

The Relationship between the Disclosure of Corporate Governance Practices and Firm Performances: Evidence from the Stock Exchange of Thailand

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ABSTRACT

This study aims to determine the disclosure level of corporate governance (CG) practices of SET100 index listed companies in Thailand and to examine the relationship between the degree of CG disclosure and firm performances. The disclosure of CG practices is gathered from the Annual information filing (Form 56-1) for the year 2017. Firm performances are defined in term of both accounting-based, return on asset (ROA), return on equity (ROE) and earnings per share (EPS), and market-based, Tobin's Q and dividend yield. The data used in this study is gathered from the Stock Exchange of Thailand Market Analysis and Reporting Tool ("SETSMART"), for the year 2017 and 2018. The results reveal that the overall disclosure level of the CG practices is very good (87 percent). There are three categories of CG practices, Rights of shareholders, Equitable treatment of shareholders, and Disclosure and transparency, are excellently disclosed. The other two categories of CG practices, Role of stakeholders, and Responsibilities of the Board, are very good. Moreover, the results also show that there is a significantly positive correlation between the degree of CG disclosure and firm performances (EPS and dividend yield) both current year (2017) and following year (2018).

Keywords: Corporate Governance; Disclosure of Corporate Governance Practices; Firm Performances.

1. INTRODUCTION

After the collapse of Enron and Arthur Anderson, corporate governance (CG) has become increasingly important. Many organizations and researchers have been interested and concerned about CG issues. The initial improvement of CG in Thailand began in 1998, after East Asian economic crisis in 1997 (Yodbutr (2010)).

The Stock Exchange of Thailand (SET) defines CG as a set of structures and processes of the relationships between a company's board of directors, its management and its shareholders to boost the company's competitiveness, growth and long-term shareholder value, taking into account the interests of other company stakeholders. Good CG is an essential characteristic of listed companies. Having good CG means that the company has efficient, transparent, and auditable management systems that create trust and confidence amongst its shareholders, investors, other stakeholders and all relevant parties. A company with a management system that creates trust and confidence among

all stakeholders has excellent opportunities for sustainable growth, imply that good CG adds to a firm's value and sustains its growth (The Stock Exchange of Thailand (2012)).

The objectives of this study are to determine the disclosure level of CG practices of SET100 index listed companies in Thailand and to examine the relationship between the degree of CG disclosure and firm performances.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The office of Securities and Exchange Commission (SEC) and the SET continuously promoted good CG for the listed companies in Thailand.

The SEC issued regulations to ensure that the rights and interests of shareholders would be protected. Thai listed companies are required to have a check and balance management structure to prevent conflict of interest and to act in the best interest of minority shareholders. Additionally, veto rights for minority shareholders on important issues were imposed. Also, the SEC requires listed companies to disclose their CG practices and explain any discrepancies in a 56-1 report and annual report of the companies since 2002 (Yodbutr (2010)).

In 2002, the SET supported listed firms have to good CG by proposing the 15 Principles of Good Corporate Governance as preliminary guidelines for them to implement. In 2006, the Principles were revised to be comprehensive and comparable to the Principles of Corporate Governance of the Organization for Economic Co-operation and Development (OECD). Also it includes recommendations made by the World Bank in its Report on the Observance of Standards and Codes related to Thai CG (CG-ROSC). The SET has continuously supported listed firms to establish their CG systems, and expects all listed companies' boards and management teams to develop their systems to be comparable with international standards, benefitting the companies themselves, the Thai capital market and the sustainable development of the Thai economy. In 2012, the 2006 Principles were revised to be compatible with ASEAN CG Scorecard criteria, which is used to assess and rank listed companies' CG practices in ASEAN, thus making them again up-to-date, bringing the Principles to a higher level, and helping make Thai listed firms ready for competition in ASEAN. The Principles of Good Corporate Governance for Thai Listed Companies, revised in 2012, are presented in 5 categories, namely: (1) Rights of shareholders (2) Equitable treatment of shareholders (3) Role of stakeholders (4) Disclosure and transparency and (5) Responsibilities of the Board. The principles cover all important issues concerning good CG, whilst the content in the recommended best practices offers supplementary descriptions or means to enable companies to implement the principles (The Stock Exchange of Thailand (2012)).

