts also contributes to the understanding of the impacts of AC adoptions in many countries.

4.2.1.2 Theme 2: Power of AC

The mainstream extant AC studies provide a good overall view of the AC effectiveness but reveal rather inconclusive findings without proper investigations of the rationales in certain areas. The studies based on qualitative approach find that the ACs are not quite effective on auditor appointment and terminations (Cohen et al., 2010; Fiolleau et al., 2010) and there is a wide variation in the AC's ability to resolve the disputes between management and external auditors (Cohen et al., 2010). These two aspects of AC oversight have significant impacts on the AC in the guarding of the external auditor's independence but there is still no study to investigate the causes of the variation in practice.

RQ2: How does AC's power affect the oversight of the external audit, particularly auditor selection and the resolution of disputes between management and external auditors?

The study of this research question adds to the literature on the causes of variation in AC influence on both areas and extends the concept of power first introduced in AC research by Turley and Zaman (2007).

4.2.2 Research methodology

This section describes a research methodology designed to get the answers from the research questions described in the earlier section. The methodology covers four areas: research approach, research method, data collection and data analysis.

4.2.2.1 Research approach

This thesis adopts a social constructivist approach to better understand the AC process that involves the human factors. The social constructivist approach suggests that the

subjective meaning of a phenomenon is developed through interactions among participants, and the reality of the phenomenon is formed by their perceptions and interpretations of the phenomenon (Creswell, 2007). The aim of this research is the understanding of the AC operations, particularly on how behavioural traits shape the AC process and influence, and how the power is developed and deployed by the participants in the process. Their perceptions and interpretations of the phenomena they experience create the meaning of the AC effectiveness.

This research uses a qualitative approach to gather the views and experience of various participants and to examine the way in which meanings are constructed (Holdaway, 2000). The AC process involves not only several actors and their interactions, but also several internal and external factors, some of which are more subjective in nature than the others. The quantitative approach based on the proxies and statistical model or the survey data cannot effectively capture them. The exploratory nature of this research thus suits well with the qualitative research approach because it can investigate the interactions between actors and the influences of the subtle factors, such as AC's behavioural trait and AC's will as suggested in Chapter 3.

As discussed in Chapter 2, there are extensive extant studies relying on statistical models based on archival data but the results are, to a certain extent, inconclusive and other factors that are not observable publicly are omitted. Several academic researchers have called for studies based on qualitative methods in order to better understand the AC process and the interactions between the actors involved in the process (e.g., Carcello et al., 2011; Bédard and Gendron, 2010; Turley and Zaman, 2007; Gendron and Bédard, 2006). With the only published qualitative study on the AC in the merging market being carried out by Salleh and Stewart (2012) in Malaysian contexts, this thesis responds to the need to understand more AC operations in the emerging market based on qualitative method.

4.2.2.2 Research method

This research principally employs interview method, which is considered the most common method in qualitative research (King, 2004a). This method is appropriate to gain the perspective from the interviewees and understand how and why the perspective is derived. It can provide rich information about the related complex

behaviours and processes where open-ended questions are needed (Saunders et al., 2012), especially when there is a need to understand how the attitudes of the interviewees are derived (Easterby-Smith et al., 2002). The interview method is also widely used by the researchers in the extant studies that focus on the operations of directors and ACs (e.g., Gendron and Bédard, 2006; Roberts et al., 2005; McNulty et al., 2003; Spira, 1999).

As implied by King (2006), the world (business world in this research) is not static and human beings can and will change whatever practices they use to suit their needs under particular circumstances. Each person's reactions to the same situation will not be the same because of different backgrounds, practices and beliefs they hold. Even the same factors used by different persons in answering the research questions may be driven by different rationales which cannot be quantified properly in the models using the quantitative method. In a sense, the interview can incorporate the human factors, such as the AC's will underlying the observed behaviours, which cannot be easily measured using proxies in statistical models.

There are various types of interviews, such as structured interview, unstructured interview and semi-structured interview. The structured interview is a kind of highly structured interview method that uses 'recording schedule' as a mean of the study (Gillham, 2005). The interview of this type uses the same standardised questions for every respondent, in the same pre-set order, and the interviewer notes down the answers into some predetermined categories, such as 'agree', 'disagree', or 'undecided' (Wilson, 1996). Practically, structured interview is a verbally administered questionnaire, and thus shares certain characteristics of the disadvantage of the questionnaire, principally rather superficial data (Gillham, 2005). This method is useful for the studies that mostly investigate a large number of samples with the intention to subsequently analyse the data quantitatively. However, it is not the purpose of this research to seek for such quantitative answers. The process and rationales of the AC's level of effectiveness in auditor selection and dispute resolution can depend on the attitudes and perceptions of the parties involved, which are generally something that might not be able to fit into any statistical models reliably.

The unstructured interview is an opposite of the structured interview method, especially in term of predetermined standardised wordings to be asked to every respondent. This

method is mainly based a conversational style where both interviewer and interviewee interact but the interviewer tries to get the conversation back to the topics under study in a more natural way (Wilson, 1996). This can help the interviewee shape his/her own story, which can be rich in contents and may result in the insights that the highly structured interview might not be able to provide. It is ideal for the qualitative research since it enables the researcher to gain understanding of the world of the respondents (Gillham, 2005) and to explore in depth the areas of interest (Saunders et al., 2012). The drawbacks of this method are, however, the time-consuming nature of the interview process, the ability to find the informants that will allow the researcher an access to this level of depth of knowledge, and the skills need by the interviewer to manage the interviewee to get the interview back to the topics and still do not interrupt the sentiments being shared in the interview (Wilson, 1996). Therefore, this type of interview is not suitable for this research because of the problem of the time availability of the ACs and top management for such a long interview. They are normally business people who live a very hectic life.

The semi-structured interview can be argued as the most important interview method since the flexibility can be arranged for the balance of the structure and quality of interview data (Gillham, 2005). The method involves the researcher using a list of themes and questions to be covered to ask every interviewee, even though some questions may be reordered or skipped as appropriate in the given interview context (Saunders et al., 2012). The interview questions are principally open-ended and probing questions are also added to further explore the issues identified in the discussions (Gillham, 2005). It is this less unstructured style that enables time can be spent efficiently with the interviewees (McCracken, 1988). The semi-structured interview thus facilitates a discovery, with sufficient details of the interviewee's story within a reasonable timeframe available to the interviewee. The structured focus of the method also facilitates the analysis of data since commonalities can be easily identified (Gillham, 2005).

Due to the limited time availability of the AC members and top management, discussed earlier, this research employs the semi-structured interview method. The interview guides are developed to ensure the focus of the study based on the extensive literature review and the conceptual framework, discussed in Chapters 2 and 3, with the questions in the guide open enough for the varying levels and ranges of responses from

the interviewees (Gillham, 2005). These questions are designed to draw out the experience and stories in the interviewee's own words, at his/her own speed and order (McCracken, 1988). However, the 'planned prompts' is also developed. The planned prompts are questions that have been prepared before the interview, based on the literature reviews and framework, and are used in the case that there is stagnation or when the stories being told are beyond the scope of this study, or not relevant to the focus.

Justifications of other research strategy

It is noteworthy to provide reasons why other research strategies are not employed by this research. The researcher has considered several other research methods before the interview method is chosen. However, many of them, such as action research, ethnography, can be considered intrusive in the context of this research because they require the researcher's active involvements with the phenomena to be studied. Thus, there are very limited chances of success in negotiating access in this research's setting. Matters discussed and communicated at the AC meetings normally involve information vital for business operations and are thus very sensitive. The researcher participating in those matters might have business impacts, no matter how careful the researcher can be. The viable strategies are then case study and observation methods

Case study research provides detailed understandings of certain processes of a specified population under their own contexts (Hartley, 2004). It also provides rich information about the related complex behaviours and processes and helps to understand how they are influenced by the context (Cooper and Morgan, 2008; Smith, 1991). The case study approach provides opportunities for trusts by the individuals in the organisation to develop under the long period of repeated contacts with the researchers, which in turn results in more information of informal nature being released to the researchers (Hartley, 2004). Therefore, this method can help deepen the understanding of how behavioural traits shape the AC process, how the AC influence the selection of the external auditors, and how the contexts in a particular setting affect those processes and decisions. Moreover, the varieties of the research methods and techniques that can be performed under the case study approach, such as interview, documentary analysis, direct observations, etc., can help ascertain the validity of data received (Yin, 2011). However, many management and companies in Thailand are still not so willing for an

academic to use the case study method on their companies because the identity of the company might be revealed. Therefore, even with the granted access, the interviewees might be very careful in releasing certain in-depth information to the researcher.

In observation method, the researcher can witness the real processes and observe the behaviours of the participants (Marshall and Rossman, 2006). Observation method consists of two main types: non-participant observation and participant observation (Collis and Hussey, 2003). The non-participant observation involves observing and recording the actions or behaviours without the researcher participating in the phenomena. On a contrary, in the participant observation, the researcher is fully involved with the participants and the phenomena being researched (Saunders et al., 2012). The non-participant observation method is more suitable for answering the research questions because the researcher can witness the real processes and observe the behaviours of the audit committee members to gain more understanding of their behaviours and the will and skill to deploy power and how they shape the AC process and its effectiveness. Participant observation method was not feasible for this research since the AC meetings involve important business discussions in which the researcher has no authority and ability to participate. One of the drawbacks with the observation method is the ability to ensure that the participants can act or behave in their normal settings without the researcher's presence (Collis and Hussey, 2003). More importantly, it is very unlikely that the researcher is able to gain access to any company for such observation because of the confidentiality nature of the AC meetings. Gendron and Bédard (2006) and Spira (2002) also favour this method but have problems with the access.

4.2.2.3 Data collections

Since access to AC members, management and external auditors who are willing to provide in-depth confidential data about AC process in Thailand is very limited, this research needs to rely on a non-probability sampling method called "opportunistic sampling". Also known as convenience sampling, it involves the selection of samples which are easy to access (David and Sutton, 2011). Opportunistic sampling is useful when a researcher is exploring a new research setting (Engel and Schutt, 2013), as in the case of this thesis. Although the disadvantage of the non-probability sampling is that the findings from the samples are not generalizable to the larger population

(Bailey, 1994), the research objectives of this thesis focus on the exploring the effect of behavioural trait and the investigation of reasons of wide variations in AC influence in certain specific areas, the exploratory objectives of which do not need generalisation.

The data collection commences by listing all the names of the AC members, together with the related companies listed in the Stock Exchange of Thailand and the names of their external auditors. The list is based on the data available in the SET's website (www.set.or.th) in March 2010. Twelve personal contacts of the researcher are subsequently communicated via emails and telephone calls, with the list being distributed to them for the purposes of identifying the target interviewees. The contacts assisting in the target identification have varied backgrounds, such as accounting lecturers, external auditors and senior management. This should contribute to the reduction of the bias from the selection based solely on the researcher's direct associations, since the targets of the study from the same chain of associations might have certain shared characteristics that are too unique and not common in the wider population (Atkinson and Flint, 2001).

Table 4-3 summarises the results of the successful identifications of the target interviewees, based on each contact. Out of the 12 contacts, three contacts cannot provide any interviewees in the end due to various reasons from the target interviewees, such as the fear of discovery of the identity due to the unique operations of the company. Some contacts can provide the researcher with the access to both the AC and the management who participate in the AC process in the same company and they are therefore referred to in the table as COM1, COM2 and COM3.

Table 4-3: Chain tree of interviewees

No.	Contacts	Company	AC	External Auditor	Mgt	AC Secretary
1	Contact1	COM1, COM2		CPA9		
2	Contact2		AC1, AC3			AC-Sec2
3	Contact3	–				
4	Contact4			CPA1, CPA2		
5	Contact5	COM3	AC5			
6	Contact6		AC6			
7	Contact7		AC2			
8	Contact8	–				
9	Contact9		AC4	CPA3, CPA6, CPA8		
10	Contact10	–				

No.	Contacts	Company	AC	External Auditor	Mgt	AC Secretary
11	Contact11				Mgt9	AC-Sec1
12	Contact12			CPA4, CPA5, CPA7		

Remarks: Reference to each interviewee begins with as abbreviation of the role. CPA represents external auditor, Mgt represents management (which can be Director, CEO, CFO or Accounting Manager) and AC-Sec represent AC secretary.

The samples obtained via this method are not meant for drawing any statistical generalisations. The aim of this research to understand how AC operations are shaped by the behavioural traits and power of the actors involved in the process. Therefore, the focus is on how actors interact to effect the desired outcomes, not the relationships or frequency of occurrences. Instead, the generalisation is on the extent to which the theory developed within one study is used to explain to the experiences of other persons in comparable situations (Horsburgh, 2003). Evidence from each actor in this research is accumulated to develop a theory that is generalizable, with the conceptual framework proposed in Chapter 3 as a general starting point.

The researcher's contacts have provided the researcher with the names, position, telephone number and/or email of the target interviewees. Before any interviewees are approached, the researcher searched and analysed the public data about the backgrounds of the interviewees to gain their general backgrounds, such as the experiences, the companies they have worked on and the qualifications. Such information is useful in tailoring certain questions to suit the interviewee's background and in establishing a rapport at the beginning of the interview. The background information also assist the researcher to better understand the interviewee's contexts during the interviews but all the information gained at this stage are confirmed during the interviews if they are related to the contexts of the conversations.

The initial communications with the target interviewees by the researcher were made through telephone calls, with the reference to the researcher's network and a brief introduction of the researcher's background. The general research objectives and the potential interview timeframe were discussed. Emails are then sent to each interviewee to confirm the details of the telephone conversations with the attachment of the Participant Information Sheet and Consent Form, together with a cover letter from the researcher (see an example in Appendix 4-1). The Participant Information Sheet and Consent Form are based on the forms provided by the Manchester Business School,

which summarise the research objectives, scope, timing, confidentiality issue and contact information.

The semi-structured interview method is chosen to ensure that enough detailed information is gathered from the interviewees within the time constraints of the interviewees' busy schedules. However, all efforts are made to ensure the interviewees can freely tell their own story, as they see it from their perspectives (King, 2004a). Interview guides are prepared for each group of participants, based on the same set of questions with the minor changes of wording and order to suit the interviewees from each group. Based on the role and involvements in the AC process, this research categorises the participants into three groups for the interview purposes: AC members, external auditors and the others (conveniently termed as 'management'). The guides are developed after the extensive reviews of the literature and theory and are used as a tool to ensure all aspects of the research objectives are covered during the interview (McCracken, 1988). There are some 'prompts' for each question within the guides for the researcher to focus on the issues of interest when the answers from the interviewees go beyond the scope of the research or when the interviewees lack certain levels of details or perspectives. These prompts are not shown to the interviewees but the interview questions are sent to the interviewees upon their requests.

All interviews are made face-to-face. At the beginning of each interview, the researcher asks for permission to audio-record the interview and offers the interviewee for the review of the transcripts, so that the interviewee can edit them at his/her discretion. None of the interviewees, however, accepted the offer. Except for one management of a company, all interviewees agree to audio-recording of the interview. The interviews are transcribed in the language of the interviewees, which are mainly Thai except for the three foreigners in this research where interviews are conducted in English. For the one interviewee who does not agree to the audio-recording, the researcher takes notes of key concepts and the quotes that seem important at the moment. A review of the notes is made immediately after the interview and additions of certain details are made right away while the memory is still fresh.

During the interviews, all interviewees are relaxed and forthcoming with samples of incidents they have experienced for most questions being put forward to them. Small talks were included primarily at the beginning of the interviews but are also made

during and after the meetings. This is meant to create pleasant atmosphere of the interviewees to open up for chances of volunteering additional information. The interviewer has avoided using the questionnaire style during the interview, so that the interviewees have a chance of volunteering all the information that might be unexpected and not covered in the literature. The researcher also took note of all informal indications of clues, signs, physical expressions or voice tones during the interviews for subsequent analysis. All such notes are subsequently used for the analysis of the interviews.

The interviews were conducted with various participants involved in the interactions between ACs and external auditors, including AC chair, AC members, AC secretary, directors, senior management, chief internal auditors, senior internal auditor, audit partners and audit managers. This research is mainly related to the AC's experience which might be subject to perceptions and attitudes of the AC members, who might provide answers only in socially desirable ways. To address this, other participants in the AC process were also interviewed in order to ensure that the responses obtained from the AC members are not biased for their own self-interest.

There are 40 interviewees altogether participating in this research, including 22 interviewees from the three main companies identified. As summarised in Table 4-4, eleven AC members are interviewed with four being the AC chairs and eight being designated as the accounting expert in their ACs. Three of the AC members are foreigners, all of which have business experience in Thailand for more than 10 years. Twelve external auditors with prior experience of communications with the AC are included in the research, with all of them, except for two, being audit partners. Two external auditors interviewed are from the affiliated firms of international audit firms and another two auditors are from local firms while the rest of the auditors are from three of the Big-4 audit firms. The interviews with 9 management (mostly CFOs and Accounting Managers), 3 internal auditors and 5 AC secretaries are also made. Viewpoints from these various participants in the AC process taken together provide certain level of reliability of information gathered in this research. A list of individual interviewees is available in Appendix 4-2.

Table 4-4: Composition of the interviewees

Positions	No. of persons	Remarks
AC Chair	4	Including 2 ACs of companies listed in SET50 and SET100.
AC Member	7	Comprising 4 Thai and 3 foreigners.
AC Secretary	5	Including 1 each from 3 main companies and 2 others.
Management	9	Comprising 2 directors, 4 CFOs and 3 Accounting Managers.
Internal Auditor	3	Comprising 2 Internal Audit Heads and 1 Senior.
External Auditor	12	Comprising 8 from Big-4 firms and 4 from others.
Total	40	

Two series of interviews were conducted for this research. The first round of interview was conducted during 17th January to 22nd April 2011. The duration of each interview ranged from 34 to 157 minutes. After the transcription and the initial analysis of the data gathered, certain gaps were identified and further clarifications from a number of interviewees are deemed necessary. The second series of interviews was then carried out for those interviewees during 2nd May to 5th July 2012, with the duration ranging from 12 to 88 minutes. Summaries of interviews were made following each set of interviews and shared and discussed with the main supervisor. These initial summaries and reflections also shaped subsequent interviews. The summary of key data about each interviewee, including the interviewee's affiliation to the company, position, the number of years of service in the current role and nationality is presented in Appendix 4-2.

During the fieldwork, the researcher also successfully negotiates for observation of an AC meeting. Such observation is generally rare in the AC research due to sensitivity nature of information normally discussed at the meeting (Gendron and Bédard, 2006; Spira, 2002). As discussed earlier, observation is another method that might be suitable for answering the research questions because the researcher can witness the real processes and observe the behaviours of the AC members and the other participants in the AC process to gain more understanding of their values and beliefs and how the two shape the process (Marshall and Rossman, 2006). With the observation, interview results are put in context under the real settings and the behaviours of the participants

obtained from the interviews are validated. The observation has proven to be useful but it only serves as a secondary tool to triangulate the results from certain interviews since only parts of issues under this study were apparent in the session observed.

It also should be noted that a meeting of about two hours with a group of four SEC officers was also held to gain insight of the AC guidelines, regulations and the overview of the Thai AC operations. Another meeting was also made during the 2nd round of fieldwork trip with two of the officers from the first meeting for some updates and clarifications. The interview results from these SEC officers were done to supplement this research in term of the backgrounds of Thai AC regulatory contexts. The main topics discussed were the situations of the Thai AC in general, the officer's process in the review of compliance with the AC guidelines, and the overall impressions about the AC performances.

4.2.2.4 Data analysis

The analysis of data from qualitative research can be messy and repetitive since the data from interviews and other sources are not necessarily organised in an orderly fashion. Even though all interviews conducted follow the sequences put in interview guides, the interviewees were free to respond to the matters in their own ways, which sometimes cover the areas have not been asked yet. This research employs template analysis method as a tool for data analysis, with the support of the nVivo software. Compared to other techniques of data analysis, the template analysis is more flexible and easily adaptable to the complex relationships (King, 2004b). It is particularly useful for comparison of perspectives from different group of people within the specific context.

According to King (2004b), template analysis is a way of organising and analysing the data that is based on the code ('template') representing the theme of the data assigned to each part of the textual data by the researcher. The researcher firstly decided on the codes based on the themes identified as priori from the literature and conceptual framework. All codes were then created in nVivo. New codes were also added during the coding process for new themes identified. Certain codes were finally dropped after the completion of the whole coding and the related textual data for those codes were re-assigned to the more relevant codes. The assignments of the codes to any particular

textual data, including the additions, alterations and deletions of the codes, were made with judgements and interpretations of the data by the researcher, which is common in the research of this type (Ryan and Bernard, 2000). The researcher therefore needed to re-examine the consistency of the coding after the initial round has been completed. This was done by manual review of the printouts of textual data from nVivo for each code. The codes are designed in the hierarchical structure, which was useful as the researcher was able to gain the overall picture of the results as well as the distinctions between interviewees at the lower level, consistent with the suggestions by King (2004b). Parallel coding was also made to various textual data which fit to more than one theme. For example, many interviewees provide the data that is related to both the codes for krenghai behavioural trait and for the will to exercise power. Such parallel coding was useful for the researcher to analyse the interconnectedness between the themes.

