The Relationship Between Corporate Governance and the Company's Performance in the Stock Exchange of Thailand

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Received : March 10, 2020 Revised : June 23, 2020 Accepted : July 1, 2020

Abstract

Research on the relationship between corporate governance and the performance of listed companies in the Stock Exchange of Thailand has the objectives as follows : 1) To study factors affecting the performance of listed companies in the Stock Exchange of Thailand and 2) To study the relationship between corporate governance and the performance of listed companies in the Stock Exchange of Thailand. Research methodology comprised empirical research and multiple regression analysis to test relationships by using the return on equity (ROE) as an indicator in the account view and Tobin's Q as a market view. In corporate governance aspect, it will focus on the relevant structures which comprised 1) The proportion of independent external committees in the board of directors of the company; 2) The size of the board of directors; 3) The number of the board of directors meetings per year; 4) The merging of the positions of the chairperson and president as the same person and 5) The level of corporate governance score from the Report of Corporate Governance Report of Thai Listed Companies (CGR) .The sample was 333 companies listed on the Stock Exchange of Thailand by studying the information of the company in 2015. The research found that corporate governance had a relationship with the performance of companies on the Stock Exchange of Thailand. When considering the relationship between corporate governance and the company's performance, it found that the proportion of non-executive directors, the size of the board of directors, the number of meetings, the merger of the chairman and the president in the same person, the level of corporate governance score had a relationship of independent variables without causing problems of Multicollinearity. Considering each aspect, it found that Size factor of the board of directors had a relationship with the performance of return on equity and the confidence rate of investors with statistical significance at the level of 0.05

Keywords : Corporate Governance, Company's Performance, Return on Equity, Tobin's Q Theory

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Introduction

Corporate governance will enable the business to have a quality management and management system including transparent information disclosure and standardized performance to promote efficiency, create competitiveness and add value to the business (Srichanpetch Silpaporn, 2012).

Listed companies or fund-raising companies consist of shareholders, directors and executives, which creates a clearly divided proportion between money owners and management. In general, shareholders as owners of money will not be involved in management and at the same time, administrator is not the owner of the money but has the duty to manage to maximize benefits However, the unrelated information perception between the principal and agent May lead to the problem of agents from the conflict between the agents (Jenson and Meckling, 1979), Therefore, there must have a mediator to coordinate, monitor, build confidence for shareholders through good governance. The middleman who is a key factor in creating good corporate governance in the company is the board of directors appointed by shareholders.

The board of directors is an important personnel and has a large role in supervising the administration to maximize the shareholders' benefits. The good board structure and the responsibilities of the Board are considered as important factors driving the organization to move in a better direction. A handbook for directors of listed companies prepared by the Office of the Securities and Exchange Commission states that a good board structure should be of appropriate size which is not so small that a lack of diversity of ideas and not too big that destroys efficiency and agility Including directors with diverse knowledge and capabilities including has sufficient independence to inspect and balance the operations of the management because having independent directors increases the efficiency in protecting and protecting the interests of the company (Baysinger & Bulter, 1985) .

The board structure and responsibility of the board is one way of corporate governance that helps reduce conflicts of interest between shareholders and executives which will result in improved company operations because if such conflicts are allow to occur, they will affect the operations of the business and also reduce shareholders' confidence. Therefore, the corporate governance in the structure of the board and the responsibilities of the board are linked to the performance in terms of reducing such problems which will result in improved operating results.

Therefore, if the company has a good board structure and the board performs their duties with responsibility by considering the business value and benefits of the organization, this will be an additional force for regulatory mechanisms to be more effective which will be reflected in the results of operations as well. For this reason, the researcher was interested in studying how the Board's governance in relation to the structure of the board and the roles and responsibilities of the board are related to the performance of listed companies on the Stock Exchange of Thailand.

Objectives

1. To study the factors that affect the performance of listed companies in the Stock Exchange of Thailand.
2. To study the relationship between cooperate governance and the performance of listed companies in the Stock Exchange of Thailand.

Scope of Research

The population in this research was companies listed on the Stock Exchange of Thailand in every industry group except for financial business groups that have unique characteristics different from other general industry groups and participated in the Corporate Governance Assessment from the IOD in 2015 with a score of "Good" or higher, which has 3 groups as good, very good and excellent according to the established score range and used the number of logos from the National Corporate Governance Committee to show the scores in each group (IOD will not announce the companies that have been evaluated during the lower level) which were 405 companies in total (Thai Institute of Directors, 2015) by studying only 333 companies that have complete information and close all accounting cycles, financial statement information and the company's annual registration statement by using the 2015 data that was included in the SETSMART Index : SET Marketing Analysis and Reporting Tool.

