

Chapter 5

CONCLUSIONS, DISCUSSION, IMPLICATIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The aim of this chapter is to draw conclusions from the results shown and explained in chapter 4. This chapter consists of four sections. The first section presents the conclusions and discussion; the second section presents the major implications of the research; the third section identifies the limitations inherent in this study; and the chapter concludes with suggestions for future research.

5.1 Conclusions and Discussion

The purpose of this section is to summarize the general findings of the study. The first section recapitulates the aims of this research. Section 5.1.2 is methodology summary. Section 5.1.3 summarizes contributions. The findings of market price effects of business contracting are reported in section 5.1.4.

5.1.1 An Overview of the Three Aims

The primary aim of the study is to test abnormal returns of the stocks around the time of contract announcement. The secondary aim is to examine the direction between the abnormal return measures and determine if the results are sensitive to the different measures (the OLS market model and the capital asset pricing model). The third aim is to examine the different market reactions based on different types of contract

announcements: (i) government contracts vs. corporate contracts and (ii) five different budget size contracts.

5.1.2 Methodology Summary

This paper uses event study methodology to examine abnormal returns of the stocks around contract announcements of the listed companies in the Stock Exchange of Thailand during January 1992 to June 2010. The OLS Market Model (MM) and the Capital Asset Pricing Model (CAPM) are used to calculate abnormal returns of contract winning firms, in total 676 announcements.

5.1.3 Contributions

This study contributes to the literature in several ways. First, this is the first study that covers the period from January 1994 – June 2010, allowing a much larger sample of business contracts. Second, this is the only study of contracting in Thailand that uses the largest dataset, 676 contract announcements. The time frame of the study covers more than a full market cycle, which allows examination during rising and declining markets. Thus, the review period covers significant variations in economic activity that occurred in Thailand. Third, this study is the first event study in Thailand that employs the OLS Market Model (MM) and the Capital Asset Pricing Model (CAPM) to calculate abnormal returns of contract winning firms.

5.1.4 Market Price Effects of Business Contracting Results and Discussion

5.1.4.1 Abnormal returns of the stocks around the time of contract announcement

The overall result suggests that the announcements of business contract have a significantly positive impact on the market valuation, indicating contract announcements represent a value-added business exchange for firm stockholders. The result confirms the finding of Sawatpradit (2005) who tested 161 contract announcements in Thailand during October 1994 to September 2004. The finding of significant abnormal stock price increases of winning contractors is also consistent with Elayan, Pukthuanthong and Roll (2006) studied investor reaction to business contracting reported by Dow Jones between 1990 and 2001.

This study also finds positive and statistically significant cumulative share price performance around the time of the announcement, ± 3 days and ± 10 days, which is consistent with the finding of Sawatpradit (2005). Although Sawatpradit (2005) found the significant abnormal returns for the longer interval of ± 30 days around the announcement day, the longer interval in this study, ± 25 days, does not exist any of significant positive abnormal return.

5.1.4.2 Sensitivity nature of alternative abnormal return measures

Since the MM and the CAPM are employed to calculate abnormal returns of contract winning firms, examining relationships between both measures to find out whether results are sensitive to the different measures is conducted. The abnormal return results from both measures when testing the AAR during the event period are significantly correlated, indicating the absent of sensitivity to the using of different measures.

5.1.4.3 Types of contracting: Government vs. Non-government contracts

The corporate contracts are found strong evidences of positive significant cumulative abnormal return for the ± 3 days and ± 10 days around the announcement day confirmed the finding of Sawatpradit (2005). Moreover, when firms sign contract with government, an evidence of significant positive abnormal return by MM measure is found on the ± 3 day around the announcement day, similar to the finding of Sawatpradit (2005) and confirms the finding of Elayan, Pukthuanthong, and Li (2004) who reported that winning government contract awards represent a value-added business exchange for firm stockholders. However, it contrasts to the finding of Diltz (1990) who studied the effects of large government contract using data obtained from the US Department of Defence. Diltz (1990) did not find evidence of any significant positive of the CAAR ± 3 days around the event day.

5.1.4.4 Types of contracting: Five different contract sizes

This study also studies announcement period abnormal returns of five different contract sizes around contract announcement. The extra small contract size, which each contract budget is less than 84.8 million baht¹, is able to receive strong evidence of significant positive cumulative abnormal return of the ± 3 days and ± 10 days around the announcement day. The evidences of significant positive cumulative abnormal return of the ± 3 days and ± 10 days are also recorded for the large contract size, which each contract budget is between 399.5 and 931.7 million baht. This can be compared with Sawapradit (2005) who also found the significant positive cumulative abnormal return of the ± 3 days and ± 10 days of the 400 – 1,500 million baht contract size type.