Series of template analyses were made for all data collected. This process repeated itself many times, based on the new themes emerged and the revised themes made or deleted. Additional texts from the 2nd fieldwork were added to the pool of data from the first round and subject to the same coding system. However, there are no revisions of the codes based on the additional data. Three full revisions of the whole textual data were made to ensure that the coding is consistent and there are no un-coded texts. The initial coding was mainly based on the priori coding from the literature and conceptual framework while the second round of coding for the whole texts was made after additions, modifications and deletions of certain codes. The last full cycle of coding was made after the coding of the additional data from the 2nd round of fieldwork. According to King (2004b), the coding might be not be considered final unless the all data and coding are scrutinised at least twice.

As discussed above, this research used nVivo software to aid the data analysis since the approach of template structure in template analysis is “well-suited for the computer-assisted analysis” (King, 2004b, p.266). The transcripts, the researcher’s notes taken during the interviews and observation of the AC meeting, and the background information based on the documents obtained from pre-interview preparations—all in Word document format—were imported into the software. The coding of all data then started after the set-up of the hierarchical codes in nVivo. The relevant textual data are then assigned to each specific code. The researcher finds that the software enables the

efficient revisions of the coding for the large amount of text from the interviewees in this research. The viewing of the data can also be tailored in nVivo software to easily spot out the un-coded text. The reviews of consistency in the coding were effectively conducted by viewing all the textual data assigned to any particular codes. The general themes are then manually developed based on the data from these printouts from nVivo. Finally, the printouts from the last version of codes in nVivo were reviewed for proper presentation of the findings in Chapters 5 and 6.

In order to increase the reliability of the findings, this thesis uses data triangulation method, wherever possible. Data triangulation is a technique to increase the reliability of the data based on the data collection from different sources or at different times (Denzin, 1978). Quotes from the interviews are normally supported by one or more similar quotes on the same matters. For example, the answers from the AC members which might be self-interest to certain extent are triangulated against the viewpoints from the management or the external auditors on the same issues. This basically prevents the informant's bias on the findings. Since all participants in the AC process of three main companies are interviewed in this research, their responses on the same issues help increase the reliability of the findings. The second interview visit also serves as a verification of the interviews made in the first visit. Even though the aim of the second visit is to gain further details or clarifications of the issues noted, a repeat of certain parts of the story told in the first interview has assured that the story is somewhat reliable since the two interview visits are more than a year apart and the interviewees who made up stories in the first visit might have forgotten what was told already. None of the interviewees in the second visit told different stories that they told on the first visit. The interview data is also verified with the tones, gestures and non-verbal expressions of the interviewees noted during the interviews. Any suspicious responses were probed further for the examples of the events to prove the validity of the accounts. Behaviours of the participants based on the researcher's observation of the AC meeting are also used to verify the findings from the interviews. This method triangulation—triangulation of the findings from different research methods used—helps validate the truthfulness of the responses from the interviews effectively, especially in term of the display of krenghai behavioural trait.

4.3 CONCLUSIONS

In summary, this chapter discusses two main backgrounds of the research: overall regulations and codes for the corporate governance and for the AC operations, and research methodology. In general, the AC guidelines in Thailand have basic features as those of the UK and the US but are short on detailed recommendations on how to actually supervise and oversee for the governance outcomes, especially in terms of the oversights of the auditor's independence and the audit process effectiveness. This chapter also discusses the research methodology for the study of the AC operations. The data collection is basically based on interviews of participants in the AC process, with the use of template analysis method to analyse the data.

The next two chapters report the findings of the research. Chapter 5 focuses on the areas of behavioural traits and self-construal in relation to AC operations while Chapter 6 covers the power analysis of certain AC processes.

CHAPTER 5 : THE EFFECT OF BEHAVIOURAL TRAITS AND INTERPERSONAL RELATIONSHIPS ON AC PROCESS

5.1 INTRODUCTION

Audit committees (ACs) have become an increasingly universal feature of corporate governance since the publication of the Cadbury Report (1992) in the UK. Extensive research has been conducted on the factors motivating adoption of ACs, and their effects in particular on external auditing and financial reporting. Yet, two decades of research, dominated by use of archival methods and economic theorising, have produced limited insight into the understanding of ACs as a social and organizational practice. Barring a few notable exceptions such as Gendron and Bédard (2006); Turley and Zaman (2007); Spira (1999); Beasley et al. (2009), ACs has been studied mainly without due regard to the institutional and organizational context within which they operate. This chapter aims to contribute to the literature on ACs through an examination of the influence of behavioural traits on interactions between governance agents and in particular on the audit committee process.

This research is motivated first by recognition that ACs are a universal feature of governance, yet limited attention has been paid to the national context in researching ACs. During the past two decades due to international convergence ACs are either mandatory or recommended in many countries. In countries where ACs are adopted, one finds standard features relating to independence, diligence and expertise. Though the rules and recommendations do vary in detail, they share a common view in that the effectiveness of ACs are conceptualised in terms of structural features. Corresponding to the developments in corporate governance, a body of research examining the effect of AC characteristics—such as independence, diligence and expertise—on financial reporting and auditing has developed in the past two decades. While most of this literature is based on the US/North American setting, there are an increasing number of similar studies based on data from other countries. A conceptual view implicit in many studies is that the AC process is similar across countries, and as such research tends to

focus on the existence and effects associated with structural features as stipulated in governance codes. In contrast, this research is premised on the view that while the adoption of ACs is influenced inter-alia by international convergence, local country level factors are also potentially a major influence affecting the role and functioning of ACs within organizations. How country factors affect social and organisational practice of governance, and in particular influence the monitoring role of ACs, has received limited attention in extant studies.

This research views participants in the governance process in particular AC members and those interacting with them as social agents. The focus is on the role of behavioural traits in influencing the monitoring role of ACs. While AC requirements might be universal, the individuals in the AC process are potentially subject to influence of both professional traits (such as independence, diligence, expertise) as well as behavioural traits which are, often albeit to varying extent, connected with the national context. In this research, behavioural traits, as explained earlier, refer to the behaviours of the participants that are conditioned by the cultural context and construal of self.

Unlike most Western countries where AC research has been conducted, in Thai society there are certain behavioural norms, inculcated from early childhood, with which people are generally expected to conform. The focus on behavioural traits, in the context of international convergence of ACs, thus sheds some light on differences in AC processes and effects internationally. This is in sharp contrast to most studies which tend to focus on the aggregate and on what is common. Nonetheless, to the extent that behavioural traits prevalent in this research's empirical setting are prevalent in other countries the insights revealed here may also be relevant to understanding ACs in different contexts.

The analysis of the effect of behavioural traits on the AC process in this research is informed by a part of the conceptual framework presented in Chapter 3. In this chapter, the discussion draws on the key concepts of self construal and behavioural traits, which for the Thai context is captured by the concept of *krengjai*.¹² The behavioural traits of

¹² "*Krengjai*" is a basic, significant concept affecting common interpersonal behavioural patterns in Thailand (Komin, 1990). It can be described as "to be considerate, to feel reluctant to impose upon another person, to take another person's feelings (and 'ego') into account, or to take every measure not to

Thai people in this research are expected to influence the AC members and the related parties involved in the AC process. The extent to which particular behavioural traits manifest and affect the AC process is dependent on self-construal—which may be independent or interdependent. The construal of self is related to thinking, how people see themselves, especially in terms of separation or connection to other people. Independent construal of the self derives from the view that a person's behaviour is mainly structured and formed by consideration of one's own internal repertoire of thoughts, feelings and actions, rather than a reference to those of the others, leading to the conception of self as an autonomous, independent person (Markus and Kitayama, 1991). On the other end, interdependent construal of the self emphasises the connectedness of the self and the others in the society and thoughts, feelings and actions of the others in the relationships are parts of the primary sources of references for one's behaviour.

The analysis in this chapter shows that while professional traits such as AC expertise, independence and diligence play a role in conditioning the AC process and related outcomes, the behavioural traits of AC participants are fundamental to the AC process. This research finds that individuals involved in the governance process are subject to the influence of both professional traits as well as behavioural traits which to varying extent are connected with the national context. *Krengjai*, being selected for study in this thesis, plays an important part in enable the compromise to be reached. Negative governance outcomes can be derived when the AC is *krengjai* of the management or the external auditor. The *krengjai* behavioural trait makes the AC unwilling to challenge the management's change of the external auditor, unable to change to risk-based internal audit, and unwilling to challenge the external auditor for clear clarifications of a questionable accounting practice. On the contrary, the AC can accomplish its governance goal when the management are *krengjai* of the AC. The findings include the management compromise to the requests for more disclosures in the AC report and in the financial statements, and the change to new computerised accounting systems. Foreign AC members, especially the westerners, in Thai ACs contribute to stronger governance by encouraging the discussions by Thai participants in the meetings, persuading the Thai AC members to escalate important issues to the

cause discomfort or inconvenience for another person" (p.691), or in a hierarchical setting, deference to more powerful others (Klauser, 1993).

board, or raising non-krengjai questions on behalf of the Thai AC members. This study also finds that a foreign AC member strives for better governance practice even though it is not required by the Thai authority while another foreign AC member uses face threats as a tool to force the management to reconsider the inappropriate transaction. Participants in the AC process welcome the presence of foreign AC members.

This research makes three main contributions to the academic literature. First, it introduces the concepts of construal of self and behavioural trait to the study of AC in response to the calls from additional theoretical work on the AC operations (Bédard and Gendron, 2010; Beasley et al., 2009; Turley and Zaman, 2004) and more studies on the AC process (Turley and Zaman, 2007). This study extends the applications of the construal of self, proposed by Markus and Kitayama (1991), to the AC process setting. The adoption of the national cultural value of krengjai to individual's behavioural trait is made possible through the interdependent construal of self by several Thai interviewees. Second, this study finds evidence explaining possible reasons for the inconclusive results of several AC studies. The compromises resulting from certain behavioural traits of the ACs with predominant interdependent self can play a part in a decrease in AC influence. The findings of this research might also be applicable to the western societies since each society has people with both interdependent and independent types of self-construal (Morisaki and Gudykunst, 1994; Gilligan, 1993). The behavioural trait of the AC members who have the interdependent self in those countries might be another reason for the inconclusive findings of the extant studies. Lastly, this study adds to the literature of ACs in the emerging markets and extends the study of Thai ACs by Tengamnuay and Stapleton (2009) by providing the behavioural perspectives of the AC operations with the focus of the krengjai behavioural trait. The results of this study might also be applicable to the ACs in other countries in the emerging markets where behavioural traits are similar to those found in Thailand.

The remainder of the chapter is organised as follows. The next section discusses findings of the behavioural trait and its effects on the AC governance. The last section presents the finding conclusions and implications.

5.2 EVIDENCE ON BEHAVIOURAL TRAITS

The main objective of this section is to provide empirical evidence on how the behavioural trait called “krengjai” conditions the AC processes. However, since people, knowingly or not, translate the national cultural values into their behaviours based on their construal of the self (Ting-Toomey and Kurogi, 1998), the section starts off by discussing the common type of self-construal of the interviewees in this study. The degree of krengjai behavioural trait on the AC participants discussed below must be considered in relation to the degrees of the interdependent or independent self. This section ends with the discussions of the influence of foreigners in the Thai ACs in relation to the krengjai behavioural trait.

5.2.1 AC participants and interdependent self-construal

Prior literature has primarily concluded that Thailand is primarily a collectivistic society (e.g., Murphy et al., 2010; Jacob, 2003; Schwartz, 1994) and the Thai people construe more interdependent self when compared to the Americans (Christopher et al., 2010). However, none of those studies focus directly on the business people in the governance context where western influence might be more prevalent as a result of the international trades and international organisational culture. This section attempts to provide accounts of the interviewees pertaining to self-construal types of the participants in the Thai AC processes, particularly involving directors (AC members), top management and third parties (external auditors), which have missed out in the literatures.

Based on her numerous contacts with ACs over the past ten years, CPA12 provides an opinion about Thai ACs in general:

“The audit committees will not cause a face loss [to the management]. When it comes to worst, the audit committees would resign. Upon resignation, they probably do not frankly say that the reasons for resignation are like this or that... They may provide other personal matters as an excuse. Nobody will tell the truth. It is Thai culture not to make enemies or to make anybody lose face... It is better to maintain the relationships, creating allies.” (CPA12)

Such view of CPA12 above is, to an extent, shared by Mgt3, Mgt4, and AC-Sec3 of COM1, who strongly believes that the Thai ACs under most circumstances will attempt to maintain good relationships with others, especially the management. Mgt4 specifically mentions that ACs are not likely to cause any trouble for the management when there are serious issues that might upset the smooth interpersonal relationship:

“There is no way the audit committee will say [in the annual audit committee report] that the internal control of the company is not adequate. The audit committee would rather resign, citing health problems.” (Mgt4)

The accounts of the attempts to preserve the face of the management and to maintain the smooth interpersonal relationship provided by CPA12 and Mgt4, respectively, indicate the interdependent construal of self of the ACs. According to Markus and Kitayama (1991), the type of self construal affects the cognition, emotion and motivation of a person. On the *cognition*, the persons with interdependent self are more likely to attend to the internal attributes of the others and restrain their own attributes. The ACs in both accounts above recognise the need to maintain smooth interpersonal relationships by avoiding any embarrassment to the management. They choose to behave in the non-threatening manner by not telling the truths to the public, but instead resigning from the position and keeping their own opinions or judgements to themselves. On the *perception*, the persons with interdependent self-care more of the interpersonal context, rather than their personal feelings of pride, anger or frustration (Markus and Kitayama, 1991). The ACs in both accounts above have shown the feelings towards the achievement of the group's smooth interpersonal relationship, not their own desire to be seen as effective AC members who always effect appropriate governance results. The two accounts above also reflect the AC's *motivation* for nurturance, which according to Markus and Kitayama (1991) is the need to help and protect, towards the management who are considered their in-groups. It is this motivation that makes the ACs avoid reporting the truths to the public or the authority and choose to resign instead. In addition, the evidence here supports the claims by Komin (1990) that the sense of achievement for Thai people has always been with good relationships, with or without work.

It should be noted that such anticipated actions from the ACs offered by CPA12 and Mgt4 can also be viewed from the economic standpoint, i.e. hopes for future business relationships, as in the case of an external auditor in the study by Gendron and Bédard

(2006). A quote from such auditor indicates that he might not report to the US SEC the disagreements with management when there is a change in auditors, in fear of the loss of future clients. On the contrary, the accounts from CPA12 and Mgt4 provide support that the main reason for not going against the management nor getting them in difficulty is that they simply do not want the relationships to become negative. It is a norm for the Thai ACs to behave accordingly without the need to consider the economic consequences, even though those consequences may follow in most cases.

Another indication which confirms that many participants in the Thai AC process have the interdependent construal of self is the lack of directness and expressiveness, in contrast to the people with independent construal of self who have a main task of striving for their own potentials and goals, becoming independent, attaining uniqueness, being direct and expressing self (Markus and Kitayama, 1991). This research finds that many Thai participants are not willing to express their opinion or raise any questions, especially in open public forums. For example, all the 3 foreign AC members interviewed in this study have observed that Thai AC members and management generally do not speak up much. As AC2, an westerner, puts it:

“Getting people to speak out is a problem.” (AC2)

Such tendency of the ACs is also observed by several Thai people, such as CPA11, Mgt8 and AC10:

“The audit committee members I’ve worked with mostly are independent. It is just whether they will speak out or not.” (CPA11)

“Krengjai is in the habits of Thai people. When the major shareholder speaks in the meeting, nobody dare to challenge her.” (Mgt8)

“When [the management] speak wrongly about some principles involved,... we just let it go if the matters are not very serious” (AC10)

As also observed by several other interviewees, the reluctance to express oneself is quite pervasive, which is considered common in the society with high-context culture (Knutson et al., 2002), as in the case of Thailand. Since the accounts from both AC2 and CPA11 seem to indicate that the formal process of rigorous challenges during the formal AC meetings—as normally expected from the AC in the western world—is not

present, one might wonder how the AC can effect the desired governance outcomes. The next characteristics of the people with interdependent self discussed below can also shed some light on this matter.

To foster the connectedness of people in the group, the persons with interdependent self tend to be polite and modest (Markus and Kitayama, 1991). Such characteristics are also present in many interviewees. Notably, AC7 is an example of the traditional Thai people who are very courteous and humble but still he can effectively influence the outcomes. The non-participant observation of an AC meeting by the researcher confirms these characteristics of AC7. Examples of quotes from the interviewees who indicate the politeness of participants in the AC process include:

“When we are still not satisfied with things, we will just ask some more... When I ask for anything from anyone, I will say that “I ask for your knowledge on this issue”... We need to gain their hearts by using reasoning... I think it depends on the speaking style and words used in questioning. If the questions induce quarrels, we can never get anything from them... We can avoid it by not using strong words, but showing respect—“I entrust you with this issue”, “I have no idea about this. Please share with me your knowledge” or something of that sort.” (AC7)

“Our audit committee comments on the issues politely, like elite people.” (Mgt5)

“Khun [AC member] speaks very politely, which can even be perceived as weak... But people do what he asks” (IA1)

AC7 is basically deploying his power through what Pettigrew and McNulty (1995) refer to as “tact and diplomacy, logical argument and persuasion, and respecting the people” (p.867), which is considered essential for the non-executive directors to make impacts. Even with the power of authority on his hand as the AC chair, AC7 has never used any assertive or pressuring methods, which is common for the non-executive directors in the UK (McNulty and Pettigrew, 1996). The methods used reflect the construal of interdependent self of AC7, who feels the importance of the interpersonal communion.

In summary, this study finds that several participants in the Thai AC process interviewed have the interdependent construal of self, consistent with the study by Christopher et al. (2010) and common for people in the societies which are considered collectivistic (Morisaki and Gudykunst, 1994). They mainly attend to the others in the

group, care for interpersonal relationship and are motivated by nurturance. This translates into their controlled behaviours to ensure the internal attributes of the others are preserved. They are thus generally courteous, humble, non-confrontational and inexpressive. Based on this observation, the adoption of national cultural values, especially krenjai, might be easy because conforming to their group's interest is one of the primary goals of those with interdependent self-construal.

5.2.2 Effects of krenjai on AC participants' behaviours

This section describes how the krenjai behavioural trait affects the AC governance processes. Based on the definition of krenjai and the context of the construal of interdependent self discussed in previous section, the krenjai behavioural trait should be able to fit in with many Thai AC participants. The effects of krenjai on the AC governance however might be questionable since it seems unlikely that the Thai ACs would vigorously challenge the management and the external auditors. On the other hand, if the other parties involved in the AC process are krenjai of AC members, the requests by the AC for any governance issue might be obtainable without much difficulty.

The analysis of codes from nVivo, indicates that the krenjai can have both negative and positive impact on AC governance. The discussions below illustrate how krenjai behaviours among the AC participants compromise or strengthen the position of ACs or the AC participants. The impacts of the krenjai by the AC towards the management, towards other AC members, and towards the external auditors; by the external auditors towards the management; and by the management towards the ACs are discussed respectively.

5.2.2.1 AC's krenjai towards management

“One of the weaknesses of Thai culture is krenjai”. (AC7) — This remark by AC7 illustrates the perceived negative impact of the krenjai behavioural trait in the business context. AC1, the westerner who has been in Thailand for more than 20 years, similarly shares the negative effects of the krenjai on the AC operations in Thailand:

“The country has to solve the krenghai... You cannot have them in the audit committees.” (AC1)

When the ACs with more interdependent self are krenghai of the management, there can be negative effects on the governance, such as lesser degree of challenging questions. The following account is an illustration of how an AC chair with interdependent self-construal deals with governance issues faced with the management. It relates to the Thai AC's need to refrain from asking questions that may be considered as attacking the management's ego, i.e. krenghai.

In an AC meeting joined by AC11, the AC receives a proposal to change the auditor from the management, which includes the price comparison from some audit firms and recommendations for a new auditor. AC11 is surprised by such move of the management and is not happy that such action is initiated by the management without AC knowledge. The AC members just “look at one another's face and are stunned” by the management proposal. She explains:

“The management sometimes do something not according to the proper procedures, such as the auditor appointment and remuneration. Without informing us, they just call for the bidding, select the one they want and propose to the audit committee meetings for approval... The audit committee has no intention of changing the auditor yet... The audit committee members are krenghai of the management because there are no evident harms done yet... We have to let it go, approve it, and see how the new auditor will perform next year.” (AC11)

AC11 believes that her AC is still quite satisfied with the performances of the incumbent auditor and suspects that the management's move is motivated by the facts that the incumbent auditor is rather tough and not succumbing to the management's unreasonable wishes easily. AC11 then asks the management for the reasons for the proposed change, so that it can be officially recorded into the minutes of meeting. The CFO explains that the audit fee for the incumbent auditor is too expensive, so he proposes a new one who is also one of the Big-4 audit firms, but with much cheaper fee. AC11 does not directly tell the management that it is not their duty to initiate the change and to arrange all the biddings from the audit firms without the AC's prior consent. Neither does she criticise them for such inappropriate action. Also, there are no challenging or probing questions, which is one of the main tools needed for effective AC (Beasley et al., 2009; Gendron and Bédard, 2006; Spira, 1999), made by AC11 to confront the management about her suspicion of the real reasons for the change. AC11

justifies her action that there is no eminent damage since the new auditor is also a Big-4 audit firm and there is really a difference in the audit fee level. Whether the new auditor will be as rigorous as the incumbent one is a matter that the AC needs to monitor in the future. In short, AC11 is reluctant to ask questions that can cause discomfort for the management, the behaviour of which is consistent with *krengjai* as defined by Komin (1990).