Variables Used in the Research

1. Independent variables- corporate governance

    1.1 Proportion of external independent directors in the board of directors of the company measured by the number of independent directors / the total number of the board of directors of the company

    1.2 Size of the board of directors measured from the total number of committees in that year.

    1.3 The number of the board of directors meetings per year

    1.4 Position merger of the chairperson and president in the same person measured from the position data of the president and the executive president, instead of the Dummy Variable as follows

    CD = 0 If there is a mergers of the positions of the president and the executive president

    CD = 1, if there is a separation of positions of the president and the executive president

    1.5 Corporate governance score from the report measured in the form of corporate governance scores assessed by the National Corporate Governance Committee.

2. Company performance in the Stock Exchange of Thailand

    2.1 Return on equity (ROE) is the net profit divided by shareholders' equity by the equity Shareholders equal to total assets minus total liabilities

    2.2 The company valuation that shows investor confidence (Tobin's Q) is the market value of ordinary shares at the end of the year + total liabilities of the company) / total assets of the company.

Figure 1 Research Framework

Corporate Governance

1. The proportion of independent directors from outside the board of directors of the company
2. Size of the board of directors
3. The number of the board of directors meetings per year
4. The mergers of the chairperson and the president of the board in the same person
5. Corporate governance score from the report

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Company performance in The Stock Exchange of Thailand

1. ROE
2. Tobin's Q

Concepts, Theories and Related Researches

Stock Exchange of Thailand (2012) defined the meaning of corporate governance as a system that provides the structure and process of the relationship between the board of directors, management and shareholders in order to create competitiveness and lead to growth as well as add value to shareholders in the long term, with consideration to other stakeholders. It can be concluded that corporate governance is to focus on all parties with vested interests (Stakeholders) deploy ownership rights to protect their own interests in management mechanism The interested persons hereby are shareholders, creditors, the Board of Directors Company executives, employees, customers distributor production factor Trade competitors Including society and the environment.

Onokoya et al. (2014) studied the relationship between corporate governance and the company's operating performance for the nine banks in Nigeria between 2006-2010 and found that corporate governance factors in terms of the size of the Board of Directors in the company and the proportion of the number of shareholders were related to the return on equity. As for other aspects, there was no relationship to the company's performance.

a Ahmed and Hamdan (2015) studied corporate governance factors that affect the company's operations in the case study of the Bahrain Stock Exchange, by studying the information of 42 companies in the Bahrain Stock Exchange between 2007 - 2011. It found that the corporate governance factors of the proportion of the number of shareholders, the size of the board, the proportion of the non-executive directors, the assets of managers in the company's shares affected the return on equity and the size of the board. The minister, the proportion of non-executive directors to influence the rate of return on assets for the overall corporate governance factors had no effect on earnings per share.

Phanthip Yangklan (2019) studied of the operating performance influencing firm value through earnings management of the listed company on the Stock Exchange of Thailand and examine the Path Analysis of the operating performance by the Earnings Management which has the effect to the firm value of the listed company of Thailand by collecting data on year 2555-2559 B.E. from the listed company of Thailand (SET100) that such of the variation of operating performance uses the Return on Equity (ROE), but the firm value uses the computation of Tobin's Q to the evaluation of operating performance of company, and the earnings management uses the model of Modified Jones. The data analysis uses the descriptive statistic and analysis the Path Analysis of the operating performance through the earnings management which has the effect on the firm value of the listed company of Thailand. The result indicated the operating performance on the Return on Equity has positive influence to the firm value and the earnings management, while the earnings management affects significantly in the positive way to the value of the listed company of the Stock Exchange of Thailand, and the analysis the Path Analysis has been found that the operating performance on the Return on Equity has positive influence to the firm value and the earnings management of the listed company of the Stock Exchange of Thailand, significantly at level .01.