Mitton (2002) examines the impact of CG on firm performance during the East Asian financial crisis of 398 firms from Indonesia, Korea, Malaysia, the Philippines, and Thailand using firm-level data. The results show that higher disclosure quality is associated with significantly better stock price performance.

Drobetz et al. (2003) find that there is a relationship between CG and dividend yields and price-earnings ratios in cross-section of German firms.

Gompers et al. (2003) examine the relationship between shareholder rights and firm performance using a sample of 1500 large firms during 1990s. The results show that firms with stronger shareholder rights had higher firm value (Tobin's Q), higher profit, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions.

Klapper and Love (2004) examine the determinants of firm-level CG in 14 emerging market countries, including Thailand, in 2000. They find that better CG is associated with higher firm performance both measured by return on assets and by Tobin's Q.

Connelly et al. (2008) examine the relationship among family control, CG, and firm value of the listed firm in Thailand. They find that CG is significantly associated with Tobin's Q for firms with high family control.

Yodbutr (2010) investigates the effects of firms' ownership structure, firm characteristics, and firm performance on CG practices of firms listed in The Stock Exchange of Thailand (SET) during 2007-2008. She finds that firms with high market performance (Tobin's Q) have strong corporate governance practices.

Haslindar and Fazilah (2011) investigate the relationship between CG mechanisms and performance of Public-Listed Family-Ownership in Malaysia. They find the association between CG mechanisms and performance, ROA, ROE and Tobin's Q.

Korboon (2015) and Luaurai (2015) investigate relationship between the disclosure of CG practices and firm performances of listed companies in Thailand in 2013. Both of them find that there is a significantly positive correlation between firm performance and CG.

Juwita (2019) investigates the effect of CG and family ownership on firm value (Tobin's Q) of Indonesian manufacturing firms in the year 2014-2016. He finds that good corporate governance and family ownership positively affect firm value.

Agency theory suggests that the firms can be viewed as a nexus of contracts between resource holders. Jensen and Meckling (1976) define the theory as agency relationship as a contract under which one or more persons (principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to that person. If both parties of the relationship are utility maximizers, it can believe that the agent will not always act in the best interests of the principal. Information asymmetry is another problem of a principal-agent relationship. Information asymmetry arises from information differences and conflicting interests between management and shareholders. CG mechanisms are designed to cope with agency problems and information asymmetry. Good CG practices and disclosures have costs to perform. Hence, firm performance is the one of important factors that affects CG of the firm. The association between firm performance and quality of CG provides mixed results. Therefore, this study hypothesizes that there is a relationship between the degree of CG disclosure and firm performances.

3. RESEARCH DESIGN AND RESULTS

The sample of this study is collected from the SET100 index listed companies in the Stock Exchange of Thailand. The data used in this study is gathered from the Stock Exchange of Thailand Market Analysis and Reporting Tool (“SETSMART”).

The disclosure of CG practices is gathered from the Annual information filing (Form 56-1) for the year 2017, based on the 15th CG Report publication by the Thai Institute of Directors Association (Thai Institute of Directors Association, 2017) which assessed the CG practices of Thai listed companies with 241 assessment criteria classifying into the Rights of Shareholders (32 items), Equitable Treatment of Shareholders (19 items), Role of Stakeholders (29 items), Disclosure and Transparency (53 items) and Board Responsibilities (108 items) categories.

The disclosure of CG practices is equally weighted, total 241 scores. For each category, calculate the percentage of disclosure score of each firm, then converted the 0-100 scores into six meaningful levels of corporate governance recognition as illustrated below.

Excellent	= 90%-100%,
Very Good	= 80%-89%,
Good	= 70%-79%,
Satisfactory	= 60%-69%,
Pass	= 50%-59%, and
Fail	= Less than 50%.

This study uses both accounting performance and market performance to investigate the relationship between CG disclosures and firm performances, both the current and following years, for the year 2017 and 2018.