Even though by codes and laws, the power to appoint the external auditor belongs to the AC, the management are able to exert their influence by making proposal for change at the meeting. However, because of her *krengjai* behaviour, AC11 ignores criticising such inappropriate action or scrutinising the management's real intention to avoid attacking the face of the management. Such *krengjai* behaviour is also consistent with the expectations of the persons with interdependent self-construal, as suggested by Markus and Kitayama (1991). Similar to the account of AC11 above, Gendron and Bédard (2006) also finds that the change of auditors can hardly be resisted by the AC once the management decides that the working relationship with the external auditor is not good. However, this research highlights that the effort to maintain relationship resulting from *krengjai* behavioural trait of the AC members is another possible rationale for the AC agreeing to the auditor change suggested by the management.

Similar to the practice by AC11, various participants in the AC process believe that AC members to a certain extent behave in a *krengjai* manner towards management:

“In Thailand, you cannot think straight and act straight at all time... The audit committee must also krengjai the management... It may not act in a krengjai manner for matters that are absolutely wrong but certainly it must krengjai the management in various other issues in order to ensure smooth co-operations.”
(AC-Sec5)

“Krengjai is the habit of Thai people... Unless it is a really big issue, everybody will try to krengjai and save face of the others.” (Mgt8)

The above two quotes stress the fact that *krengjai* behavioural trait affects the AC's behaviours on issues other than those absolutely wrong or clearly significant. This means that most business issues which involve certain levels of judgements and not clearly significant can be influenced by the *krengjai* behavioural trait. *Krengjai* behavioural trait thus affects majority of the business issues.

5.2.2.2 AC member's krenjai towards another AC member

The krenjai between AC members can as well generate questionable governance results. AC4 tries to push—in vein—for the risk-based approach of internal auditing during the discussion with the internal audit manager. He then pursues the matter with his AC Chair who in return says that this is an operational issue and the AC should not get involved. In the attempt to maintain good relationship and connection between people in the group, AC4 stops the questioning since he does not want to further confront the AC Chair even though he believes the reason given by the AC Chair is invalid:

“I cannot even force the internal auditor... [The Internal Audit Manager] said, “Look, Khun¹³ [AC4], the culture here is like that. You cannot be too fussy on them; otherwise, there will be problems”. I then raised this issue with the Audit Committee Chair who then responded, “This is an operational issue. Do not get involved... If there are any problems, I am the Chair and I am first to accept the responsibility”. I could not speak anything further but I did not agree that it was an operational issue [that the audit committee should not get involved].” (AC4)

The essence of the matter is that AC4 is relatively young, compared to his AC Chair, both in terms of age and position. He then needs to observe the krenjai expected of him towards the senior person. He does not confront the AC Chair more vigorously because he believes that he still needs a certain level of good relationship with the AC Chair in order to ensure smooth operations of the AC. AC4's deference to the powerful AC Chair is consistent with the definition of krenjai by Klauser (1993) and the motivation of deference—the need to respect and follow a superior—common to people with interdependent self-construal (Markus and Kitayama, 1991). It should be noted that AC4's obedience (krenjai) towards the AC Chair is common for junior Thai persons who should not disagree with the senior, as found in the studies in other areas (e.g. Srisuruk, 2011; Walther et al., 2008; Prpic and Kanjanapanyakom, 2004). Krenjai behaviours are normally expected and practised by junior towards the senior, not the other way around. The account by AC4 illustrates how the AC operation could not effect good governance by introducing a more proper audit methodology for the internal audit function. The AC's role in this regard is thus ceremonial.

¹³ “Khun” is a generic title used for both men and women in Thailand. It is equivalent to “Mr”, “Mrs” or “Ms” in English but “Khun” is followed by the first name, not the last name. It is not a practice in Thai language to address any person with only the last name.

The incidents where an AC member is krenghai of another AC member are also witnessed by other participants in the AC process. For example, AC-Sec3 witnesses on various occasions that AC7 makes certain incorrect comments about the controls or accounting issues but AC8 and AC9 have rarely corrected them at the meeting. AC-Sec3 believes that those behaviours are the results of the needs not to embarrass AC7, i.e., need to krenghai. In some incidents, AC8 subsequently asks AC-Sec3 to change the draft minutes of meetings to properly reflect the correct descriptions of matters that have been incorrectly mentioned by AC7. Those issues are normally not seriously important matters that need to be corrected immediately during the meeting.

5.2.2.3 AC's krenghai towards external auditors

The ACs with interdependent construal of self may attempt to maintain the connectedness with the external auditors by avoiding the face-losing questions and letting go of the issues without rigorous probing. AC4 recalls when an audit partner, who was a former acquaintance from his prior work, cannot properly answer his question about the accounting treatments of the volume rebate. He believes that the audit partner was taken by surprise by his question and thus was not able to provide proper answers. Despite a quite firm belief that the accounting standards require the accrual of these rebates from day 1 of the sales, AC4 did not insist on any further evidence or clarification:

“The audit partner did not seem to know the answers, saying instead that it was not a big deal, it is not material... He must have thought that I was trying to challenge him because I used to be in that profession as well... Nothing can be done further. I just need to put his response in the minutes of meeting of the audit committee.”
(AC4)

Because AC4 is krenghai of the audit partner and, for the sake of relationship, he does not further push for clarification and evidence even though he believes the related amount might be significant. The krenghai in this case results in avoiding assertions of opinion and needs for clarifications that can result in the discomfort of another person, consistent with the characteristics of the krenghai described by Komin (1990) and Holmes et al. (1995). This krenghai behaviour might actually prevent a discovery of a significant breach of accounting standards, making financial reporting less reliable. AC members in other countries who share this aspect of the krenghai behaviour, i.e. care for

relationship, might respond similarly. This might be the cause why several studies, based on only archival data, find inconclusive evidence about the AC effectiveness in improving the financial reporting quality (Malihi et al., 2012; Smaili and Labelle, 2009; Pucheta-Martinez and De Fuentes, 2007).

The above account might also be explained by the inequality of the power of the accounting knowledge between the AC member and the audit partner. Since the auditors are considered the expert in accounting, it is hard for the AC members to argue with them. Moreover, since Thai SEC (2008) just requires that one of the AC members possesses sufficient financial or accounting knowledge and experience to be able to review the reliability of the financial statements, the Thai AC thus tends to rely very much on the external auditors, making the check-and-balance function more difficult. Based on the overall analysis of this thesis, the reliance solely on the external auditor's knowledge of accounting seems to be a common practice of the Thai ACs. Even though the AC's terms of reference allow the AC to engage other external consultants for any issues the AC deems necessary, all interviewees in this thesis have never witnessed any ACs utilising such power.

The *krengjai* by AC members towards external auditors has not been witnessed by other interviewees in this research. It might be that there are very limited opportunities for AC members themselves to have disputes with external auditors, due to the inequality of knowledge as mentioned in previous paragraph, thus resulting in AC members believe in whatever explanations provided by external auditors.

5.2.2.4 External auditor's *krengjai* towards management

The *krengjai* behavioural trait is also visible in the interactions between the management and the external auditors, resulting in certain issues not being reported to the AC. For example, CPA11 believes that he is willing to compromise on internal control issues that need to be reported at the AC meeting. He believes his main concern is on the fairness of the financial statements being audited and therefore is willing to compromise on the other issues that may cause any problem for the management but he cannot compromise on the quality of financial statements being audited. He describes:

“The auditors have to sometimes be krenjai, especially when we speak in the audit committee meetings with the management present... If it is about the fair financial statements, we discuss with full facts... Krenjai affects only the other issues, like internal control that can cause trouble for management... We cannot krenjai when it comes to the financial statements.” (CPA11)

One may argue that the issues that are not reported in presence of the management in AC meetings might be raised again by the external auditors in the private meeting according to the spirit of the mandatory private meeting between the AC and the auditor. However, this might not be the case for Thai ACs because the auditors need to maintain a good relationship with the management and reporting the issues behind their backs does not help accomplish that. The external auditors then need to behave in a krenjai manner by not informing the ACs of the whole facts if doing so may have negative consequences on the management or employees or may create situations where future co-operations might be jeopardised. CPA10 explains:

“I feel krenjai about telling the audit committee the truth about the performance of the staff in accounting department when the audit committee asks us in the private meeting... I will gently tell them parts of the whole truth... It has to be gradual so that I can keep the good relationship with the accounting staff.” (CPA10)

The above accounts from CPA11 and CPA10 show that private meetings between the AC and external auditors might not result in good governance by Thai ACs because of the krenjai behavioural trait. This might also explain why Tengamnuay and Stapleton (2009) find that the least commonly performed function of the Thai ACs is the arbitration of disagreements between management and external auditors (with the mean 0.56 out of 1). Since compromises might have already been made by the external auditors, there is less chance of disputes being forwarded for the AC’s consideration. This might also explain why several ACs report limited experiences of disputes between the management and the external auditor (e.g. Gendron and Bédard, 2006).

The krenjai behaviours of the external auditors towards the management are also substantiated by other participants in the AC process in this research although those behaviours do not result in significant lapses in governance. For example:

“Krenjai is the main issue... They normally talk very little about the matters presented to the audit committee or do not provide the whole facts of the matters. The audit committee needs to find other ways to get the information by making the

conversations very informal or even talking to someone else outside the meeting to get more details” (AC5)

“Some auditors are so krenjai of the management... They are afraid to disturb the top management when lower management delays the provision of information they need... I need to help them get the information.” (AC11)

5.2.2.5 Management's krenjai towards the AC

As opposed to the accounts provided earlier on the negative impacts, the krenjai by the management towards the AC members can result in more willingness to cooperate and compromise by the management at the AC's requests. Such krenjai behavioural trait can create positive governance outcomes at the AC. For example, the management with the interdependent self can foster the krenjai behavioural trait, resulting in more disclosure of information to public and better internal control, as illustrated by the three accounts below.

Upon learning of a fraud incident discovered by the internal auditors, AC8 and his AC informally visited the CEO to discuss their desire to include the discussions of the fraud incident in the AC report. He explains:

“The CEO is krenjai of the audit committee... We were worried that he would not agree to such disclosure since it is not one of the suggested disclosure items in the audit committee report... After a brief persuasion, the CEO agreed to our request.” (AC8)

Because the management is krenjai of the AC, they agree to such disclosure after only a brief persuasion even though the incident might reflect badly on the company's management. The krenjai by the management in this incident is demonstrated by the act of complying with the request by the others (see Holmes et al., 1995). It is also consistent with the interdependent construal type of self because the management has shown nurturance motive, in which the objective of financial statement's transparency by the AC is more important than the personal pride resulting from the mismanagement. This evidence of krenjai effect is of importance because it enables the management to disclose information that is additional to the minimum requirements. This is in contrast to the findings by Hope et al. (2008) that the management in the country with high secrecy score—as in the case of Thailand—are less likely to provide high level of disclosures. The management might be more reluctant to disclose at first but the AC that the management is krenjai of can increase

the likelihood of additional disclosures. Moreover, the findings in this study are consistent with Turley and Zaman (2007) in term of the informal process being used to achieve the AC governance.

When faced with disputes with the management, the external auditors can also rely on the *krengjai* by the management towards the AC to resolve the issue. CPA7 experiences a problem with a client who does not want to disclose the interest rate of the borrowing even though it is required by the Thai accounting standards. A few rounds of negotiations do not yield satisfactory results. CPA7 decides to take the matter to the AC and finds that:

“The management is more krengjai of the audit committee than the opposite... A customer does not want to disclose the interest rate of their borrowing in the notes to financial statements because they claim it is a sensitive issue. The issue is raised to the audit committee and the audit committee sides with the auditor. The management then accept it because they are krengjai of the audit committee.”
(CPA7)

This incident described by CPA7 reflects the *krengjai* from the aspect of deference to the more powerful others as suggested by Klauser (1993) and complying with the others' requests pointed out by Holmes et al. (1995). The use of the AC by the external auditor in the account is similar to an incident noted in a case study in the UK by Turley and Zaman (2007) where the AC is used as an ally to the external auditor to effect a governance outcome. The main difference is that the outcome in the UK case is simply a result of the acceptance of the AC's power while the account provided by CPA7 here incorporates an element of the deference towards the AC's request arising from the *krengjai* behavioural trait. Such deference results in the smooth co-operations, with less challenges or persuasions involved.

AC-Sec2 provides further evidence on the effects of the *krengjai* by the management with interdependent construal of self. For a long time, the CFO of her company has unsuccessfully asked the owner to change to computerised accounting systems for better control environment and more efficient financial reporting. The CFO finally approached the AC member who she thinks is fair and interested in having stronger control to convince the owner of the company on her behalf. The owner finally agreed to the AC's request. AC-Sec2 explains:

“The audit committee helped talk to the owner into changing the accounting system from manual to computerised system that [the CFO] has tried to convince the owner many times, but in vein. The owner is krenjai of the audit committee because the audit committee is very senior and well respected.” (AC-Sec2)

The owner who is also the management in the account by AC-Sec2 above behaves in a krenjai manner towards the AC by, according to Holmes et al. (1995), complying with the request in order to maintain a co-operative relationship. The incident described above also provides further evidence that AC influence is significant outside the formal process, e.g., in the AC meeting (Turley and Zaman, 2007). This study however offers an alternative to the power relationship explanations in that study by showing that the behavioural trait is a driving force behind such governance outcomes.

The krenjai behavioural trait, which results in the disclosure of fraud incident, interest rate disclosure and the change to new accounting system in all the accounts described above, are supported by the motivations of ‘nurturance’ or ‘deference’ by the people with interdependent self (Markus and Kitayama, 1991). To maintain a good relationship between the people in the group, the management show their respects by accommodating the needs of the ACs, once the ACs raise the issues or concerns with them. Therefore, krenjai behavioural trait can affect the will of the person to comply with the requests of another person whom the former has krenjai towards.

In summary, krenjai behavioural trait can have both negative and positive impact on AC operations. When the other participants of the AC process are krenjai of the AC, the cooperation or compromise to the AC's requests is possible. However, if the ACs themselves or the external auditors are krenjai of the other participants, the governance process and outcomes might be at risks. Since many Thai participants in the AC process have predominant interdependent construal of self, the krenjai behavioural trait is likely to affect the AC operations both ways, depending on the levels of interdependent-independent self of the parties involved in the process.

It is noteworthy that krenjai does not seem to be generally acknowledged openly. However, as the earlier discussion showed, it does manifest itself in the interactions between AC participants.

“Nobody will tell you that they are krenjai of management but [krenjai] certainly does exist [in the AC operations].” (CPA12)

The claim that compliance with good governance is more important than krenjai behaviours by some interviewees is found in this study but it is inconsistent with the findings by Komin (1990) that Thai people task orientation ranks the last of the nine value orientations while the relationship orientations rank the second and third. However, the inconsistency in the findings might be a result of differences in compositions of the samples used. About half of the samples in her survey are government officers who may have been slow to adapt to the modern business world, when compared to the business people. Also majority of Komin’s (1990) study includes people in upcountry areas whereas the interviewees in this study are all working in Bangkok metropolitan. It may also be a result of the gradual change in values of Thai people to be more task-achievement oriented, as well as more open, frank and direct expression of feelings and opinions, especially among the younger generations as suggested in more recent literatures (e.g., Mujtaba et al., 2010; Klausner, 2002). Lastly, those claiming that krenjai behavioural trait have insignificant impact on AC operations might be those with the predominant independent self. As mentioned earlier, each society has people with both the independent and interdependent construal of self; it is a matter of predominance (Morisaki and Gudykunst, 1994). A number of Thai people welcome the adaptation of their traditions to the modern world (Verluyten, 1997), in which the people with construal of independent self are increasingly prominent and thus the effects of such behavioural trait are becoming less.

Since krenjai and bun-khun¹⁴ are also the social values emphasising harmonious social relations and consideration for others (Kamoche, 2000), they often interact in various ways and it is noteworthy to briefly discuss about bun-khun. As proposed in the framework from Chapter 3, the person who needs to pay back the bun-khun might behave in a krenjai manner towards to the other person who has previously performed certain good deeds for the former. Many interviewees believe the grateful relationship exists and is involved in the AC operations but such relationship is not evident and cannot be observed easily:

¹⁴ Bun-khun, as discussed in Chapter 3, relates to the indebtedness of goodness done by the other party and feeling to reciprocate for that goodness in the future.

“We can never know but... there surely is such [bun-khun] relationship”. (CPA12)

“Sure, there is [the grateful relationship] but it depends on whether each individual director has integrity [in performing his/her roles] or not”. (AC3)

“The orientation towards grateful relationship does not display itself in evident manners. It might exist but I don’t try to find it out... Audit committee members are selected by the management or the directors. So, there must be some levels of gratitude involved. It is just that we need to be careful that it will not affect work”. (AC11)

All the quotes above similarly point out the existence and the subtlety of the bun-khun relationship. However, it is not easily noticeable because such relationship is considered negatively in term of good corporate governance.

5.2.2.6 Krengjai and foreigners as AC members

Several accounts discussed in earlier sections tend to confirm that krengjai behavioural trait is widely adopted and practised by the Thai AC members and the participants in the Thai AC process. This section provides accounts to illustrate how differently the foreign AC members in the Thai ACs provide contributions to the governance outcomes within the work environment where several participants in the process behave in krengjai manners.

Two foreign AC members interviewed in this study are from western countries where people there predominantly construe more of the independent self. The third foreigner also has more of the independent construal of self when compared to several Thai AC members, even though he is from another Asian country. All of them have been in Thailand for a number of years, with two of them more than 10 years, and are thus familiar with the Thai behavioural trait of krengjai.

This study shows that there are three main benefits of having a foreigner as a member of the Thai AC. *Firstly*, the foreigner can encourage the other Thai AC members to raise more questions during the AC meeting. For example, AC9 tries to lead the Thai AC members for further questioning whenever possible:

“You know...in the Thai culture, people don’t really speak up, they won’t volunteer. Most of them are quite happy to listen and then they also avoid conflicts, open conflicts. They might do it, you know, quietly but they try to avoid

conflicts. So,...especially for a foreigner like me, who's non-Thai...sometimes, I feel that I should be the one asking the question—throw up ideas—and once the question is asked and answered,...and then hopefully start the thing rolling. And then immediately you'll find that some directors who agree with you say "yeah, yeah" and some will say "well, hold on, you know, what about this"; but at least you get things going." (AC9)

AC8, Mgt3 and Mgt4, who all are from the same company with AC9, provide similar comments that AC9 are the one who always takes a lead in questioning and commenting. AC9's active expression of ideas and issues is also witnessed by the researcher during the non-participant observation of an AC meeting.

Secondly, a foreign AC member can assist the Thai AC members who are not normally expressive by asking the questions that are prone to confrontations or impositions of the other persons, non-krengjai, on behalf of the Thai members. In an attempt to foster connectedness between people, many Thai people act in a krengjai manner and rarely challenge any issue or people in the meetings, for fear of imposing on the feelings of the others or creating conflicts or confrontations (Komin, 1990). In this regard, AC1 explains:

"In the audit committee, at the beginning, I was the only one that asks questions. Then, there were improvements ... In the second stage of the improvements, another [Thai] member may come to you and asked you to ask this question at the next meeting." (AC1)

AC1's experience of the Thai AC members asking him to raise questions at the AC meetings on their behalf is also shared by both AC9 and AC2. This account implies that the Thai AC members believe that the foreigners can behave in a less krengjai manner towards others and thus can be more direct and ask more challenging questions. These characteristics of being direct and expressive shown by the foreign AC members are consistent with more independent construal of self by the people generally from the more individualistic societies as in the western world (Jacob, 2003; Morisaki and Gudykunst, 1994).