Patyot Dechsir (2018) Studied The Causal Effect of Tax Planning on Firms' Performance of Listed Companies in Thailand and aims to examine the causal effect of tax planning on firms' performance of listed companies on the Stock Exchange of Thailand exclude listed firms on financial sectors. The sample size consists of 873 firm-years which based on the study period between 2014-2016. Tax planning was measured by the effective tax rate (ETR) . The firms' performance was measured by market performance measure, Tobin's Q, and accounting performance was measured by return on equity (ROE), return on sales (ROS) and earnings per share (EPS) . The correlation analysis and multiple regression analysis were used for data analysis. The results indicated that tax planning had the negative effects on firm value measure (Tobin's Q) while it had the positive effects on accounting performance.

Research Methodology

Population and sample

Population in this research was a companies listed on the Stock Exchange of Thailand in every industry group Except for financial business groups that have unique characteristics different from other general industry groups and participated in the evaluation of 405 companies from IOD in 2015 (Thai Institute of Directors Association, 2015)

Sample group of the research

Sample group in this research was companies listed on the Stock Exchange of Thailand in every industry group except for financial business groups that have unique characteristics different from other general industry groups focusing only 333 companies which have complete information and close the accounting period by using 2015 data in SETSMART Index : SET Marketing Analysis and Reporting Tool.

Data analysis and used statistics

Data analysis and presentation were done through descriptive analysis and quantitative analysis as follows

1. Descriptive Statistics was a statistic used to summarize the basic characteristics of each variable, such as Percentage, Mean, Median, Standard Deviation, Minimum and Maximum data values for a general overview of the data and the primary statistical distribution.

2. Inferential Statistics was used to analyze the relationship between variables through Pearson Correlation Coefficient. Hypotheses were tested by using multiple regression analysis by Enter Multiple Regression Analysis to test the relationship of corporate governance and the operating results of businesses measured by Return on Equity (ROE) and company valuation reveal investor confidence. (Tobin's Q)

Research Conclusion

1. Basic statistical analysis results

Table 1 Basic information of variables in corporate governance

Variables	Minimum	Maximum	Mean	Sd.
1. Proportion of external independent directors in the company's board (times)	0.33	0.85	0.42	0.1079
2. Size of the board of directors	5	17	11.96	2.58813
3. The number of board meetings per year	4	21	8.66	4.03546

From Table 1, it found that the proportion of independent boards had an average value of 0.42, with the minimum and maximum values of 0.33 and 0.85 respectively, which was in accordance with the principles of good corporate governance that the board should consist of independent directors at least 1 in 3 of the board but must not be less than 3 people.

The average size of the boards was 11.96, with the minimum and maximum values was 5 and 17, respectively. This showed that the sample group of listed companies in the research had an average of approximately 12 members in accordance with the guidelines of good corporate governance principles for listed Companies 2012, Section 5 : Board Responsibilities of the Board of Directors which states that the board structure should have an appropriate size. The number is not less than 5 people and should not be more than 12 people, depending on the size, type and complexity of the business.

The average number of meetings per year was 8.66, with the minimum and maximum values were 4 and 21, respectively. In average, the number of meetings per year was in accordance with the guidelines of good corporate governance principles for listed companies 2012, Section 5 : Board Responsibilities of the Board of Directors which states that the number of board meetings should be considered to be appropriate to the board's duties and responsibilities and the nature of the company's business but should not be less than 6 times per year.

Table 2 Frequency distribution of the position of mergers of chairperson and the president in the same person

	Number of company	Percentage
1. Position Merging		
1.1 Merging	61	18.31
1.2 Separating	272	81.69
Total	333	100
2. Ranking of corporate governance scores from reports		
2.1 Good	119	35.74
2.2 Very good	159	47.75
2.3 Excellent	55	16.51
Total	333	100

From Table 2, it found that from a sample of 333 listed companies, 82 percent of the companies have separated the positions of the president and the executive president. That is, the president and the executive president is not the same person which is in accordance with the best practices of the principles of good corporate governance for listed companies in year 2012, Section 5 : Responsibilities of the Board of Directors which states that the president and the managing director have different responsibilities. The board of directors should clearly specify the powers and duties of the president and managing director and in order to prevent any one to have unlimited power, the person in president position should be separated from the managing director position to ensure a balance of power in the operation.