Accounting-based performance

Return on asset (ROA, net income divided by average total assets),
Return on equity (ROE, net income divided by average total equities) and
Earnings per share (EPS, net income subtracts the current-year preference share dividend divided by weighted-average ordinary shares outstanding)

Market-based performance

Tobin’s Q (the sum of market value of equity and long-term debts divided by average total assets) and
Dividend yield (dividend per share divided by the stock price per share).

The descriptive statistics used in this study are: mean, frequency, percentage. Pearson’s correlation coefficient analysis is used for hypothesis testing.

Table 3.1: Corporate Governance Level (Firms)

Excellent	Very Good	Good	Satisfactory	Pass	Total
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51	31	12	6	0	100
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Table 3.1 presents the proportion of companies achieving each CG level. 82 firms achieve the top 2 CG levels (51 firms “Excellent” and 31 firms “Very Good”). There are only 12 firms and 6 firms earning an “Good” and “Satisfactory” CG levels.

Table 3.2: Descriptive Statistics of the CG Scores (Percent)

Description	Average	Median	Maximum	Minimum
Rights of Shareholders	96%	97%	100%	67%
Equitable Treatment of Shareholders	95%	98%	100%	81%
Role of Stakeholders	87%	91%	98%	27%
Disclosure and Transparency	91%	93%	100%	51%
Board Responsibilities	80%	84%	95%	46%
Overall	87%	90%	97%	55%

Table 3.2 presents the descriptive statistics of CG score for each CG level. The average CG score for the SET100 companies is 87 percent (Very good). The Rights of shareholders category receives the highest average CG score of 96 percent (Excellent), following by the Equitable Treatment of Shareholders category with an average of 95 percent (Excellent). The Disclosure and Transparency category is next with the average CG score of 91 percent (Excellent). The Role of Stakeholders and Board Responsibilities categories obtain the average CG scores of 87 percent (Very good) and 80 percent (Very good), respectively. It is worth noting that the Role of Stakeholders category exhibits a wide range of corporate governance practices, from a minimum score (worst practice) of 27 percent to a maximum score (best practice) of 98 percent.

Table 3.3 presents the Pearson’s correlation coefficients of the relationship between the disclosure of CG practices and firm performances. The results show that there is a significantly positive correlation between the degree of CG disclosure and firm performances, measured in terms of accounting-based performance: EPS and measured in terms of market-based performance: dividend yield, both current year (2017) and following year (2018). The remaining correlation coefficients are insignificantly correlated.

Table 3.3: Pearson’s correlation coefficients of the relationship between the disclosure of CG practices and firm performances.

Description	Year 2017	Year 2018
	Corr.	Corr.
ROA	0.05	0.08
ROE	0.06	0.08
EPS	0.19*	0.18*
Tobin's Q	0.01	0.00
Dividend yield	0.20**	0.16**

***, **, * Significant level of 0.01, 0.05 and 0.10, respectively.

4. CONCLUSIONS

The overall disclosure level of the CG practices is very good. There are three CG practice categories, Rights of shareholders, Equitable treatment of shareholders, and Disclosure and transparency, are excellently disclosed. While the other two CG practice categories, Role of stakeholders, and Responsibilities of the Board, are very good disclosed. In addition, there is a significantly positive relationship between the degree of CG disclosure and firm performances (EPS and dividend yield) both current year and following year.

The limitations of this research are (1) the sample is limited only SET100 index listed companies in Thailand and (2) the results of this study based only on the descriptive statistics and Pearson's correlation.

The results of this study should be of interest to academics, investors, standard setters and regulators. The SEC and the SET can use the results from this study to promote additional regulations to encourage Thai listed companies to adopt the internationally-accepted corporate governance standards and disclose properly.

In March 2017, the Corporate Governance Code for Listed Companies 2017 has been issued and the Principle of Good Governance for Listed Companies 2012 will be superseded. It offers the boards of directors of listed companies, as the leader and governing body of companies, guidelines for good CG to ensure companies' long-term sustainable value creation. Thai listed companies need to disclose their compliance with the new CG Code through their annual reports and annual registration statements (Form 56-1) to be submitted in year 2019 onwards (Kulaya (2018)). The future research to examine the effect of new Corporate Governance Code is interesting.

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