Lastly, the foreigners in the Thai ACs may push for better governance outcomes themselves by ignoring the krengjai behavioural trait and following their desires to express the internal attributes, i.e. independent self. For example, AC9 notices the non-

confrontational and kengjai behaviours of his Thai AC members and thus sees the need to push the other members to challenge more:

“I think it's probably right to say [that Thai people are] ‘non-confrontational’. They would never want to confront. I believe, even you don't want to confront, but if the issue is important enough, you must escalate it to a level where you can look at it objectively... go to the board... Normally, I would explain that we need to escalate it... It happens both ways. Sometimes, I say we must escalate this and they say ‘yes’. Sometimes, they say ‘no’ and I say “no, we need to bring it up”, especially those will be major issues, sometimes, people management issues.”
(AC9)

There are two interesting issues arising from AC9's comment above. First, there is a question of what constitutes as ‘major’ issues. The judgement by the foreign AC member and the Thai AC members seems to differ here. Naturally, given the time constraint of the ACs at the meetings, the ability of the AC members to make judgement on which issues are important is critical to the AC operations. However, the subjective nature of certain issues makes it very difficult to be judged by the AC members. Such judgement might result in certain ACs being perceived as ineffective when the outsider's views are different from those of the ACs. Further study on how ACs determine the importance or materiality of the issues at hand may shed more light into the AC effect. Second, the tactic to escalate the issues to the board of directors for decision making is employed by the AC in an attempt to avoid face-to-face confrontations with management. This is considered an upward appeal technique, also used from time to time by the non-executive directors in the UK (McNulty and Pettigrew, 1996). Such a technique might be more popular for the ACs in Thailand because the ACs can distance themselves from the confrontations with the management, reflecting the kengjai behavioural trait.

In another account, AC9 contradicts all the management on the board when he insists that a proposed practice regarding a disclosure of certain news to the public is incorrect. This is even after the management informs him that it is the practice of the market in Thailand and an informal consultation with the regulator reveals that the practice is acceptable. Although all the other directors in the board, including all the other Thai AC members, seem to accept the proposed practice already, AC9 is still adamant that the company follows the more proper practice that is internationally accepted. AC-Sec3, who is also present in such meeting, recalls the incident:

“He is the only person arguing vigorously with the management... It seems that many directors also understand the reasons he provides, since he mentions that it is the proper practice in other countries, but those directors do not speak much anyway.” (AC-Sec3)

AC8 and Mgt4 are also present at the meeting and, when asked about the incident, they praise AC9’s for his courage to stand up for better governance. However, the feelings of Mgt1 and Mgt2 on AC9’s position are a bit different since it disrupts the business operation and they see no problems in the matter since the local regulator has already accepted it informally.

It thus seems the foreign AC member would strive for the best practice, instead of simply complying with the local regulations, especially when there are no written rules available. This might be a result of the independent construal of self which makes him strive for his own good governance goal, while the Thai AC members are more willing to sacrifice this kind of personal goal in exchange for the smooth interpersonal relationship within the group. AC9 does not behave in the krenjai manner in this incident because he may feel that he is compromising his integrity (internal attribute) if he disregards his belief in the best practices. He thus does not feel the need to entertain feelings of the other directors and does not fear to cause discomfort or inconvenience for those directors (i.e. krenjai).

The last example of the effect of the foreign AC member actions in a less krenjai manner is from the account provided by AC1. He, having lived in Thailand for more than two decades, respects and recognises the importance of the krenjai and face-saving traits of Thai people. When AC1 faces any issues or has concerns, he thus normally has an informal meeting with the parties involved first. However, if the informal meeting does not work well, he will act in the non-krenjai manner, generally exhibited by persons with predominant independent construal of self. AC1 discusses how his AC operates to get the desired outcome:

“In one of the companies...when there’s something really serious, we go to the chairman [of the board] and then he goes privately to talk to [the executives]. And then he comes back and reports to us...then we say, “Well, no, not good enough, go again and come back. If it’s still not good enough, we are going to do in the open meeting”. And normally they give up. They don’t want it in the open meeting or the face loss is too much... First strategy is always doing it informally—using very senior person to do it informally so there is no loss of face.” (AC1)

AC1's remark above indicates the importance of using the informal process in order to better effect the governance outcomes in Thai contexts, which is one of the common practices when ones handle the issues in the *krengjai* manner.¹⁵ However, as a foreigner, he is still willing to use the direct face threat as a means of getting the desired outcome. This account of AC1 reveals one striking difference in the approach to problem solving between the foreign ACs and several Thai ACs. The use of threat of face loss to force for the desired outcomes by AC1 is more explicit and put on record, even though the threat has been softened to a certain extent by the use of the chairman as an intermediary in the first place. The use of threat is considered an assertive strategy which is unlikely to be a common strategy employed by people with *krengjai* behavioural trait. However, it can be more common for a westerner as in the case of AC1 here, consistent with the frequent use of assertiveness strategy reported by the non-executive directors with designated authority (McNulty and Pettigrew, 1996). The approach by the Thai ACs in response to the desired governance outcomes discussed in several accounts earlier, such as personal persuasion or reasoning, is considered more subtle, without the use of threats at all. When all the strategies do not work, the AC may then consider resigning from the position without disclosing the real reasons as some interviewees in this study believe, discussed earlier. The differences are mainly caused by the different predominant construal of self as explained earlier.

At this stage, a question naturally comes to one's mind. How differently would the Thai ACs perform without the foreign AC member? When asked specifically about the impact of the foreign AC member in the AC, AC-Sec3 believes that the foreigner in the AC makes the AC stronger and more effective:

“If there is no Khun [AC9]¹⁶ in the audit committee, there would be less challenges and the audit committee would become too easy-going... The management would get used to the old habits and take advantages of the situations, except when there are Thai people like Khun [a Thai AC member of another company in the group] and Khun [the former Thai AC]... Yes, most Thai people are not like those two persons.” (AC-Sec3)

¹⁵ The use of informal meetings is another consequence of the *krengjai* behavioural trait found in this study but not discussed in this chapter.

¹⁶ “Khun” is also used for a foreigner in Thailand to reflect the informality and thus certain closeness between the speaker and the person.

Similar opinion is provided by AC7, AC8, Mgt3 and Mgt4, all of whom are from the same company with AC9. They generally appreciate the benefits of having AC9 in the AC since he asks good questions and provides practical suggestions. The non-participant observation by the researcher also reveals that AC9 is the most active AC member in terms of questioning and recommendations. The other two AC members—AC7 and AC8—are rather quiet most of the time during the meeting even though the issues in discussion are related to accounting where AC8 is the designated accounting expert of the AC.

The later part of the quotes above from AC-Sec3 emphasises that some Thai people can also act in the less *krengjai* manner, i.e. being direct, expressive and confrontational—predominant independent construal of self—even though there may not be as many. However, many Thai people involved in the AC operations in this study still act in a *krengjai* manner and are less confrontational, consistent with the literature on cross-cultural behaviours (e.g., Shimoni, 2011; Yukongdi, 2010; Gupta et al., 2002; Schwartz, 1999). Therefore, the remark by AC-Sec3 supports Morisaki and Gudykunst's (1994) proposition that although the interdependent construal of self is predominant in the collectivistic society and the independent construal of self is largely present in the individualistic society, each society has people with both the independent and interdependent construal of self.

AC5, a Thai AC member, also witness the effects of having the foreigner in the ACs. He believes it promotes the challenges and confrontations for better governance by the AC that has persons with predominantly interdependent self:

“There are limited effects of the non-confrontational value [of Thai members] here because there are foreign members in the board as well. If there were no foreigners present, the board might be dominated by senior people more easily.”
(AC5)

The above remark also reiterates the importance of the *krengjai* behavioural trait of the Thai participants in showing respect for senior persons by not offering opinions that are considered contradicting or challenging those of the senior, as discussed earlier. This account supports the prevalent norms for respects of senior people and higher authority,

even though this trait is perceived to have less impacts in modern days (for instance, Ralston et al., 2005; Fieg and Mortlock, 1989).

It should be noted that even though the accounts above indicate that foreigners present in Thai ACs generally contribute to stronger and diverse ACs with less krenjai behaviours, the AC influence is still also subject to other formal structures, such as independence, expertise and diligence. As an example, AC2 cannot contribute much to the AC oversight of external audit since his background is in law. He is therefore of less interest in the areas that he has no expertise. He does not feel krenjai to ask questions concerning accounting issues but he admittedly raises only limited questions, mainly for clarifications.

This section has provided evidence on AC operations in a society that krenjai behavioural trait is prominent. It shows that the behavioural trait plays a role in conditioning the AC process and outcomes, making all parties to be more accommodating to the requests of the others.

5.3 CONCLUDING REMARKS

This chapter examines a component of the AC operations that has been ignored in the governance research literature, i.e. behavioural traits. One of the most prominent Thai behavioural traits, krenjai, was selected for this study. Krenjai behavioural trait is found to be present in Thai AC operations and displayed in several participants in the AC processes, including the ACs themselves. The adoption of krenjai by many Thai participants is a result of their construal of interdependent self that naturally facilitates and fosters it. The effects of the krenjai behavioural trait vary among Thai AC members and the other parties involved in the AC processes, depending on the predominant type of the self-construal of each person.

This study finds compromising behaviour as one of the main effects of the krenjai behavioural trait displayed by the Thai ACs and the participants in the process. The krenjai behavioural trait plays a role in providing positive governance results when the other participants in the AC process are krenjai of the ACs. The positive governance effects found in this study include the management's compromise to the requests for more disclosures in the AC report and in the financial statements and the improvements of the accounting systems. However, when the ACs themselves are krenjai of the

other participants, including the other AC members, governance can be compromised. This study finds evidence of the krenjai behaviours affecting the governance by making the AC unwilling to resist the management's determination to change the external auditor, unable to steward the internal audit towards a more risk-oriented methodology, and unwilling to challenge the external auditor for better clarifications of accounting practice. The krenjai behaviours by the external auditors can also result in incomplete internal control reporting to the AC or the presentation of incomplete facts about the performance of the accounting staff to the AC. The krenjai's manifestations in the AC process that result in such negative governance outcomes are mainly caused by a desire to avoid causing discomfort to other participants in the process or the deference to more powerful others. The positive governance outcomes from krenjai are principally from the complying with the requests by the ACs and deference to the ACs.

Foreigners, especially the westerners, participating as a member of the Thai ACs included in this study are aware of the krenjai behavioural traits and they to an extent try to behave accordingly. However, they can contribute to stronger governance by encouraging the Thai participants to contribute to the meetings, persuading the Thai AC members to escalate issues to the board considerations, or can assist in raising non-krenjai questions on behalf of the Thai AC members. From time to time, they are willing to behave in a less krenjai manner to ensure that desired governance is achieved. This study finds that a foreign AC member strives for better governance practice even though it is not required by the local authority. Another foreign AC member uses face threats as an ultimatum to force the management to reconsider the inappropriate transaction. All these are made possible by the construal of independent self of the foreigners in this study. Participants in the AC process believe that the absence of the foreign AC members might result in a less stringent AC or an AC being dominated by senior people where the younger AC members have little chance of proposing ideas or arguments.

This research makes three main contributions to the academic literature. First, it introduces the concepts of construal of self and behavioural trait to the study of AC in response to the calls from additional theoretical work on the AC operations (Bédard and Gendron, 2010; Beasley et al., 2009) and more studies on the AC process (Turley and Zaman, 2007). This study extends the use of the construal of self, proposed by

Markus and Kitayama (1991), to the AC, management and external auditor settings. The adoption of the national cultural value of *krengjai* to individual's behavioural trait is made possible through the interdependent construal of self by several Thai interviewees.

Second, this study finds evidence supporting a possible reason for the inconclusive results of several AC studies. The compromises resulting from the behaviours of the ACs with predominant interdependent self can play a part in making certain aspects of AC operations ceremonial while the others being more substantive. The findings of this research might also be applicable to the western societies where a large number of the extant studies were conducted. As suggested in the literature (Morisaki and Gudykunst, 1994; Gilligan, 1993), each society has people with both types of self-construal (interdependent and independent). Triandis (2004) suggests that the individualist culture, like in the US or the UK, can have up to 35 per cent people who think, feel, and behave like people in the collectivist cultures where interdependent construal of self is predominant. The behavioural trait of the AC members who have the interdependent self in those countries might be another reason for the inconclusive findings of the extant studies.

Lastly, this study adds to the literature of ACs in the emerging markets, such as Thailand, and extends the study by Tengamnuay and Stapleton (2009) by providing the behavioural perspectives of the AC operations with the focus of the *krengjai* behavioural trait. The results of this study might also be applicable to the ACs in other countries in the emerging markets where behavioural traits are similar to those found in Thailand.

As discussed earlier, this chapter focuses on the findings of the behavioural traits and self-construal, which according to the framework proposed in Chapter 3 is a part of the analysis of the AC's power. The next chapter focuses on the power analysis of the AC process, particularly in the oversight areas of auditor appointment and dispute resolution.

CHAPTER 6 : AC'S EFFECT ON EXTERNAL AUDITOR SELECTION AND DISPUTE RESOLUTION

6.1 INTRODUCTION

After a decade of reforms of AC's responsibility by several regulators around the world, there is still concern about the ability of the AC in fulfilling its role on the promotion of external auditor's independence, particularly in the areas of appointment of external auditors and resolutions of disputes between management and external auditors (Cohen et al., 2010). The regulators around the world have similarly suggested that the AC should be in charge of auditor appointment in order to ensure that the auditor's independence is protected and management's undue pressure is avoided. The AC's role over the resolution of disputes between management and external auditors has received more attention after the enactment of the Sarbanes-Oxley Act (SOX, 2002) in the US (Salleh and Stewart, 2012), following several major accounting scandals in the US and Europe. Such involvements by the AC are expected to effectively protect the auditor independence, resulting in better audit quality.

The studies on the relationships between the AC and the external audit function are scant, compared to the other areas of AC effectiveness, such as financial reporting quality or earnings management. Majority of these limited studies focus on relationships between AC characteristics and proxies of AC effectiveness using statistical models. AC characteristics subject to this type of studies are AC's existence, diligence, independence, expertise and size. As discussed in Chapter 2, the studies in auditor appointment and dispute resolutions do not provide conclusive results and some important answers have yet to be explored. For example, Lee et al. (2004) find that AC independence is related to the selection of Big-4 audit firms while Chen and Zhou (2007) do not find such relationship. On the opposite, Chen and Zhou (2007) find a positive relationship between AC's diligence and the selection of quality auditor while Lee et al. (2004) do not. Financial expertise of the AC is found to be related to the shareholders' ratification of the auditor appointment (Krishnan and Ye, 2005) and voluntary auditor appointment (Mangena and Tauringana, 2008) while there is no

significant relationship with the selection of quality audit firms (Chen and Zhou, 2007; Lee et al., 2004). On the dispute resolution, the AC experience in other ACs and prior manager experience, especially the aggressive type of manager, are positively related to the dispute resolution (Singtokul, 2010; DeZoort et al., 2003a; DeZoort and Salterio, 2001). However, the financial expertise of the AC is not found to be significantly related to dispute resolutions (DeZoort and Salterio, 2001). The relationship between the AC's knowledge of auditing and the dispute resolution is inconclusive, with the majority of the studies showing positive relationship (Singtokul, 2009; DeZoort et al., 2003a; DeZoort and Salterio, 2001) and a negative relationship in one study (DeZoort et al., 2003b). The causes of insignificant effects and inconsistent findings in these studies have not been investigated in detail, resulting in incomplete understanding of the AC effects.

Studies based on qualitative methods on AC effects are also limited but growing and they have provided rather different perspectives from the mainstream studies. In many cases, the management, instead of the AC, is still found to be the main driving force in auditor appointment (Fiolleau et al., 2010; Turley and Zaman, 2007), raising doubts about the ability of the auditors to maintain their independence. Several studies find a wide variation of AC effectiveness—substantive vs. ceremonial performances—in the area of auditor appointment and termination (Cohen et al., 2010; Gendron and Bédard, 2006). Similarly, the recent literature shows that even after the passage of SOX in 2002, several auditors still do not perceive much of AC's influence over dispute resolutions. Cohen et al. (2010) report that about half of the external auditors perceive that the AC does not play an important role in the resolution of the disputes between the management and the auditors. Such a large number of ACs with ceremonial role are found even though the ACs themselves indicate that they are more likely to support the auditors in disputes with management, when compared to the pre-SOX's era (DeZoort et al., 2008). The causes of the wide variation of the AC influence in both auditor appointment and termination and dispute resolution have rarely been investigated.

Beasley et al. (2009) recognise the inadequacy of agency theory and institutional theory and thus call for further theoretical research to explain the mixed results of AC's role. With few exceptions, the literature has focused on the use of agency theory, relying on the assumption that the ACs would be vigilant in the oversight functions in fear of the

potential loss of their reputation. Only Singtokul (2010) and Salleh and Stewart (2012) base their studies on ‘perspective taking’ theory and mediation theory, respectively, while Cohen et al. (2010) and Beasley et al. (2009) refer to institutional theory for classifications of the AC’s governance effects.

This chapter investigates the AC influence in the external auditor selection and dispute resolution processes in order to find answers for the second research question of the thesis: How does the AC’s power affect the oversights of the auditor selection process and the resolution of the disputes between the management and the external auditors? To understand how the power affects the AC’ oversight function, the accounts reported by the interviewees are analysed and discussed in terms of the context of the ACs, the sources of AC’s power, and the AC’s will and skill to deploy the power, according to the framework proposed by Pettigrew and McNulty (1998; 1995). By focusing on these three main components, this research is able to shed light on the causes of the substantive versus ceremonial roles of the ACs and some inconclusive findings in the literature. The will to deploy the AC power is an aspect missing in the literature, possibly because the will of the AC is readily presumed to exist under agency theory in mainstream studies as a result of the fears of reputation loss and the threat of lawsuits prevalent in the context of the developed countries. This research is premised on the Thailand settings and the study on the AC in the contexts of the emerging markets might shed light into the other aspects of the AC operations missing in the literature.

The findings of this research show a wide variation in the AC’s practice and influence in the oversight roles, with the majority of the AC performing a ceremonial role. The main causes of such variations on both areas are from the AC’s will to exercise the power. On auditor selection, the ACs can cause a change in external auditor when they have a will to exercise the power to do so. The management can also effect the change because in most cases the ACs have no will to exercise the power to challenge their proposal. Mostly, ACs accept that there is a need to consider the management preferences in auditor choice, and that the Big-4 audit firms are of equally high quality and any of them is capable of performing an effective audit. On the AC’s effects on the resolution of disputes between the management and the external auditors, this research finds that there is also a wide variation in AC’s influence on dispute resolution, mainly due to the varying levels of the will and skill to exercise the AC’s power, the AC’s personal interests, and the expertise of the AC.

This research contributes to the AC literature by studying the AC from the power perspective, in which the causes of wide variations in AC influence over the auditor appointments and dispute resolutions are identified. The will to exercise the power by the AC has pervasive effects on its operations but has never been studied in depth in extant studies. This research also adds to the limited AC process literature in the emerging markets by providing evidence from Thailand.

The rest of the chapter is organised as follows. Section 6.2 presents the findings and discussions in detail. Section 6.3 concludes the chapter and discusses the contributions of the research.

6.2 FINDINGS AND DISCUSSIONS

This section separately presents the findings and discussions of the auditor selection process and the dispute resolution process in Sections 6.2.1 and 6.2.2, respectively. Each section starts by providing a summary of the overall AC's involvement and effects. The causes for the AC's varied practices are then discussed with examples of specific accounts from the interviewees categorised as the context, the sources of power, and the will and skill of power deployment.

6.2.1 AC's effect on auditor selection

The section describes the findings of the investigations of the AC's influence on auditor selection. The analysis of the coding from nVivo reveals that there are two main types of AC involvement in the selection process: those taking a leadership role and those allowing the management to take the lead. The *first* practice involves ACs who to a certain extent take a lead in the auditor selection process, exercising the AC's power provided by the terms of reference. This practice is employed by two ACs being interviewed. AC1 summarises his main involvements as:

“The audit committee issued the invitation to bid, attended their presentations and decided”. (AC1)

The practice described by AC1 above is generally the same as that of AC10. The process starts by asking the AC secretary to issue a letter to all Big-4 audit firms, requesting for audit proposal. The accounts from both AC1 and AC10 indicate that the

letter is somewhat general, without any specific requirements on the qualifications or experience of the auditors. The prospective auditors then visit the company and collect relevant data from the management team and the internal audit department. Formal presentations by the prospective external auditors are made to the AC members. The AC then questions the auditors and discusses the feedback from management before making deliberation. The two ACs in this practice are fully engaged in the auditor selection process, in contrast to the practice by the AC in the study of Fiolleau et al. (2010), in which the AC is largely involved in the selection process but the management is considered the one who drives the process. Only the AC chair in their study joins the selection committee, attends the presentations by the prospective external auditors and provides comments on the auditors while the rest of the AC members are not present.

The *second* type of practice involves the AC taking a much more passive role in the selection process while the management assuming complete control of the whole selection process. As confirmed by most interviewees in this research, this practice is more common, compared to the first practice. Below are examples of quotes from various interviewees describing such practice:

“The bidding process is made to the management and the management summarise and recommend to the audit committee. The audit committee will read the presentations from all firms”. (AC2)

“The management request for the bid, listen to presentation, negotiate the fee, all by themselves, and then they propose their decision to the audit committees ... Information necessary for the auditors in preparation of the bid is from the management”. (CPA7)

“The management will first select the auditor and then forward the matter to the audit committee ... The EXCOM (Executive Committee) will ask me which one I think is good. We then discuss the reasons ... When we reach the conclusion, we propose it to the audit committee”. (AC-Sec5)

“The management will select 3-4 firms and propose to us ... We’ve never talked to those auditors”. (AC6)

“It is very rare that the presentations [of the audit proposal] are made directly to the audit committees”. (CPA11)

The ACs from the accounts above do not get involved in the selection process at all, except at the final approval stage. The management is at the driving seat, generally

consistent with the studies by Fiolleau et al. (2009). However, compared to the ACs in this research, the ACs of all three Canadian companies in the study by Fiolleau et al. (2009) get involved with the auditor selection process in certain aspects. For example, an AC in that study issues the invitation to the auditors for the audit proposal and authorises the type of information to be released to the prospective auditors during the bidding process although it does not participate in the rest of the selection process. Such AC is thus able to specify the required content of the proposal by the prospective auditors and ensure that proper information is released.