Table 3 showed the correlation coefficient between the factors of corporate governance, consisting of the proportion of non-executive directors (BI), the size of the board of directors (BS), the number of meetings (TIME), the merger of manager positions of chairperson and president as the same person CD), the corporate governance score (NOL), and the company's performance, consisting of the return on equity (ROE), and the character value of a company that shows investor confidence (Tobin's Q)

Table 3 The relationship between corporate governance factors and company's performance

Variable	ROE		Tobin's Q	
	Correlation coefficient (r)	Sig	Correlation coefficient (r)	Sig
BI	-0.069	0.606	-0.126	0.342
BS	0.291	0.027*	0.326	0.012*
TIME	0.057	0.668	-0.051	0.694
CD	0.060	0.656	0.036	0.787
NOL	0.104	0.439	0.052	0.694

Table 3 showed the relationship between corporate governance factors and company's performance. When considering each aspect, it found that the size factor of the Board of Directors had relationship with the performance in the aspect of the return on equity (ROE) ($r = 0.291$) and the investor confidence rate (Tobin's Q) ($r = 0.326$) with statistical significance at the level of 0.05whereas no relationships in other aspect since Sig was greater than 0.05 in overall

Table 4 The results of the analysis of corporate governance factors that affected the return on equity

Corporate governance factors	ROE				
	Regression coefficient β	Standard deviation	t	p-value	Adjusted R Square
BI	-0.022	0.173	-0.129	0.898	-0.018
BS	0.034	0.015	2.276	0.027*	0.068
TIME	0.120	0.625	0.192	0.848	-0.017
CD	0.336	0.736	0.457	0.650	-0.014
NOL	0.049	0.113	0.437	0.664	-0.014

From Table 4, it found that corporate governance factors had an effect on the return on equity (ROE) . When considering each variable, it found that the size of the board of directors had a significant effect on the return on equity (ROE) at the level of 0.05 ($\beta = 0.034$, $p < 0.05$) .

Table 5 The results of the analysis of corporate governance factors that affected investor confidence.

Corporate governance factors	Tobin's Q				
	Regression coefficient β	Standard deviation	t	p-value	Adjusted R Square
BI	-0.028	0.072	-0.385	0.702	-0.015
BS	0.024	0.009	2.607	0.012*	0.091
TIME	0.156	0.395	0.395	0.694	-0.015
CD	0.127	0.467	0.272	0.787	-0.016
NOL	-0.104	0.109	-0.958	0.342	-0.015

From Table 5, it found that corporate governance factors had an effect on investor confidence (Tobin's Q) . When considering each variable, it found that the size of the board of directors affects the investor confidence rate (Tobin's Q) with statistical significance at the level of 0.05 ($\beta = 0.024$, $p < 0.05$) .

Discussion

From the research on the relationship between corporate governance and the listed company's performance in the Stock Exchange of Thailand by considering the relationship between corporate governance and the company's performance, it found that the proportion of non-executive directors, the size of the board of directors, the number of meetings, the merger of the chairperson and the president as the same person, the level of corporate governance score had a relationship of independent variables without causing problems of Multicollinearity .Considering each aspect, it found that size factor of the board of directors had a relationship with the performance of return on equity and the confidence rate of investors with statistical significance at the level of 0.05. This finding was consistent with the research of Majumdar and Mangal (2013) which stated that larger companies will have better profits since the large company has advantages in terms of investment limitations and also economies of scale resulting in better operating results than small companies. Also, the finding still consistent with the research of Ahmed and Hamdan (2015) who studied the factors of corporate governance, which showed that corporate governance factors affected the ratio of return to assets. And for corporate governance factors of the company in the aspect of the proportion of shareholders, it found the proportion of shareholder affected the market price ratio to the account price.

Suggestions

1. Suggestions received from research

1.1 The Stock Exchange of Thailand should be a medium for continuously providing good corporate governance knowledge to companies listed on the stock exchange in order to allow the companies to realize and aware of the advantages and disadvantages of good corporate governance.

1.2 The Stock Exchange of Thailand should be issued as a regulation, rules and apply to companies listed on the stock exchange in order to create a norm for all companies to adhere to in the same direction.

1.3 The department responsible for supervising the corporate governance of the company should apply the results from this research as a guideline for application in the organization.

1.4 The agencies responsible for supervising the company's business operations may need to consider adjusting the management mechanism and style to be in line with the organization's problems.

1.5 The department responsible for supervising the corporate governance of the company should have coordination to create knowledge and understanding of management and operations between management and operations that will lead to the practice in the same way.

2. Suggestions for further research

For the further research, the independent and additional variables should be tested, such as the addition of other financial ratio variables and other corporate governance variables, etc., and should be compared for 3 or 5 years to see the trend of the relationship between the variables of each factor.

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