¹ Please see Chapter 1 on section '1.5 Definitions' for more details.

Further, this paper studies whether the abnormal return can be attributed to the types of contracts. The aggregate evidence reported in this paper reveals that the capital market placed a different value on government contracting announcement against corporate contracting announcement. Abnormal returns from CAPM also imply that the investors placed a difference value on the medium contract budget versus large contract budget announcement. It should be noted that there is no perceptible stock price reaction when contract announcements are grouped to be other types.

In particular, this study is expected to make significant contributions with practical implications for market analysts and researchers, policy maker, regulators, investors and new market participants, as results imply that the capital market believes that business contract announcement is a valuable economic activity for certain firm profiles leads to the potential to positively impact a firm's market value. In addition, since many financial markets in developing countries reflect similar behaviors in response to new information in the market, the findings in this study should also be applicable for market participants in financial markets of other emerging markets in developing countries as well. However, for future research, it may be interesting to collect data from other countries and conduct a comparative study. The factors impact to business contract on the market value of the winning firms is also of great for further study.

5.2 Implications of the Research Findings

The first implication of this study is that stock prices increase on and after the announcement of business contract winner news.

The second implication is that either MM or CAPM measure is sufficient to examine abnormal return of the stock. However, for the purpose of gaining insight into abnormal return, all two measures should be considered by all participants in the Thailand including investors, analysts, researchers, regulators, and new market participants because they are different in conceptual links and thus likely to offer differing magnitude to abnormal return results.

The third implication is that the announcement has an effect on stock prices and its effect varies when different types of contracts are incorporate: (i) both government and corporate contracts affect stock returns on the days around announcement period ($t\pm 3$), but the corporate project announcement effects last longer. The market fully absorbs government contracts winning announcement better than corporate contracts announcement. (ii) The smallest size (XS) and the large size (L) business contract announcement show cumulative abnormal returns following the event dates.

5.3 Limitations

Unlike fund performance studies in developed financial markets, research study in Thailand, a developing financial market, faces a number of limitations, including data collection, proxy for variables, and selection of the risk-free rate. The inherent limitations of this study are as follows.

First, non availability market index that included dividend distributions in Thailand to the public domain. Hence the findings of the study are constrained by the choice of proxy of the market portfolio (R_m). The only market index for which data is available over the study period, from January 1994 through June 2010, is the SET Index and its quality is limited by not including dividend distributions

The second limitation is the data. This study consists of 676 data of business contract announcement. In fact, the number of business contract announcement, which could be collected in this study, is more than 700 announcements but the detail of some announcements are incomplete and could not be used to be one of the data set.

Third, most of the listed companies have been recorded the company announcement significantly after 1994; therefore, the data in the sample set can be studied since 1994.

Fourth, the abnormal measurement using the Capital Asset Pricing Model has been often disapproved for the criticisms laid against the Asset Pricing Models (Brailsford and Heaney 1998). Hence, the interpretations of this study warrant caution as well.

Fifth, use of deposit rate of commercial banks as risk-free rate differs from the developed country approach of using Treasury Bill (T-Bill) or Government Bonds. Since the Thai government stopped issuing the new Government Bonds during the period 1990-1998, there was no risk-free yield curve for Government Bonds during that period. Therefore the deposit rate of commercial banks is used as risk-free rate proxy in this study because it has a full guarantee from the Thai government.

Therefore, the choice of the risk-free rate may have influenced the interpretation of the results.

5.4 Suggestions for Future Research

Given the limitations listed in the previous section, suggestions are given for further studies not only for market price effects of business contracting in Thailand, but also real risk free rate issue as follows.

First, as stated above, this study has employed the deposit rate of commercial banks to be a proxy for risk-free rate because there was no risk-free yield curve of the Government Bonds and the Thai government gives a full guarantee for the deposit rate. Since the deposit rate of commercial banks is some period higher and some period lower than rate of return on the Government Bonds, issues of the *true* risk-free rate and the effect of risk-free rate to rate of return of stocks are of interest for future research.

Second, the factors impacting the market value of business contract winning firms is also of great interest for further study.

Third, it would be interesting to collect data from other countries and conduct a comparative study.