Therefore, under the second type of practice, most ACs have no direct contact with the external auditors during the selection process; hence, are dependent upon recommendations made and information supplied by the management. ACs are thus considered by some participants in the AC process, especially the external auditors, the rubber stamps for the management's decision only. Examples of the quotes to support such reflection include:

“The audit committee will normally approve whichever auditor that the management has recommended”. (AC-Sec5)

“The audit committees have little effect on auditor selection. Mostly, the audit committees will be okay with whichever auditor the management prefer”. (CPA6)

It should be noted that there is a slight variation in the second practice. Certain ACs, such as AC2 and AC5, claim to study all the proposals and presentation materials from all prospective audit firms while several other ACs only review the summary prepared by the management before approving the management's recommendations. The ACs that study the materials prepared by the auditors might be able to obtain the information that is subject to less manipulation by the management who own the power of process. According to Hardy (1996), the power of process is the power to control the flows and thus contents of the information by engaging in the activities like being the gatekeeper of communications, setting the agenda, conducting the meetings and summarising the results. However, the impacts of the study of the materials prepared by the prospective audit firms might be limited, consistent with the practice observed by a Canadian external auditor in the study by Gendron and Bédard (2006), in which the AC may appear to be involved by getting a copy of the proposal but actually the AC does not get involved in the selection process. Moreover, the proposal might have already been

subject to manipulations by the management, given that the management are the gate-keeper of all communications between the auditors and the AC.

Moreover, the ACs in the second practice seem to be influenced by the power of the system—defined by Hardy (1996) as the unconscious acceptance of traditions vested in the status quo—that the management is the focal point of the auditor selection process, which has been the case long before the establishment of the AC. Such influence in effect results in the acceptance of the power of the process in the hands of the management as well. Therefore, with the power of process in the hands of the management and the influence of the power of the system over the ACs, the ACs can hardly be effective in auditor selection and the content of influence of the AC is basically limited to the approval of the auditor as recommended by the management. Any changes to the power of the system are difficult and takes time (Hardy, 1996) and strong countervailing power, such as new laws or regulations, might be necessary.

Overall, most ACs in this research are involved in auditor selection only at the stage of approval based on the information prepared and the process managed by the management. Apart from the power of process and the power of the systems discussed above, there are several other factors that affect AC influence on the auditor selection process. In the attempt to search for possible causes for the wide variation in practice and effects on the auditor selection process discussed earlier, the sections below provide a more comprehensive analysis of the power of the ACs where contexts, power sources and will and skill to mobilise power are discussed according to the framework provided by Pettigrew and McNulty (1998; 1995).

6.2.1.1 Contexts of auditor selection process

The research finds that both the subtle context and the outer context of the AC operations impact the AC's influence in the auditor appointment. The subtle context involves the mindset of the management on the roles of AC while outer context is principally driven by the regulatory requirements concerning the AC's roles.

a) *Mindset of the management*

This research finds that the management generally have intentions to get involved in the auditor selection process due to various business reasons and thus try to insert their influences in the selection process accordingly. This in effect reduces the AC's involvements in the process unless the AC has specific reasons to prevent the management from getting involved. The management's intention is mainly driven by three main factors. First, the management do not entertain the ideas of auditor change, especially when the incumbent auditor has already established a good work relationship with them. This has been observed by many participants, including the ACs and the external auditors. Examples of quotes reflecting such observations include:

“The management are not keen on changing the auditor—for them to come and dig up things”. (CPA12)

“The management tend to be comfortable with the (current) auditor ... The new auditors can't resist the opportunity to say that the old auditors have done something wrong.... The management have been practising it for a long time and suddenly it is not okay now ... You will have a problem you didn't have before”. (AC2)

“It is hard to change the auditor because the management are still afraid that the change will be interpreted as termination of auditor as a result of conflicts with the auditor, prompting the SEC to investigate the company.” (CPA5)

The second reason involves the need for good work relationship between the auditors and the management. As partly indicated by AC2's quote above and many other participants in the AC process, such as AC8 and CPA8, the management generally prefer external auditors that can work well with them and share the same points of view on significant accounting issues. If there is to be any changes in the auditor, the management is therefore very much interested in ensuring that the selected auditor is able to serve their needs since most day-to-day interactions between the auditor and the company is through the management, rather than the AC. The management's need for good working relationships has long been known of in the auditor change literature, which indicates that the common reasons for auditor change include poor working relationships and technical disagreements (Beattie and Fearnley, 1995; Burton and Roberts, 1967).

The third reason for the management to get involved in the auditor selection process is principally the management's need to control costs of business operations. Several interviewees indicate that one of the most important criteria for auditor selection is the level of audit fee. For example:

“The most important factor [for auditor selection] is the fee level because the management is in control of the company's budget”. (CPA5)

“Audit fee is one of the main criteria for auditor selection since the management need to control the budget. All other factors play only secondary role.” (AC5)

“The management are very fee-conscious. A small increase in the audit fee is generally scrutinised and negotiated down.” (AC4)

It should be noted that the quotes from CPA5 and AC5 above also imply that the management have major influence over the audit fee, even though the regulatory requirements generally recommend that the AC is in charge of the determination of the auditor's remuneration. The fact that the management normally push for the less costly auditor is consistent with the study by Bauwhede et al. (2013) which indicates that the likelihood that criteria other than audit fee are used to select the external audit firm decreases as the extent to which management is involved in the auditor selection process is higher.

The contexts of management's resistance to an auditor change and the need for good working relationship and cost control affect the management's will to exert influence over the auditor selection. The management thus have strong intention to obtain the power of process by acting as the 'gatekeeper' of information to and from the ACs and the external auditors during the selection process (see Spira, 1999). Such power of process enables the management to control, or even manipulate the information exchange to influence the outcome preferable to them. The management's power of process and their will to exercise such power provide plausible reasons why Bauwhede et al. (2013) find that the management's involvements in the selection process is relatively high (7.64 on a scale of 10) and, in effect, limit the room for the AC to play a substantive role in auditor selection.

b) Regulatory context

On the context applicable only to the ACs in Thailand, the regulator requires that the AC consider and propose the auditor for board's consideration. However, the Thai AC guidelines (SET, 1999) provide only limited suggestions on how the ACs should carry out their responsibility and what information should be used. The Thai ACs are thus mainly involved only in the approval of the auditor proposed by the management (content of influence) after the consideration of the information provided to them by the management or the external auditors without rigorous questioning. For example, a few interviewees indicate that the reporting of the audit firm's internal quality control procedures to the AC are only made by some Big-4 audit firms in Thailand as a part of their proposal for the audit work while many other prospective auditors do not provide such information at all. Several external auditors and management indicate that the ACs do not question the audit firm when audit quality control is not presented. Many interviewees also reveal that the information about the procedures of the firm's independence policy or the potential conflicts of interests from their clients is hardly communicated to the AC. Most ACs just read the auditor's presentation materials or the management's summary without raising any questions to ensure the auditor's independence, and approve the proposal according to the management's recommendations.

Under the context where there are no guidelines for the ACs to assess the selection process, the AC lacks knowledge (source of power) on how to carry out their role. It is thus not surprising that ACs do not ask questions when crucial information about auditor independence is not presented and heavily rely on the inputs provided by the management for their selection decision. It is noteworthy that even though the existence of the AC guidelines does not necessarily result in compliance by all ACs in practice, the proper guidelines might provide some ACs who have the will to substantively exercise their power with better criteria for auditor selection.

6.2.1.2 Sources of AC power

Apart from the knowledge on how to select quality auditor discussed in earlier section, AC's time commitment to its task is very important. This research finds that some ACs have limited time availability (power of resources). Such scarce time available to the

AC members is one of the main factors that results in the unwillingness of the AC to get involved with the auditor selection process and instead welcome the management taking control of the selection process. Samples of the comments from the interviewees that reflect such time commitment of the AC are:

“Let the management do it first, otherwise it is a terrible waste of time. Let them screen and then summarise [all proposals] to us ... They will come and tell us what they think and ask how we feel about it ... We will never do it from the start”. (AC3)

“Actually, the audit committee is the one who asks the management to handle the selection process, telling them to propose at least three auditors for our considerations”. (AC11)

“The audit committees generally meet four times a year for only few hours each... I don't think they will have enough time to get into the process” (CPA3)

The quotes from both AC3 and AC11 above also indicate their lack of will to get involved and thus to exercise the power during the selection process, which further makes the management's involvements in the process as discussed above more welcome. As proposed by Pettigrew and McNulty (1998; 1995), each component of power can affect the other component. The quote from AC3 illustrates how the lack of the power of resources (time) results in the lack of will to exercise the power. The power of process in the hand of the management and the power of the system (the attitudes of accepting the management as the focal point of the auditor selection) are thus unchallenged.

The accounts of ACs having limited time resources above are in contrast to those of AC10 and AC1 who are fully involved with the auditor selection process discussed earlier in Section 6.2.1. Those ACs normally have more than the minimum AC meetings as suggested by the regulator of four times a year. AC10 normally has twelve AC meetings a year while AC1 normally has an additional separate meeting for auditor selection. The commitment to the AC's role by providing appropriate level of time by both AC members is a result of the will to exercise power in recognition of the importance of the auditor selection process. AC10 realises the importance of the process after AC-Sec4 who has long experience in the field of internal control and corporate governance proposes the need for the AC to be fully involved in the process. AC1, an experienced banker, interprets the requirement of the auditor appointment role by the regulator to include the auditor selection process to ensure auditor's

independence. Contrary to the accounts of AC3 and AC11 who do not want to get involved with the auditor selection process discussed above, the accounts of AC10 and AC1 illustrate how the will to exercise power results in additional source of power (time) being sought by the ACs to ensure proper oversights.

6.2.1.3 Will to exercise power

The analysis of the interviews reveals that AC's will to exercise power has a major impact on the level of AC's involvements and the outcomes of auditor selection process. Apart from the lack of time resource discussed above, the conditions that can decrease the will of the AC include the perceptions of the indifferently high quality of the Big-4 audit firms and the acceptance of the management preferences as a criterion of auditor selection. The condition that increases the AC's will to exercise its power is the AC's own preferences of the auditor.

a) The perceptions of indifferent, high quality of Big-4 audit firms

Due to the acceptability of any Big-4 audit firm, the AC has no will to get involved with the selection of auditors. This research finds prevalent AC's perceptions that Big-4 audit firms are highly reliable and there is not much difference among them. Several interviewees, including all interviewees from COM1 and COM2, confirm that ACs are comfortable with using any of the Big-4 audit firms as the company's auditor. Examples of quotes to illustrate such perceptions include:

“When the board asks us about the quality of the auditor, we say it is okay because it is one of the Big-4 firms. How can they (i.e. the Big-4 audit firms) not be good enough?” (AC4)

“[The AC] has had prior experiences with [the prospective Big-4 firm]... and believes all Big-4 firms are acceptable”. (AC-Sec4)

“The major criterion [for auditor selection] is fee since there are no noticeable differences among the Big-4 firms”. (Mgt4)

“No matter what the management propose, the audit committees do not object because there are all from the Big-4 firms anyway”. (CPA6)

The perceptions about the high quality of the Big-4 firms and the indifference among them are consistent with the literature from the western countries. Beattie et al.

(2012b) find that the AC chairs, CFOs and audit partners in the UK rank the Big-4 firms as the fourth most important factor, out of 36 factors, that affects the audit quality while Fiolleau et al. (2010) and Beasley et al. (2009) report opinion about the Big-4 indifference in quality. This thus contributes to the lack of will for the AC to get involved or to exercise its power in the auditor selection process. Any Big-4 firm is acceptable to the AC anyway.

b) AC's acceptance of management preferences

This research finds that the AC favours the management preferences in the choice of auditor because it recognises the need to maintain smooth working relationship between the two parties. Such acceptance thus lessens the AC's will to exercise its power to ensure the selection or retention of the external auditor principally from governance perspective, especially when the AC perceives the indifferent quality of the Big-4 firms discussed in previous section. The quotes from various participants in the AC process below support this observation:

"We also consider the feedbacks from the management for practicality reasons". (AC10)

"The audit committees always discuss matters with the management before making any decisions ... They don't normally disagree with the management preferences on auditor choice". (CPA8)

"The CFO needs to screen the preliminary scores [of every prospective auditor] before forwarding them to the audit committee because the audit committee normally asks what management thinks [about each prospective auditor]". (Mgt9)

The comment by AC10 on the management preferences of the working co-operation with the external auditors, which is supported by all interviewees in COM2, is also a common practice in companies in the developed countries (see Fiolleau et al., 2009). In the context of power as proposed by Pettigrew and McNulty (1998; 1995), such practice of the AC valuing the preferences of the management can be viewed as the power of the system at work. The long practice and status quo that a good relationship between the management and the external auditor is necessary because they are the ones who need to work together during the audit is in fact the power of the system. This power works in favour of the management by making AC pay a lot of attention to the management preferences and thus lessening the AC's will to exercise the power against the management's proposal.

The requests of inputs from the management as illustrated in all the three accounts above might also result in perceptions that the choice of external auditor is a collaborative process involving both the AC and the management, consistent with some claims by the auditors in the study of Cohen et al. (2010). Even though the AC still officially decides on the auditor appointment, it can rarely in normal circumstances make such decision against the management preferences, thus perceived as a joint decision by some external auditors. Such view is also consistent with the ranking of the AC's experience and the input from the management as the first and second most importance sources of information used for auditor selection by the European ACs in the study of Bauwhede et al. (2013). The acceptance of the influence of the management's input in effect results in the weakened will of the AC to exercise its power to select the auditor based solely on the good governance perspective.

c) AC's preference

The discussions about the auditor appointment as a collaborative effort between the management and the AC are further accentuated in this section. The research provides evidence that the AC with a strong will to use its power can also appoint the auditor that they prefer. There are three interviewees in this research who provide evidence to support such claim:

“Some audit committee members propose to change the auditor from Big-4 audit firms to a local firm but still maintain the fee to be at the same level ... They know each other [the AC and the new external auditor] ... In another company, an audit firm [non-Big-4] is awarded because it belongs to the former audit committee member of that company who has retired from the audit committee position ... The reason provided is that she knows about the company a lot more ... The other two audit committee members agree. The bidding is only for formality's sake and they can find whatever proper reasons to support their decision”. (CPA8)

“In one company, we are very close to the CFO of the company but still we do not get that prospective client because one of the audit committee members is an ex-employee of [another Big-4 firm]”. (CPA5)

“There is this client. One of the audit committee members was from the Office of the Auditors-General and said that she had never heard of my firm's name. The client finally changes the auditor although the owner does not want to because we have had a long relationship”. (CPA12)

The analysis of the three accounts above reveals that these ACs are mainly from smaller companies where the management have much respect for the social status of

the AC members. Moreover, since the audit fees are not increased, the management are then agreeable to the auditor change. In the account of CPA8, the new auditor was a former AC member of the company who had resigned and thus is well familiar with the management already, making the management aware of the potential smooth working relationship after the appointment. Therefore, the AC seems to be able to influence auditor replacement when the AC has a will to use its power and is able to provide comfort to the management's concern, if any. The success of the AC is conditioned by the contexts where the management have no will to mobilise their power to address the other needs that can contradict the AC's preference. If there are any contradicting needs, the ACs must have proper skill to use their power to convince the management.

The incidents of the Thai ACs choosing the external auditors based on the personal relationship indicated in the accounts of CPA8 and CPA5 above are consistent with an interview in the study by Tengamnuay (2005), even though her study was conducted almost 10 years ago. This reflects the persistence of the relationship fostering context in Thailand. The last part of the quote from CPA8 regarding the AC's fabrication of the reasons for the change is also consistent with a quote in the study by Gendron and Bédard (2006), in which an external auditor believes that the management might provide reasons that seem reasonable in order to change the auditors that the management are not satisfied with.

6.2.1.4 Concluding remarks

In summary, there is a wide variation of AC impact in the oversight of external auditor appointment. The findings in this chapter indicate that both the AC and the management play important roles in the matter. The AC's will to exercise its power is the most important factor for the AC to effectively perform its oversight work. Most ACs in this research have limited will to influence the outcomes of auditor selection mainly because the ACs are under the influence of the power of the system to accept the need for good working relationship between the auditor and the management, and thus put a lot of weight on the management preferences of the auditor choice. For the companies that are determined to use only the Big-4 audit firms, the ACs have even less will to object to any auditor choice proposed by the management because they perceive that the quality of all Big-4 firms are acceptable and indifferent. Moreover, some ACs have time constraint, preventing them to be fully involved in the auditor

selection process, while a few ACs are not made aware of proper guidelines on how to select a proper auditor. Both factors result in further decrease in the will to exercise any power against management's desire. Such little involvement in the selection process also makes the ACs have limited knowledge about the auditor's quality and differences between the prospective auditors for decision making. The management who benefit from the selection of the auditor they prefer then take control of the process and have chances to manipulate the information to influence the outcomes of the selection. However, the research also reveals that the AC who has a will to exercise the power to prevent the management's influence can take a lead in the selection process and appoint auditors without much management's interference. Some ACs also successfully replace the auditors, using proper skills in convincing the management. This research finds that the auditor appointment, terminations and replacements can be influenced by either party who can provide legitimate reasons. Since the auditors need to work with both parties, it is hard for another party to object to the choice preferred by the other unless both parties have conflicting preferences. If the AC is fully involved in the auditor selection process from the beginning without management's involvements, there is less chance that the management can influence the outcome of auditor selection since the AC will have more complete information about the prospective auditors, thus providing more sources of power to convince the management.

In short, the Thai ACs display limited power over auditor selection since most of the time the AC does not see the need to get involved with the selection process, or the need to object the management preferences. With also the management determination to take control over the selection process, the AC's involvement in this area is thus ceremonial.

The above findings contribute to the AC literature by providing possible reasons for many ACs being viewed as playing only ceremonial role in auditor appointments (Cohen et al., 2010; Fiolleau et al., 2010; Turley and Zaman, 2007). Mainly, the ACs have limited will to exercise their power, which is caused by the perceived acceptability of any of the Big-4 audit firms, the acceptance of management preferences in auditor choice, and limited time to get involved. On the contrary, the management have a vested interest to select the auditor that they prefer and then take control of the selection process. The management's involvements in the selection

process are therefore high, consistent with the findings by Bauwhede et al. (2013). This lack of the AC's will to participate in auditor selection and the AC's acceptance of the management preferences mentioned earlier might also be contributable to the inconclusive findings of several archival studies on the AC's effects on auditor selection and terminations (Robinson and Owens-Jackson, 2009; Mangena and Tauringana, 2008; Chen and Zhou, 2007; Lee et al., 2004; Archambeault and DeZoort, 2001). Due to the limitation of the study tool, it is rather hard for those statistical studies to include accurate proxies for the AC's will in the models.

6.2.2 AC's effect on the auditor's disputes with management

This section provides evidence on AC effects in the resolutions of disputes between management and external auditors. This research finds that there are only limited major disputes between the management and the external auditors raised to the AC and, when there are any, the AC's effects on them vary greatly. The majority of the accounts of the disputes provided in this section are provided by the external auditors interviewed in this research, possibly due to the fact that each external auditor has contacts with multiple ACs over a period of time whereas the AC is hardly presented with the disputes and can therefore provide only limited accounts. Out of the eleven ACs interviewed in this study, only one ACs had direct experience of the disputes being raised to them at the AC meetings.

The analysis of the coding from nVivo shows that there is a wide variation in the AC influence over the resolutions of disputes between the management and the external auditors. Several ACs are effective as perceived by the external auditors. For example, CPA11 expresses his feeling about the effects of the AC in general:

“The audit committee helps reduce the ‘frictions’ between the management and the auditor because the audit committee takes the steering wheel (compared to the previous setting where there are no ACs) ... The auditor’s work is then more effective and clear”. (CPA11)

More specific accounts supporting the AC influence, as in the case of CPA11 above, are provided in the discussions of power contexts and sources of power that follow.

In contrast to the comments from CPA11 above, some external auditors state that the ACs support the management's position, rather than that of the auditor:

“All audit committees must refer to the management and must make decisions like a businessman ... The auditors must fight and push. Some audit committees may try to help but at the end it is the management's decision ... So, it depends on how much risk the auditors are willing to take ... For all the disputes we have faced, the audit committees lean towards management's side”. (CPA9)

“There is this audit committee. Instead of helping the auditor, he says “Why does this need to be an issue? This will make the company in a worse-off position”, rather than ensuring the financial statements are fairly stated. I can't recognise who is supposed to be the accounting expert in that audit committee”. (CPA4)

Both external auditors above confirm that these ineffective ACs are more common among the ACs in smaller companies where the owners have strong control over the management activities. The facts that the ACs must make decision like a businessman as raised by CPA9 above is consistent with an interview in the study by Tengamnuay (2005) that some ACs only try to protect the company's interests.

To add to the literature, this research explores the rationales behind such variation in AC influence and finds that there are several causes of such variation. Details of those causes and incidents involving both the ACs who play a substantive role and those who are more ceremonial are discussed in Sections 6.2.2.1 to 6.2.2.3, based on the power components as proposed by Pettigrew and McNulty (1998; 1995).

6.2.2.1 Contexts of dispute resolutions by the AC

The analysis of the interviews shows four main contexts that affect the AC's ability to resolve disputes between management and external auditors: (a) the mindset of all parties involved in the AC process with regard to the timing of the dispute resolutions; (b) the connections between the AC and the management; (c) the AC's personal interest; and (d) the regulator's definition of the accounting expert in the AC. The first and second contexts do not support the AC to get involved with the dispute resolutions while the third and fourth contexts (AC personal interest and loose requirement of accounting expertise) explain a wide variation of the AC influence in the dispute resolution process.

a) Mindset of the parties involved in dispute resolutions

The mindset on the expectations of the timing of dispute resolution is a subtle context, as defined by Pettigrew and McNulty (1995), that limits the AC's content area of influence. Several interviewees indicate that there are rarely any unresolved matters to be raised at the AC meetings. For example:

"There have never been any conflicts for the audit committee to act as an arbitrator". (Mgt7)

"When there are problems, the auditor has already discussed it with the management". (IA2)

"There has never been a dispute between the management and auditor reaching the audit committee. The auditors normally resolve their disputes before coming to us. So, I have never experienced being in a middle position between the management and the auditors." (AC1)

Further analysis shows that such the few incidents of disputes raised at the AC meetings are actually related to the expectations of the ACs, the management and even the external auditors. However, they are based on different rationales. Examples of the quotes describing such facts are:

"If there are any disputes, they (the management and the external auditor) must discuss the issues out first ... They must try to resolve them before coming to the audit committee meeting". (AC10)

"The management and the auditor have already settled all the issues before the audit committee meetings because it is the expectation of the management". (AC5)

"In many clients, the management is not okay [with the practice of reporting unsolved conflicts to the audit committees]. It is like a face loss—audit committees wondering how the management is doing their work". (CPA11)

"We must try to make sure we can end all the issues with the management because it is too long before we meet with the audit committees". (CPA8)

The quotes above reflect the facts that all parties prefer that the disputes are resolved before the AC meetings. The AC expects the management and the auditor to resolve the issues between themselves. The rationale of the management is mainly the fear that the inability to resolve issues might reflect badly on them while the auditor's rationale is the fear that delaying the resolution until the AC meeting can make them miss the deadline of the audit, as well as the need to save the management's face. Both the management's rationale for the need of dispute resolutions before the AC meetings and

the AC's expectations for the two parties to resolve the disputes before raising them to the AC meetings discussed above are consistent with some observations offered in the study of Gendron and Bédard (2006). This research adds to the literature by providing evidence that the external auditors also prefer to have the disputes resolved before the AC meetings due to time constraint and thus all parties involved do not want to raise the disputes to the ACs easily.

Overall, the finding of rare disputes being presented to the ACs is consistent with the literature in the western societies (Beattie et al., 2012a; Cohen et al., 2010; Gendron and Bédard, 2006) but is inconsistent with the finding in the Malaysian study by Salleh and Stewart (2012). As reported by CPA9 in Section 6.2.2, the external auditor still needs to push the issues and argue with the management with limited AC's interventions or supports. This possibly leads to the auditor's perceptions of the AC's ceremonial role over the dispute resolution noted in the literature (Cohen et al., 2010; Krishnamoorthy et al., 2002).

b) Connections between the AC and management

As proposed by Pettigrew and McNulty (1998), the inner context concerning the pattern of the selection of non-executive directors can impact the content area of influence of those directors. The selections of most ACs in this research are mainly made by the owners or the executive management, and the AC members being selected include their friends or familiar people. The quotes from several interviewees suggest this:

“One of the main obstacles of the audit committee is the influence of the persons who appoint the audit committee members”. (AC3)

“Connection is everything here... The management appoint their friends into the audit committee. I once recommended a friend to the management for an audit committee position but he was not selected. The person who gets the position is inferior in many aspects”. (AC11)

“Actually, the audit committees are the friends of the management. They are selected by the owner from the pool of his acquaintances”. (AC-Sec2)

“The persons who appoint the audit committee are still the owners. If the audit committee challenges the management too aggressively, they are sure not to be re-appointed”. (CPA3)

As the resolution of the disputes between the management and the external auditors requires to a certain extent the AC to challenge the management's point of view or proposition, the AC members who are appointed by the management can find it difficult to challenge the people who appoint them, as noted by the last quote from CPA3 above. In effect, this aspect is the issue of AC's independence of mind. This pattern of AC being appointed by the management has a significant effect on the AC's ability to resolve the disputes, contributing to AC ceremonial role.

It should be noted that none of the AC members in this research are the former or retired employees of the companies, as previously found by the study of Tengamnuay and Stapleton (2009), due to the strengthening of qualifications of the independence directors by SET (2008) after the period of their study. However, the connections between the AC members and the management or owners in more subtle ways, such as friends and familiar acquaintances as indicated in the above quotes are still rather prevalent. Since relationship orientations are very common in Thailand (Komin, 1998), the will to exercise the AC power to resolve the disputes or concerns of the auditors is weakened. Such weakened will might then cause the ACs to be ceremonial. On the contrary, such connection might as well result in greater co-operation by the management if the AC has the will and proper skill to convince the management.

c) AC's personal interest as a context of power

In accordance with the framework proposed by Pettigrew and McNulty (1998; 1995), the experience and educational backgrounds of the directors are the apparent contexts that can determine the content of influence. The importance of the past experience and backgrounds is illustrated in the accounts of AC9 below. The other AC members interviewed have their own personal interests but they have not yet experienced any disputes between the management and the external auditor and thus are not discussed here.

AC9's long banking industry experience results in his personal interest in finance-related issues (content area of influence). His personal interest and past experience then serve as general contexts, which in turn affects his will¹⁷ to exercise his AC's

¹⁷ Apart from his personal interest, AC9's will to exercise power is also affected by his self-motivation to contribute to the governance of the business community after he has retired.

power in the area his expertise, such as the allowance for doubtful accounts and cost of capital issues discussed below. There are two incidents where AC9 successfully resolves the auditor's concerns in the areas of his interest. The first incident involves the adequacy of the allowance for doubtful accounts in the face of general economic slow-down. AC9 takes a lead to resolve the concern when it is raised by the external auditor of the company at an AC meeting. His strong interest in this matter is observed by both the external auditor and the other participants in the meeting. For example, Mgt4, the company's CFO, mentions:

“Khun [AC9] helps the management a lot in the resolution of the allowance for doubtful accounts. He uses his experience as a banker, who has employed a lot of methods to calculate the loan loss provision”. (Mgt4)

In another incident, the external auditor has a concern about the suitability of the WACC (Weighted Average Cost of Capital) that the company has been using in the calculation of the goodwill impairment for many years. The auditor has been raising this issue to the management for many quarters but the management put it off with some justifications that the auditor feels quite unreasonable. The auditor then decides to raise this issue in an AC meeting even though the auditor has not yet seen this issue as a significant one. According to the researcher's observation at an AC meeting, AC9 is practically in charge of questioning the management for the current practice and proposing methods of obtaining an updated rate that can relieve the auditor's concern. CPA10, the Audit Manager in charge in this case, does not need to apply further pressure on the management after AC9 has taken the lead on the matter:

“Having the audit committee instructing it results in the management being much more co-operative ... If the audit committee shares the same concern with ours, it will be smoother ... In the case of WACC, because the audit committee follows our leads, the management is now seriously considering about the revision”. (CPA10)

The personal interest in the finance-related area, the experience in the banking sector and the power from authority inherited from the AC position (power of resources), contribute to the AC's creditability from the management's perspective and facilitate the management to accept the AC's instructions and suggestions. It should be noted that, at the end, after extensive discussions and follow-ups between the AC and the management, a significant amount of additional allowances is recorded in subsequent periods and the WACC is revised.

Both accounts from AC9 discussed above illustrate the importance of the personal interests as a context in effecting the governance outcomes by the ACs. The personal interests drive the AC's will to get involved and exercise his power on the disputes raised at the AC meeting using the relevant sources of power and skills gained from his past experience. This also emphasises the inter-relatedness of each power component—the context affecting the will to exercise power—as suggested by Pettigrew and McNulty (1998; 1995). Moreover, these accounts reiterate the importance of the needs of multiple power components to successfully resolve the disputes, including the will to use the power to resolve the issues, supported by the respect earned from the experience, proper sources of power (knowledge) and the skill (to be discussed later in Section 6.2.2.3).

It is noteworthy that the disputes discussed in the two accounts of AC9 above are more of the concerns at early stage, rather than the significant disputes that must be resolved immediately. The external auditor raises these concerns for the AC's resolution before they can be developed into major issues and, thus, significant disputes in the future. This practice is consistent with the findings by Beattie et al. (2000). The resolution of issue at early stage before it being developed into a big dispute might as well explain why several ACs interviewed indicate that they have never faced significant disputes, consistent with Gendron and Bédard (2006). It might also provide a reason for the low level of Thai AC's involvements in arbitrating the conflicts as found by Tengamnuay and Stapleton (2009).

d) Regulatory contexts affecting the AC's content of influence

In a local context that is specific to Thailand, the regulatory requirement that might affect the AC's capability over the resolution of the dispute is the level of accounting expertise of the designated AC members. A wide variation of expertise may be caused by the loose definition of the accounting expert required by the Thai regulator. As discussed in Chapter 4, SEC (2008) just requires that one of the AC members possesses sufficient knowledge and experiences to be able to review the reliability of the financial statements. The Thai AC guidelines (SET, 1999) simply suggest that one of the AC members must “have significant experience in accounting or in financial matters so as to keep pace with any proposed changes in the area of financial reporting or legislation”. Based on the interview of the SEC officers, these loose requirements are

the results of the facts that there are still not enough financial or accounting experts who are willing to become an AC member in the Thai capital market. Apart from the account of CPA4 discussed in Section 6.2.2, some other interviewees also have doubts over the accounting expertise of the AC:

“It is very hard to discuss the more complicated accounting issues, like deferred tax and goodwill, with the ACs. Some AC members have studied accounting but I am not sure you can say they are the expert”. (CPA3)

“I experience an accounting expert of an AC who has a background as the tax officer. Directors are still appointed because of the benefits of the network and connections to be gained for the company’s benefit. As the auditor of the company for few years, I have never witnessed that AC member participating in the discussions in the AC meeting”. (CPA8)

Both quotes above reveal that the loose definition by the regulator result in the appointments of the accounting expertise in the AC based on previous education background, without high level of accounting expertise. This might contribute to a wide variation of quality of the financial accounting experts in Thai ACs, which in turn affects the capability of the AC members to ensure the effective resolutions of disputes between the management and the auditors.

6.2.2.2 Source of power

This research finds that major sources of AC’s power needed to resolve the disputes are mainly from the power of resources. The specific sources of power identified by this research include financial, accounting and audit knowledge. The importance and relevancy of the financial knowledge derived from the AC’s backgrounds have already been illustrated in the accounts of AC9 in previous section. This section provides evidence on the importance of the accounting and auditing knowledge and how they affect the AC influence over the dispute resolution process.

a) Accounting expertise

Since the disputes between the management and the external auditors are principally related to the accounting issues, all interviewees believe that good accounting

knowledge is fundamental to the AC's role in this matter. Apart from the quotes of CPA3 and CPA8 on the weak accounting knowledge of the several Thai ACs as mentioned in Section 6.2.2.1(d) above, this section further provides two accounts provided by CPA12 and CPA7 to illustrate the importance of accounting expertise. The account by CPA12 illustrates that the lack of accounting expertise results in the inability of the AC to protect the auditor from management's pressure while the account from CPA7 illustrates how the AC can easily resolve dispute using their accounting knowledge. One of CPA12's clients has capitalised a huge amount of employee costs as a part of the project costs of a new system. However, there are no specific reliable documentations to justify whether those employees directly take parts in the project. After several unsuccessful discussions with the CFO of the company, CPA12 has gone to the AC chair for help and the AC chair has asked the CFO to provide the auditor with the relevant supporting documents. The CFO thus provides CPA12's team with all of the minutes of meetings as proof of the employee's involvements in the project, without specific details of work by each staff member. CPA12 needs to have discussions with the AC chair almost on a daily basis during that period but the AC chair cannot help her much. When asked about the possible reasons that the AC Chair cannot push the management for more co-operations, CPA12 explains:

“The audit committee may not know about accounting enough to argue the case with him (the CFO)”. (CPA12)

Finally, the CFO is the one who is willing to reduce the capitalised amount to a level not material enough for the auditor to issue a qualified opinion. The lack of appropriate accounting knowledge of the AC Chair in the account of CPA12 above highlights another aspect of an effective AC from power analysis perspective, suggested by Pettigrew and McNulty (1998; 1995). Even with a will to exercise the AC's authority in the dispute resolution, the desired outcome might not be achieved because of the lack of a proper source of power (accounting expertise). According to CPA12, the AC chair is the designated accounting expert of the AC but has more background in finance and management, instead of accounting. The AC chair thus cannot be engaged with the issue enough to use legitimating or persuasion techniques (skills to deploy power) that might be necessary to convince the management to accommodate the auditor's request. In short, the lack of accounting knowledge restricts the choices of the techniques available to deploy the power (skill), resulting in the disadvantaged position of the AC.

The external auditors are then left to be pressured by the management alone while the AC chair plays only a ceremonial role.

The account by CPA12 contributes to the understanding of causes of the external auditors' perceptions that ACs are not influential enough in the area of dispute resolution, as found by Cohen et al. (2010). Even though the loose definition of accounting expert of the Thai regulator is a local context in this research, the variation of accounting expertise can exist in any other contexts, even in western societies where the requirements of the financial expertise are more refined. With larger operations and more complicated accounting knowledge being required in those firms in the developed countries, the ACs might not be able to contribute much to the resolution of the accounting disputes being presented to them due to the lack of accounting sophistication. The importance of the accounting knowledge found in the above account is in contrast to the finding by DeZoort and Salterio (2001) who find no significant relationships between the accounting expertise and the AC's resolution of the disputes between the management and the external auditors. As indicated in the account by CPA12 above, the lack of accounting knowledge results in the inability of the AC to persuade the management.

The capitalisation of project costs discussed in the account of CPA12 above requires judgements on the relevancy and estimates of the expenditures involved, the nature of which is subjective and has potentials for the disagreements to be raised to the ACs (Salleh and Stewart, 2012; Knapp, 1987). However, this research finds that disputes can also arise when relevant accounting standards are more objective, such as disclosure requirements. Both CPA7 and CPA12 have experienced a dispute with their clients on the disclosure of interest rates on borrowings. Many small companies which have been audited by local auditors before listing in the stock exchange have a practice of not disclosing the interest rates for the confidentiality reason, in fear of the loss of competitive advantage. When those companies are listed and change to bigger audit firms, this is not easily accommodated by the new auditors. When the auditor insists on the disclosure and the management do not agree, the matter is raised to the AC. The dispute is then solved without difficulties because the AC has someone who has good knowledge of the accounting standards. CPA7 recalls:

“The audit committee says, “No, it has to be disclosed”. Therefore, the audit committees consisting of an accountant are very useful ... They understand that those with material effects must be adjusted”. (CPA7)

The account by CPA7 above clearly illustrates that the AC can be influential in the resolution of the disputes between the management and the external auditor when they are equipped with a proper accounting knowledge. The AC member in the account by CPA7 has an external auditor background and is familiar with the accounting standards.

b) Audit knowledge

Apart from the accounting knowledge, audit knowledge or experience is also an important source of power in dispute resolutions by the AC. The AC with audit knowledge is more capable of the dispute resolution in the areas of audit procedures and auditor’s roles, resulting in the greater influence of the AC. Examples of quotes reflecting such importance include:

“The accounting experts in the ACs must have some audit backgrounds although they do not need to be auditors ... Otherwise, they don’t understand the audit work...putting them in a disadvantaged position ... [They should know] what are the basic auditor’s responsibilities? The methods on how they perform their work ... It doesn’t matter if they don’t have the audit skill themselves”. (CPA11)

“In one company that is very cost conscious, we want the company to appraise the value of an asset but the management do not agree ... For the case of impairment, the management insist that the land price from the Land Department¹⁸ is reasonable enough. We then ask for the audit committee’s help and it is then okay ... In another company, the management challenge us why we need to check the land title deeds every year, the audit committee there can help in that case because the management respect that audit committee”. (CPA4)

As mentioned in the last part of CPA4’s quote above, for the AC to be influential, the knowledge of the necessity of certain particular audit procedures alone may not result in the agreement by the management. The AC must also earn the trust and respect from the management, which are considered critical for the non-executive directors (Pettigrew and McNulty, 1995). The findings of the significant effects of the ACs with auditing knowledge above are consistent with the prior literature from the western countries (Singtokul, 2010; DeZoort et al., 2003a; DeZoort and Salterio, 2001). The

¹⁸ The land price from the Land Department is mainly used for land tax calculation and is not normally considered as a fair value of the land from accounting point of view.

above accounts illustrate how the audit knowledge facilitates the dispute resolutions between the management and the auditor. Naturally, the ACs with no audit knowledge will have difficulties in contributing to the resolutions of disputes in audit issues and thus be perceived as ceremonial. However, it should be noted that the Thai regulators do not include audit knowledge or experience in the AC's suggested qualifications at all. Such lack of knowledge might further contribute to the wide variation of AC's impacts in the resolution of disputes between substantive versus ceremonial roles.

6.2.2.3 Will and skill

The importance of the will to exercise power has been discussed in various sections above. This section focuses on the importance of the skill in dispute resolution. This research finds that the skill to mobilise power also affects the AC's influence over dispute resolutions. The following accounts by AC9 and CPA12 describes how the AC's skill can make the difference. On the disputes over the adequacy of the allowance for doubtful accounts discussed earlier, AC9 questions the management's practices and asks for the analysis of the debtors. While the management insists that the allowance is adequate based on the collection history, AC9 asks some probing questions for the methods and points out the flaws of the management's practice. He then guides the management to produce evidence and several other analyses from different perspectives to justify the figures and trends. When the management is rather slow to produce the analyses at the next AC meeting, AC9 starts to apply pressure on the management by demanding and setting deadlines. Mgt4, the CFO of the company, recalls:

“Khun [AC9] then ask the management to inform the audit committee of the progress and the monitoring results of accounts receivable collection and ageing ... He put pressure on the management to produce new analyses, with more detailed figures and more dimensions”. (Mgt4)

In terms of the techniques to deploy his power (skill), the quote above shows that AC9 starts off by asking the management to clarify the existing practice and then providing guidelines for the management to produce more analyses. AC9 applies pressure on the management only when necessary. Mgt3 who is also present and involved during the process of follow-up work believes that AC9's techniques are effective in terms of satisfying the needs of the external auditor. Since the allowance is an area involving

significant level of judgement, he uses rational persuasion—a type of skill to exercise power common for the independent directors in the UK according to McNulty and Pettigrew (1996)—to convince the management of the need for additional allowance based on the analyses received.

In comparison to the account provided by CPA12 on the limited effect of the AC in influencing the management to provide evidence justifying the project cost capitalisation discussed in Section 6.2.2.2, AC9 in the account above deploys multiple strategies to ensure that he achieves the desired goal. The AC in CPA12's account simply asks the management for the supporting documents without using other techniques, such as rational persuasion, legitimating, coalition formation or appeal, which might be helpful in resolving the disputes. This might be the result of the AC's lack of accounting knowledge, which partially contributes to the inability to use the persuasion or legitimating techniques. However, other techniques, such as coalition with the other AC members, can still be tried out if the AC possesses more skill in power mobilisation. Varying level of skills in exercising the power also contributes to the variation in AC influence over dispute resolution.

6.2.2.4 Concluding remarks

In summary, the ACs in this research are rarely faced with major disputes between the management and the external auditors because of the expectations of the ACs, the external auditors and the management. Some issues presented at the AC meeting are those being raised in early stage when they are still not urgent and there are less tension between management and external auditors to resolve the issues.

This research finds that there is a wide variation of AC's role on dispute resolutions. The contexts that can limit the AC's influence include the mindset of all parties involved with regard to having the disputes resolved before the AC meeting, the AC's connections with the management, and the weak regulatory requirement of the accounting expert in the AC. The main supporting context for the ACs to get involved in the resolution process is the AC's personal interest. The levels of financial, accounting and audit knowledge of the AC and the skill to exercise the power are also important in determining the ability of the AC to resolve disputes.

The accounts of dispute resolution discussed in this section are summarised in the Table 6-1. Out of the six accounts discussed in this research, three accounts indicate limitations of ACs. The main causes for the AC ceremonial effects are from the lack of the will to exercise the AC's power. The will must also be supported by proper power source, such as financial, accounting, and audit knowledge. As shown in the table below, the AC's will in the account of CPA12 still results in the inability to resolve the disputes when the AC does not have good accounting knowledge.

Table 6-1: Summary of the AC's effects on dispute resolutions

Accounts	Source of power	Will	Skill	Contexts	AC Effects
The AC in CPA9's account refers to management for decision.	N/A	0	N/A	N/A	0
The AC in CPA4's account sides with the management.	0*	0	N/A	N/A	0
AC9 resolves issues on allowance for doubtful accounts and WACC.	+	+	Rational persuasion, Pressure	Personal interest in the area	+
The AC in CPA12's account cannot support the auditor in the labour cost capitalisation.	0*	+	Simply asking	Subjective area	0
The AC in CPA7's account resolves the disclosure issue on interest rates.	+	+	Legitimizing	Clear accounting standards	+
The AC in CPA4's account supports the auditor in audit procedures.	+	+	Legitimizing	Not identified in the interview	+

Note: "+" = Existence; "0" = Non-existence; "N/A" = Not applicable under the circumstance.

** Only on the accounting knowledge.*

6.3 CONCLUSIONS

This chapter analyses the AC operations in the areas of auditor appointment and dispute resolutions from the power component's perspective. The literature shows that there are wide variations in the AC's practices in both areas. However, the causes of such variations have never been investigated. This research finds that there are limited ACs who fulfil such oversight roles in a substantive way while several ACs are more ceremonial. The main causes of the variations on both areas are the AC's varied will to exercise power.

The findings in this research contribute to the AC literature by providing possible reasons for many ACs being viewed as playing only ceremonial role in auditor appointments (Cohen et al., 2010; Fiolleau et al., 2010; Turley and Zaman, 2007). Mainly, the ACs have limited will to exercise their power in this area due to their general perceptions that the Big-4 audit firms are of high quality and there is not much difference between them. Moreover, the ACs perceive that it needs to be practical to include the management preferences in auditor choice, further weakening the will to exercise power against the management. Some ACs also have limited time resources to get involved with all the detailed selection process and thus have only limited, even managed, information for decision making. On the contrary, the management have a vested interest to select the auditor that they prefer. They then take control of the selection process, resulting in the power of process in their hand. The management's overall involvements in the selection process found in this study are therefore high, consistent with the findings by Bauwhede et al. (2013).

This research finds that the lack of the AC's will in participating in the auditor selection and the AC acceptance of the management preferences mentioned earlier might also be the causes for inconclusive findings of the archival studies on the AC's effects on auditor selection and terminations (Robinson and Owens-Jackson, 2009; Mangena and Tauringana, 2008; Chen and Zhou, 2007; Lee et al., 2004; Archambeault and DeZoort, 2001). Due to the limitation of the study tool, it is rather difficult for those statistical studies to include accurate proxies for the AC's will in the models.

On the AC's effects on the resolution of disputes between the management and the external auditors, the ACs in this research are rarely faced with major disputes, consistent with the study of Beattie et al. (2012a), Cohen et al. (2010) and Gendron and Bédard (2006). This research contributes to the literature by finding that the causes of the rare disputes being raised to the ACs are mainly the expectations by all the three parties involved, being the management, the external auditors and the ACs themselves. Moreover, the findings show that the disputes presented to the ACs are mainly raised at the early stage and thus the tensions to resolve the issues are not yet high, which is considered effective and consistent with the study by Beattie et al. (2000).

Within the limited disputes raised to the ACs, this research finds that there is also a wide variation in AC's influence over the dispute resolutions. The causes of the variation are mainly the varying levels of the will and skill to exercise the AC's power

and the variety of sources of power (financial, accounting and audit knowledge). The findings of the importance of the accounting knowledge in this study is in contrast to the study of DeZoort and Salterio (2001) which reports insignificant relationship between the accounting expertise of the AC and the dispute resolutions. The levels of the accounting sophistications and of the will and skill of ACs might as well explain the reasons of the mix of the substantive and ceremonial roles of the AC over the dispute resolution revealed by Cohen et al. (2010).

Among the limited studies on AC operations, this research adds to the literature of the ACs in an emerging market, Thailand. Although the majority of the Thai ACs perform the task of external auditor nomination (Tengamnuay and Stapleton, 2009; Namsirikul, 2007), the findings in this research indicate that they are not normally involved in the auditor selection process and thus have only limited influence over the auditor choice. The level of AC's involvements in this research is probably much less than that of the European ACs found by Bauwhede et al. (2013). A context specific only to the Thai ACs that might affect the AC's involvements in the area of auditor selection is the absence of detailed AC guidelines. The lack of the guidelines facilitates the persistence of the power of the system, i.e. the acceptance of the management's control of the power of process in the area of auditor selection. Even though the existence of the guidelines does not guarantee the improved AC's performance, it can serve as a knowledge base that can be utilised and even motivates the ACs to exercise its power for better governance. For example, suggestions by the guidelines on the AC's involvements of the selection process can provide the ACs with more information on the quality of the prospective auditors, which can be used to defend the auditor choice that is otherwise influenced by the management. This research also finds that the connections between the ACs and the owners or managements might be the causes of the low level of AC's involvements in the dispute resolutions found by Tengamnuay and Stapleton (2009).

This research extends the concept of power relations first introduced in the study of Turley and Zaman (2007) to include the analysis of the context, the power sources and the will and skill to use the power, as proposed by Pettigrew and McNulty (1998; 1995). Such power analysis reveals, for example, that the context of AC's personal interest arising from the AC's background and experience affects the AC's will to utilise its power over the dispute resolution. This research highlights the importance of

the will to exercise the power by the ACs, which is the main cause for some ACs being viewed as performing only ceremonial roles. The will of the management, who have vested interest in the outcomes of the auditor selection, also affects the power play in this auditor selection area, resulting in the collaborative efforts by both the ACs and the management in the matter.

In short, this research contributes to address the knowledge gaps identified in Chapters 2 and 3. It provides potential causes for variations and inconclusive findings of AC's influence on auditor appointment and dispute resolutions. The findings show that the will to exercise power has important effects on AC process while the context to exercise power (such as the mindset of all the parties involved, AC's background and personal interest and regulatory environment) and sources of power (AC's time to commit to its oversight and the knowledge of accounting and auditing) also matter. The research also contributes to further understanding of the AC process in the emerging markets.

The findings in this chapter reveal that one of the main causes of weak AC's impact on the auditor selection process is the lack of AC's will to exercise its power. Future research should examine the ways to improve such will of the ACs to exercise the power in order to balance the management's overwhelming power. Motivation concepts, such as cognitive evaluation theory concerning the extrinsic motivators on intrinsic motivation or self-determination theory (Gagné and Deci, 2005), may be helpful and should be investigated by future studies.

As indicated in the findings, several ACs are appointed by the controlling family of the companies who are also involved in the management of those companies, and thus perform only ceremonial role in dispute resolutions. Since there are no laws against the continued service of the AC members even though the AC guidelines suggest the maximum of 10 years, the terms of those AC members are renewed years after years. All AC members in this research are appointed by the management, being or representing the controlling family, and there are no AC members who are independently appointed by nominating committee. Future studies comparing the performances between the two types of AC might shed light on the influence of the controlling family and the ability of the ACs to carry out its oversight roles. The issues of controlling family and management in the firms are common not only in Thailand.

Several countries in the emerging markets, for example, Malaysia and Hong Kong, have similar settings. More understanding on the matter thus have far impact on the AC governance in those countries.

Further examination of the AC process in Thailand should be made since newer Thai AC guidelines, SEC (2010), have just been released at the beginning of 2011. The guidelines elaborate more on aspects to be considered for auditor selection, such as the qualifications and independence of the prospective auditors. However, the new guidelines still do not recommend the ACs to obtain information about the audit firm's internal quality control procedures or the ACs to consider the audit firm's annual transparency reports, where available, as in the case of the UK's Guidance on Audit Committees (FRC, 2012a). Brief follow-ups of issues from the second visit of the field study to some interviewees show that they are still not familiar with the new guidelines. A more detailed study of the impacts of the new AC guidelines after a few years of implementation might provide more accurate reflections of the Thai AC operations and reveal how such context can affect the power sources and the will to exercise the power by the Thai ACs.

This chapter concludes the second part of the findings and discussions of the field study. The next chapter present the conclusion of the thesis.

CHAPTER 7 : SUMMARY AND CONCLUSIONS

This last chapter presents the summary and conclusions of the research. It starts by revisiting the research gaps, research questions and research process in Section 7.1. The main findings are discussed in Section 7.2 while the contributions of this research are presented in Section 7.3. The limitations of the research and some recommendations for further research are put forward in Section 7.4. Finally, Section 7.5 concludes the chapter.

7.1 INTRODUCTION

Studies on AC effectiveness are still of great interest among researchers and *Chapter 2* identifies research gaps where this thesis can add to the literature on ACs.

1. There are a number of studies in the literature on AC effectiveness, although studies on the relationships between ACs and external auditors are limited. These studies mainly involve the use of economic models to capture the associations between the inputs from AC characteristics and the outputs of corporate governance. However, the results in many studies are inconclusive, with certain characteristics having significant relationships in some studies but not in others. The explanations for the insignificant relationships are based mainly on conjecture, with limited support being provided.
2. There is a growing literature on the AC process which investigates how ACs discharge their responsibilities, based on other research tools, such as case studies or interviews. These studies provide evidence of a mix of substantive and ceremonial roles of ACs, especially in the areas of auditor appointment and resolution of disputes between management and external auditors. The rationales for the limited influence of ACs on auditor appointment and their limited role in dispute resolution are still unclear and should be probed further.
3. Most extant studies are conducted in the context of developed countries, such as the US, Canada or the UK. Limited studies are made in the context of the emerging markets. With the importance of corporate governance for companies around the world, better understanding of AC operations in those economies is necessary.

Moreover, human behaviour involved in the process is largely ignored even though human beings are the principle agents in the governance process.

4. Most extant studies are mainly based on agency theory, with some based on institutional theory. Studies with other theoretical underpinnings are scarce but necessary.

The framework used to gain understanding of the AC process is discussed in *Chapter 3*. It integrates components of power—context and structure, sources of power, and will and skill to exercise power—with the behavioural traits of people involved in the AC process. The contexts include both internal and external ones, which can be apparent or subtle. The sources of power are categorised as power of resources, power of process, power of meaning and power of the system. The will and skill to exercise power involves the intention to deploy the power using appropriate skill (techniques and strategies). The three components, when combined, determine the areas in which power can make an impact, called the content of influence. In the process of power formation, the three components can also affect one another.

The framework discussed in Chapter 3 also proposes that behavioural traits can also affect the three power components. Thailand is mainly characterised by people with cultural values of face saving, avoidance of criticism, *krengjai*, and grateful and smoother interpersonal relationships. *Krengjai* is one of the most prominent characteristics of Thai people and is adopted in both social and business settings. The effects of national cultural values are normally mediated through the construal of self of each individual. The study of behavioural traits in this thesis is the investigation of behaviours influenced by national cultural values and the construal of self.

The research gaps and the proposed conceptual framework that is expected to contribute to a better understanding of the AC process resulted in the following research questions:

RQ1: How does the krengjai behavioural trait shape the AC process and practice?

RQ2: How does AC's power affect the oversight of the external audit, particularly auditor selection and the resolution of disputes between management and external auditors?

As explained in **Chapter 4**, the semi-structured interview method was chosen for this thesis since it could provide answers to the two research questions more effectively, within the busy schedules of all of the interviewees. The fieldwork was conducted in Thailand in two intervals, with the first round of interviews during 17th January to 22nd April 2011 and the second interviews during 2nd May to 5th July 2012. There are 40 interviewees in this research, including AC members, external auditors, management, internal auditors and AC secretaries. To better understand the krongjai behavioural trait from the international context, interviews with three foreigners who are AC members in Thai companies were conducted. The interviews were conducted in the Thai language for all Thai interviewees and in English for all three foreigners. Except for one interviewee, the interviews were audio-recorded and transcribed. Analysis of the data was made using the template analysis approach.

7.2 SUMMARY OF FINDINGS AND DISCUSSIONS

7.2.1 Impact of behavioural traits on AC operations

Chapter 5 presents the findings about how the krongjai behavioural trait of the participants in the AC process affects AC operations and the interactions between participants. The research finds that, while the formal structure of ACs is important, the krongjai behavioural trait also matters. The krongjai behavioural trait results in both positive and negative impacts on corporate governance, depending on the level of krongjai of each party. Accommodating behaviour leads to positive governance outcomes when the other participants in the AC process are krongjai of the ACs. On the contrary, governance can be compromised when ACs are krongjai of other participants in the AC process, including other AC members. The evidence for positive governance effects of krongjai includes management compromise with requests for more disclosure in AC report and in financial statements, and for change in accounting information systems. The krongjai behavioural trait can negatively affect governance outcomes by making the AC unwilling to challenge management proposal to change the external auditor, unable to change the internal audit methodology to a risk-based

approach, and unwilling to challenge the external auditor over better clarification of an accounting practice. There is also evidence that the krongjai behavioural trait of the external auditors toward the management can lead to inaccurate reporting of internal control or incomplete reporting of the performance of the accounting staff to the AC.

The foreigners participating as members of Thai ACs in this research have shown that they can contribute to stronger governance by encouraging Thai AC members to contribute to meetings, persuading Thai AC members to escalate issues for board consideration or raising non-krongjai questions on behalf of the Thai AC members. Occasionally, they can behave in a less krongjai-influenced manner to ensure that desired governance is achieved. This research provides evidence that a foreign AC member strives for better governance practice even though it is not required by the local authority. Another foreign AC member uses face as a way to threaten management, forcing them to reconsider a proposed inappropriate transaction. Participants in the AC process believe that the absence of foreign AC members can result in a weak AC or an AC being dominated by senior people.

7.2.2 Power analysis of AC operations

Chapter 6 investigates AC operations in the areas of auditor selection and dispute resolution, from the perspective of power. The literature shows that there are wide variations in AC's practices in both areas. However, the causes of such variations are rarely investigated. This research finds that there is a limited number of ACs who fulfil such oversight roles in a substantive way, while the majority of ACs are ceremonial. The main cause of such variations is the AC's will to exercise its power. On the influence over auditor selection, ACs principally have limited will to exercise their power in this area due to their general perceptions that the Big-4 audit firms are of high quality with little difference between them. Therefore, any Big-4 audit firm can be the company's auditor and the ACs do not need to object to any management proposal for a change. Moreover, ACs perceive that they need to be practical by including the management preferences in the consideration of auditor choice. On the contrary, the management have a vested interest in selecting the auditor that they prefer in order to influence audit costs, to select an auditor that may be agreeable to their needs and to avoid unnecessary changes in auditors, which might result in the new auditors revisiting and questioning practices and issues. They then willingly take control of the

selection process, resulting in the power of process resting in their own hands. The management's control of the selection process is also welcomed by some ACs since they have limited time resources to get involved with all of the detailed selection process.

As mentioned earlier, there is a small number of ACs who appoint the external auditor based on their full involvement in the auditor selection process. Those ACs understand that auditor selection by the AC is the purpose of the AC reforms and act accordingly, even though the AC guidelines do not explicitly specify this. The findings in this research also indicate that the AC can effect change of external auditor if it has a strong enough will and the proper skill to convince the management. Therefore, as observed in the literature, the appointment of the external auditor is considered an area where both the AC and the management can influence the outcome. Any party can change the auditor as long as they provide credible concerns and convincing arguments.

Regarding AC's effects on the resolution of disputes between management and external auditors, the ACs in this research are rarely faced with any major disputes. This research finds that the main cause of those rare disputes which are raised to the ACs is the expectations of all three parties involved, i.e. the management, the external auditors and the ACs themselves. The AC expects the management and the external auditors to resolve disputes before raising them to the AC so that only in exceptional cases are issues raised. The management prefer to avoid reporting any unresolved disputes at the AC meeting for fear of loss of face while the auditor has similar expectations for fear of unresolved disputes delaying finalisation of the audit report. The disputes reported to the ACs in this research are thus mainly issues raised at an early stage when they are still insignificant and do not need urgent attention.

This research also finds that there is a wide variation in AC's impact on dispute resolution. The causes of such variation are the varying levels of will and skill to exercise the AC's power, the AC's personal interests (context), and expertise (power of resources). The factors affecting the will of the AC include AC's independence of mind as a result of the recruitment of the AC members by the management or the owner. The personal interest of the AC resulting from the backgrounds and experience of the AC members also affects the will of the AC to exercise power in the areas of interest. A good fit between the experience and backgrounds of the AC members and

the company's operations is thus necessary. AC influence over dispute resolution is also affected by the level of financial, accounting and audit knowledge applicable in these contexts. The research finds that an AC which has the will to exercise power to help the auditor cannot do so effectively due to the lack of proper accounting knowledge, which in turn affects the skill to deploy power. The findings also emphasise the importance of combining various power components to effect better governance outcomes. As indicated earlier, the will to exercise AC's power must be supported by the proper skill to convince the management, which may also be limited by the lack of accounting knowledge involved in the issues.

7.2.3 Behavioural traits and power

Behavioural traits can affect each component of power, mainly the will to use power and the power source. The findings show various incidents where the *krengjai* behavioural trait results in the weakened will of the AC to deploy its power for better governance outcomes. Due to *krengjai* towards management, an AC has a weak will to exercise power to challenge a proposal by the management to change external auditor, even though the AC is still happy with the incumbent auditor. In the power context where most AC members are appointed by the owner or the management of the company, certain AC members have no will to challenge management and instead consult them on all major business issues, rather than focusing on the governance perspective. Even though the appointment of friends and acquaintances of the executives or owners as AC members might also be common in western countries, the effect on ACs in the emerging markets might be more significant given that the people in several emerging markets are predominantly collectivistic. Some ACs would rather choose to resign if they are faced with serious issues that may cause big problems for management if exposed. Because of AC's *krengjai* towards one of its members, the AC has limited will to exercise its power to strongly challenge in favour of adopting better internal audit methodology. When the AC is *krengjai* towards the external auditor, questionable accounting practice is not fully explored due to the fear of imposing on the external auditor, i.e. *krengjai*. However, when the other parties are *krengjai* of the AC, *krengjai* is considered a source of power which can be used to bend participants' will for more disclosure in the annual report and the financial statements, for change in the computer system and for change of external auditor.

A summary of the findings of this thesis is presented in Table 7-1. It is organised according to the areas where there are knowledge gaps, identified in Chapter 2.

7.3 CONTRIBUTIONS OF THE RESEARCH

This thesis provides evidence to fill the gaps in the academic literature on AC operations. The extant studies, predominantly driven by the economic model, provide useful overviews of AC operations but certain aspects of AC effectiveness are still inconclusive. They are primarily based on agency theory or institutional theory but these theories still cannot fully explain different levels of AC influence. Most studies use data mainly from the developed countries, such as the US, the UK and Canada. This thesis makes contributions in two main areas: knowledge about the AC process and implications for policy.

7.3.1 Contributions to AC process knowledge

Rather than providing the statistical relationship between the proxies of AC's activities and characteristics, this research focuses on the AC process in response to the calls for more understanding of AC operations by various researchers, such as Beasley et al. (2009) and Turley and Zaman (2007). Understanding the operational conditions under which ACs operate contributes significantly to theorising about AC operations and effectiveness. Inconclusive findings or incomplete knowledge in several extant studies can be explored from different viewpoints. Overall, there are six specific contributions as follows.

Firstly, this thesis makes two important theoretical contributions. It introduces the concepts of construal of self and behavioural traits to the study of ACs, in response to the calls for additional theoretical work on the AC operations by Bédard and Gendron (2010) and Beasley et al. (2009). This thesis extends the applications of the construal of self proposed by Markus and Kitayama (1991) and of *krengjai* proposed by Komin (1990) to the settings of the interactions among AC members, management and external auditors in the context of corporate governance. The adoption of the national cultural value of *krengjai* to individuals' behaviour is made possible through the interdependent construal of self by several Thai interviewees. These two perspectives

Table 7-1: Summary of knowledge gaps and findings of the thesis

AC Responsibilities	Knowledge Gaps (Chapter 2)	Findings (Chapters 5 and 6)
Approval of auditor appointment and remuneration	<p>The causes of inconsistent effects of AC characteristics from each study. Potential omitted or unquantifiable variables?</p> <p>Limited investigations of the causes of such passive involvement by ACs.</p>	<p>Behavioural trait of krongjai and AC's will to exercise power might cause inconsistent findings in several archival studies.</p> <p>Potential causes include:</p> <ol style="list-style-type: none"> 1. Lack of AC's will to exercise power due to: <ol style="list-style-type: none"> a) the acceptability of any Big-4 firms as auditor; b) the favouring of management preferences on auditor choice, and; c) seeing no necessity to go beyond what the guidelines recommend; 2. AC's time constraint; 3. The mindset of management to influence the appointment, facilitated by AC's lack of will.
Reviewing and monitoring of auditor independence	<p>The causes of inconsistent effects of AC characteristics from each study. Potential omitted or unquantifiable variables?</p> <p>Limited investigations of the causes of passive involvement by ACs and wide variation of AC influence.</p>	<p>Based solely on the aspect of dispute resolution by the AC, the behavioural trait of krongjai and AC's will to exercise power might cause inconsistent findings in several archival studies.</p> <p>Mostly because of the lack of AC's will to exercise power from the facts that:</p> <ol style="list-style-type: none"> 1. All parties, including the AC, do not want disputes to be raised at AC meetings; 2. Many ACs are appointed by the owner or management and thus to a certain extent lack independent mind; 3. Loose requirements for accounting expertise in the AC results in variation of AC expertise; 4. Some ACs lack knowledge about the audit.
All three areas	<p>Limited studies focussing on the AC process.</p> <p>Scant studies in the contexts of the</p>	<p>A stronger orientation towards interpersonal relationships in Thailand draws out the importance of the behavioural trait factor in causing ACs to be ceremonial. Specifically, the krongjai trait plays a part in lessening AC's will to challenge the management rigorously, resulting in:</p>

AC Responsibilities	Knowledge Gaps (Chapter 2)	Findings (Chapters 5 and 6)
	<p>emerging markets.</p> <p>Impact of the behaviour of parties involved in the process is not much researched.</p>	<ol style="list-style-type: none"> 1. Inability to resist management proposal to change auditor; 2. Inability to challenge the AC chair to seek a change to risk-based internal audit; 3. Inability to challenge audit partner over questionable accounting practice; <p>However, when the other parties are krongjai towards the AC, the AC can:</p> <ol style="list-style-type: none"> 1. Easily convince the management to disclose frauds in the AC report even though it is not required; 2. Easily settle disputes about interest rate disclosure; 3. Persuade the management to invest more and change to a computerised accounting system. <p>The behavioural traits of foreigners in Thai ACs aid a higher level of governance by:</p> <ol style="list-style-type: none"> 1. Encouraging the Thai AC members to speak up; 2. Asking questions that can be seen as too challenging on behalf of Thai AC members; 3. Pushing a Thai AC to escalate issues instead of letting them pass in order to foster relationships; 4. Pushing for international practice that is not legally required by the Thai regulator; 5. Using the threat of loss of face as a tool to get the desired outcomes.
AC research in Thailand	Causes of such passive involvement by ACs.	<p>Potential causes of passive Thai ACs:</p> <ol style="list-style-type: none"> 1. The krongjai behavioural trait; 2. Lack of AC's will due to ACs being appointed by management or owner, and less comprehensive AC codes and laws.

have proven useful in providing insights on the AC process in terms of the understanding of the causes of the wide variation in AC influence. This thesis also extends the application of power relations to the study of the AC process first introduced by Turley and Zaman (2007) by including the analysis of the context, the power sources, and the will and skill to use the power, as proposed by Pettigrew and McNulty (1998; 1995). Turley and Zaman (2007) show that AC is involved in power relationships where the AC is used as a threat, as an ally or as an arbiter for the management or the external auditors. This research emphasises the need to analyse the will to exercise power by the AC to gain understanding of the cause for some ACs being viewed as performing only ceremonial roles.

Secondly, the findings in this research contribute to the AC literature by providing possible reasons for many ACs having limited influence on external auditor appointments (Cohen et al., 2010; Fiolleau et al., 2010; Turley and Zaman, 2007). This research shows that ACs do not want to get involved in the selection process for various reasons. Mainly, ACs have no will to exercise their power in this area due to their general perceptions that the Big-4 audit firms have the similar good quality of audit. The need to be practical by including the management's preference on auditor choice for a smooth relationship also affects AC's will to apply more vigorous oversight of auditor selection. Moreover, some ACs have limited time resources to get fully involved with the selection process.

Thirdly, on AC's effects on the resolution of disputes between management and external auditors, the ACs in this research are rarely faced with any major disputes, which is consistent with Beattie et al. (2012a), Cohen et al. (2010) and Gendron and Bédard (2006). This research contributes to the literature by finding that the causes of those rare disputes which are raised to the ACs are mainly the expectations of all three parties involved, i.e. the management, external auditors and ACs themselves, based on different reasons discussed earlier. The finding is, however, in contrast to Salleh and Stewart (2012) who reveal a number of disputes being raised to the ACs in Malaysia. This might be a result of different contexts in terms of the culture of *krengjai* and face saving, or business contexts which demand more aggressive accounting practices in that country. The findings in this thesis also show that the disputes presented to ACs are mainly raised at the early stage and thus there is no urgent need to resolve the issues, which is considered effective and consistent with Beattie et al. (2000).

Fourthly, consistent with Cohen et al. (2010), this research finds that there is a wide variation in AC's effectiveness on dispute resolution. However, this research adds to the literature by finding the cause of such variation to be the varying levels of will and skill to exercise AC power as well as the sources of power (financial, accounting and audit knowledge). The findings in this thesis regarding the importance of accounting knowledge for dispute resolution are in contrast to those of DeZoort and Salterio (2001) who report an insignificant relationship between the accounting expertise of the AC and dispute resolution. The levels of accounting sophistication involved might contribute to the different outcomes of the two studies.

Fifthly, this study finds potential causes for the inconclusive results from mainstream studies of AC effectiveness regarding auditor selection and resolution of disputes between management and external auditors. Importantly, consideration of behavioural traits and the will of the AC to exercise power is mainly missing from the extant studies. As illustrated in this thesis, the *krengjai* behavioural trait of certain ACs and their participants plays a part in causing the AC to be ceremonial in the area of auditor appointment. In essence, it weakens the will of the AC to deploy its full power to ensure proper oversight responsibility, which normally requires the ability to rigorously challenge the position of management. Behavioural traits might then be another cause of inconclusive findings in the extant studies in the area of auditor change (Carcello and Neal, 2003; Archambeault and DeZoort, 2001; McMullen, 1996). The findings about the effect of the *krengjai* behavioural trait in this research might also be applicable to the western societies where a large number of the extant studies have been conducted. Every society consists of people with both interdependent and independent self-construal (Morisaki and Gudykunst, 1994; Gilligan, 1993). Triandis (2004) indicates that individualist cultures can have up to 35 per cent of people who think, feel, and behave like those in collectivist cultures. Thus, the ACs in western countries (predominantly individualistic societies) might include members with more interdependent self-construal, who are reluctant to impose on others, comply with the requests of others or defer to others who are more powerful (i.e. *krengjai*). Although the institutional setting of this research is in Thailand, the findings are likely to be relevant to other countries, especially those in the emerging markets. The social and economic contexts are similar in terms of the behavioural traits of people who are more oriented towards collectivism and relationships, as well as the immature capital markets where regulatory controls are less stringent. Behavioural traits similar to *krengjai* that

might also exist in other emerging markets or even in the developed countries, such as deference to more powerful people and unwillingness to cause discomfort for another person, may have similar impacts on AC governance in those countries.

Lastly, this thesis adds to the literature on ACs in the emerging markets, such as Thailand, and adds to the study by Tengamnuay and Stapleton (2009) by providing evidence regarding the behavioural trait and power perspectives on AC operations. Although the majority of Thai ACs perform the task of external auditor nomination (Tengamnuay and Stapleton, 2009), the findings in this research indicate that they are not normally involved in the auditor selection process and thus have only limited influence over the auditor appointment due mainly to the *krengjai* behavioural trait and AC's will as discussed above, including the local context of the absence of detailed AC guidelines. This research also finds that the low level of AC involvement in dispute resolution found by Tengamnuay and Stapleton (2009) might be attributable to the desires of the management, the external auditors and the ACs themselves.

Overall, this thesis shows that it is important for researchers to understand more about the impacts of various human factors on the AC process. The will of an individual AC member to exercise power to ensure proper oversight roles is shown to be an important driving force for AC operations. The findings show that contexts and behavioural traits can affect AC's will to exercise power. For example, AC's perception that there is no difference in quality between the Big-4 audit firms and AC's acceptance of management preferences in auditor choice, both of which are considered as contexts of power, result in limited AC will to exercise power in auditor appointment. Behaviours, such as unwillingness to cause discomfort to others, deference to those who are more powerful and compliance with the requests of others—parts of what is collectively called '*krengjai*'—cause ACs to avoid utilising their power to the full extent (weakened will to exercise power) against management preferences. As discussed earlier, this kind of behavioural trait might be more predominant in collectivistic societies but they can also exist (up to 35%, according to the literature) in predominantly individualistic societies, as in developed countries. International researchers should therefore be mindful of these human factors when studying AC influence.

7.3.3 Policy Implications

The findings of this thesis reveal that the behavioural trait, will/skill to use power, the context of power and source of power all play a role in conditioning AC's influence. Regulators can employ the framework proposed in this thesis to strengthen their rules and guidelines. Further discussions of each area are made below.

Since the lack of AC's will to exercise power has been shown in this thesis as the main cause of the ceremonial roles of ACs in several areas, the regulator should promote measures to motivate ACs to exercise its power. The most immediate stimulus that might affect AC's will to exercise power is probably the feedbacks on the company's compliance with the AC guidelines. All interviewees in this research have never been informed of any non-compliance with the guidelines although the researcher observes a few non-compliance issues in all the three main companies during the field visits. Moreover, strong and quick punishments of the AC members who are found to be involved in the wrongdoings of various accounting scandals should be able to stimulate the other ACs' will to exercise power.

Also, the *krengjai* behavioural trait has shown to weaken AC's will to exercise power, resulting in less vigorous challenges to other AC members, management and external auditors to gain better governance outcomes. Since *krengjai* behavioural trait cannot be easily changed, the regulators should exploit the benefits of the other participants being *krengjai* of the AC members. Seniority and success in the past working experience (especially in the areas related to governance experience and common business) seem to be related to respect and *krengjai* towards the AC members. More detailed recommendations on AC member experience and qualifications may be considered by regulators.

Several contexts that weaken the AC's influence have been noted in this thesis. The perceptions of a similarly high quality of all Big-4 audit firms and the mindset of ACs in accepting management preferences in auditor choice also contribute to the lack of will to exercise power by ACs. Some ACs in the research still expect the management and the external auditor to resolve their disputes before the AC meetings. Moreover, a number of ACs are sought and recruited by the management, making AC's oversight role more difficult to accomplish in a society where relationships are valued by many

participants in the process. One possible way for the regulator to strengthen the AC's influence is to foster an environment that all ACs are aware of their roles in the vigilant oversight of the company's governance process and the potential risks of the failure to do so. More communication of cases relating to negligence or wrongdoing by the management and/or AC members found from the frauds discovered in other companies or from the routine review of the corporate governance filings might increase the AC's awareness of the potential reputation loss and thus encourage the AC members to be more active. Failures by auditors from the Big-4 audit firms can also be communicated to all AC members to emphasise the need to carefully appoint competent external auditors and to monitor their work. Such knowledge might also lessen the AC's reliance on management to appoint the auditor they prefer or to resolve disputes with the auditors themselves without reporting to the AC. Moreover, the selection of AC members should be made by a separate committee, such as nomination committee, instead of by the management in order to reduce the potential effect of *krengjai*.

On the source of AC's power, the lack of proper accounting, auditing and financial expertise on the part of ACs also results in ACs playing only a ceremonial role in the oversight process. The lack of sophisticated accounting knowledge in turn results in limited skill of ACs to get involved with dispute resolution. Even though most AC codes allow the AC to seek external advice as deemed appropriate, the interviewees in this research have never experienced any such consultation. They have chosen, however, to rely on the external auditor's expertise when faced with sophisticated accounting matters about which they have limited knowledge. Such practice thus results in a shift in the balance of power from the AC back to management and the external auditors, and thus subjects the external auditors to undue pressure from the management in the same manner as when there is no AC. The regulators should tighten up the requirements of accounting expertise in the AC, tending towards the international standards, which include, for example, educational qualifications (e.g., accounting graduate, CPA license, or other relevant managerial qualifications) or relevant work experience (e.g., CFO, financial analyst or audit partners).

7.4 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Despite every effort to ensure a vigorous process in researching AC operations in this thesis, there are certain limitations and opportunities for further research.

7.4.1 Limitations of the research

There are two main limitations on this study. First, although this study finds that several Thai ACs possess an interdependent construal of self, have the *krengjai* behavioural trait and lack the will to exercise their power, the results cannot be implied for every Thai AC operation due to the sampling method. This research is based on the non-probability sampling method due to problems with accessibility. Additional AC members, management and external auditors, apart from those of the three main companies, were interviewed in an attempt to decrease the bias that may exist in the three sampled companies. These additional interviews have proved to be useful in confirming the conclusions obtained.

Second, as with any study based on interviews, there are risks that the interviewees, especially the AC members, can respond in a manner that is more socially desirable. However, similar viewpoints provided by other participants in the AC process have validated the answers from the AC members to a certain extent. Moreover, the non-participant observation of an AC meeting by the researcher provided a good opportunity to validate various data obtained from the interviews, such as the practice of *krengjai* among the participants and the skills used by the ACs in exercising their power.

7.4.2 Suggestions for future research

This study reveals some further research opportunities. The ineffective monitoring by ACs with the *krengjai* behavioural trait in this study might be one of the reasons that certain ACs, including those operating in developed/western contexts, are considered ceremonial (for example Cohen et al., 2010; Beasley et al., 2009). Since there are also people with predominantly interdependent construal of self in individualistic societies (Morisaki and Gudykunst, 1994), more research on these aspects of the AC process is needed for ACs from more individualistic societies such as in the western world. This may shed further light on the inconsistent findings in the AC literature.

This thesis argues that the human factors, especially the *krengjai* behavioural trait and the will to exercise power, do condition and affect the AC process and governance

outcomes. Due to the limitation of the thesis resulting from the sampling method, more empirical studies across countries should be made to gain understandings of AC influence in varieties of contexts. Longitudinal case study can also be beneficial in term of the development and changes of will and skill to exercise power by the ACs under various changing circumstances. Human beings are flexible and can adapt to the changing environment easily although the krenghai behavioural trait might not be easily changed. Studies focusing more on quantitative methods might also be conducted to gain overall picture of the impacts of these factors in wider samples. For example, questionnaire method can be used by designing questions to gauge the level of construal of self, krenghai and will to exercise power and statistical analysis can be performed on their impact over various governance aspects. However, such studies should include some levels of interviews or other measures to ensure that the answers received are not biased from the self-interest of the participants. Based on this thesis, understanding the contexts and getting examples of the experience will be useful in determining the validity of answers.

As discussed earlier, the AC might choose to ignore certain issues due to their insignificance but this can be viewed as ceremonial by the other parties, especially outsiders, who might judge the importance of these matters differently. Given the wider roles of ACs compared to the external auditors, studies on how ACs determine the 'importance' or 'significance' of the issues at hand might provide further understanding of AC operations and of the associated policy implications.

The findings reveal that the main causes of AC's weak impact on auditor selection include the lack of AC's will to exercise power. Moreover, the krenghai behavioural trait also leads to weakened AC will to deploy power to challenge the other parties in the process. Future research should examine ways to improve the will of ACs to exercise power in order to balance management's overwhelming power. Concepts of motivation, such as cognitive evaluation theory which concerns extrinsic motivators on intrinsic motivation, or self-determination theory (Gagné and Deci, 2005), may be helpful and should be studied further.

As discussed in the section on limitations above, the sampling of participants in this research is considered opportunistic. There appears to be only one AC in this research which employs a non-Big-4 audit firm. This results in the inability of the researcher to

fully explore AC's experiences and perceptions of this type of AC, resulting in limited insights into AC's perceptions about the respective performances of the Big-4 and non-Big-4 audit firms. Further study on AC's experience of non-Big-4 auditors can provide more insight into the causes of AC's ceremonial roles in auditor appointment and dispute resolution. It is possible that AC involvement might be different given the perceived lower quality of the non-Big-4 auditors.

The findings of the thesis suggest that several ACs who are appointed by the controlling family of the companies who are also involved in the management of those companies perform only a ceremonial role in dispute resolution. All AC members in this thesis are appointed by the management, as part of or representatives of the controlling family, and there are no AC members who are independently appointed. Future studies to compare the performances of the two types of AC should be carried out, which might shed light on the influence of the controlling family and the ability of the AC to carry out its oversight role. The issue of controlling family and management in firms is common in several countries in the emerging markets. More studies on the matter can thus benefit the understanding of AC governance in the emerging markets where such studies are limited.

Moreover, further examination of ACs in Thailand should be carried out since newer AC guidelines, SEC (2010), have just been released. These guidelines elaborate more on aspects to be considered for auditor selection, such as the qualifications and independence of the prospective auditors. However, the new guidelines still do not recommend that ACs obtain information about the audit firm's internal quality control procedures or that ACs consider the audit firm's annual transparency reports, where available, as in the case of the UK's Guidance on Audit Committees (FRC, 2012a). Brief follow-ups of issues from the second series of visits to some interviewees show that they are still not familiar with the new guidelines. A more detailed study of the impacts of the new AC guidelines after a few years of implementation might provide more accurate reflections on Thai AC operations and reveal how this context affects the power sources and will of Thai ACs.

7.5 CHAPTER SUMMARY

This thesis investigates AC operations from a new perspective, including the analysis of behavioural trait and power. The causes of the ceremonial role of ACs or the variation in AC influence have been identified. Discussions of the findings in both Chapters 5 and 6 consistently indicate the importance of human factors, namely behavioural traits and will to exercise power, in AC operations.

Behavioural traits are ingrained in people's mindsets and affect their behaviour, consciously or unconsciously. The kregjai behavioural trait in this thesis can be viewed as an important factor shaping the AC process and outcomes. The utilisation of power by ACs is generally impeded by the stronger will of management and their control of the power of process. Strong will and skill to exercise power by ACs are two major factors in countering such management power. However, appropriate contexts and sources of power must also be made available to ACs. Both ACs and the regulators involved should pay attention to these human factors.

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APPENDIX 4-1: SAMPLE OF COVER LETTER FOR INTERVIEW REQUEST

MANCHESTER
1824

The University
of Manchester

[Date]

[Interviewee name and address]

Dear [Interviewee],

Request for interview

I am a lecturer at the Faculty of Commerce and Accountancy, Thammasat University, Thailand, and now studying for a PhD in accounting degree at Manchester Business School, The University of Manchester, UK.

My PhD study requires me to complete a research project. I therefore would like to have a chance to interview you. The topic of my research is the audit committee effectiveness. The questions in the interview will focus around your experiences on the audit committee processes. The interview should take about 1–2 hours. For more details of my research project, please refer to the attached Participant Information Sheet.

I would be grateful for the time you can spend on the interview at your earliest convenience.

Yours sincerely,

Chanchai Tangruenrat
Accounting and Finance Group
Manchester Business School
The University of Manchester
Mobile (Thailand): xxxxxxxxxx
Mobile (UK): xxxxxxxxxx

APPENDIX 4-2: KEY CHARACTERISTICS OF INTERVIEWEES

No.	Interviewee	Position	Accounting expert?	Year of service ⁽¹⁾	Foreigner?
1	AC1	AC Member	Y	5	Y
2	AC2	AC Member		5	Y
3	AC3	AC Chair	Y	9	
4	AC4	AC Member	Y	2	
5	AC5	AC Chair	Y	4	
6	AC6	AC Member	Y	3	
7	AC7	AC Chair		7	
8	AC8	AC Member	Y	5	
9	AC9	AC Member		7	Y
10	AC10	AC Member	Y	9	
11	AC11	AC Chair	Y	2	
12	CPA1	Audit Partner		22	
13	CPA2	Audit Manager		9	
14	CPA3	Audit Partner		23	
15	CPA4	Audit Partner		22	
16	CPA5	Audit Partner		22	
17	CPA6	Audit Partner		31	
18	CPA7	Audit Partner ⁽²⁾		22	
19	CPA8	Audit Partner ⁽²⁾		21	
20	CPA9	Audit Partner ⁽²⁾		27	
21	CPA10	Audit Manager		28	
22	CPA11	Audit Partner		6	
23	CPA12	Audit Partner ⁽²⁾		30	
24	Mgt1	CEO			
25	Mgt2	Board Chairman			
26	Mgt3	Acct Manager			
27	Mgt4	CFO			
28	Mgt5	CFO			
29	Mgt6	Acct Manager			
30	Mgt7	Acct Manager			
31	Mgt8	CFO			
32	Mgt9	CFO			
33	AC-Sec1	AC Secretary			
34	AC-Sec2	AC Secretary			
35	AC-Sec3	AC Secretary			
36	AC-Sec4	AC Secretary			
37	AC-Sec5	AC Secretary			
38	IA1	Internal Audit Manager			
39	IA2	Internal Audit Chief			
40	IA3	Internal Audit Chief			

Note: Reference to each interviewee begins with as abbreviation of the role. CPA represents external auditor, Mgt represents management (which can be Director, CEO, CFO or Accounting Manager), AC-Sec represents AC secretary and IA represents internal auditor.

(1) = The number of year of service in the same role is calculated up to the 1st interview date.

(2) = Denoted for the auditors not from Big-4 audit firms.