

The Impact of Corporate Governance on Firm Value: Evidence from the Stock Exchange of Thailand[†]

**Pankeawta Lakkanawanit, Natnicha Soradee, Niyada Dachprom, Butsaba Musidaeng,
Panadda Suwannarat, Pattayanee Sangkhanukit, Panumas Paothongkam,
Trairong Swatdikun* and Suwatjana Thammachot**

*Division of Accountancy, School of Accountancy and Finance, Walailak University,
Nakhon Si Thammarat 80160, Thailand*

(*Corresponding author's e-mail: trairong.sw@wu.ac.th)

Abstract

This research explores the impact of corporate governance on the value of the firm in THSI index, listed companies that operates sustainably, taking into account the environment, having appropriate board composition. Research methodology consists of the following elements; the population is all listed company which listed in the Thailand Sustainability Investment (THSI) index in 2020, totally 118 observation firms. Secondary data of board composition of the corporate governance were collected from Annual Report, SETSmart database. Data were analyzed using descriptive statistics, correlation analysis, and multiple regression analysis. The results shows that the proportion of majority shareholder and firm size plays a key role of value creation in the THSI group. The authorities and regulators can use the result of this research to provide guidance for corporate governance policies to ensure sustainability for the organization itself and its stakeholders.

Keywords: Corporate governance, Sustainability investment, The stock exchange of Thailand

Introduction

Corporate governance is a topic that has garnered considerable public interest which required regulators and executives ensure that the firm has an appropriate management fundamental, incorporating honest information sharing, and standardizing. The procedure outcomes to increase efficiency, create competitiveness, and offer long-term value to the firm. This will result in pleasure for all parties involved (Srijanphet, 2012). Shareholders and investors are unable to enter the administration on their own, a committee must be created to govern and oversee the management's efforts to accomplish the stated objectives. The committee must also work to develop mutually beneficial relationships amongst various stakeholder groups, avoid conflict, and establish equilibrium. Therefore, good corporate governance practices should be implemented to not only increase CEOs' reputation and fairness among staffs and board of directors, but also to reassure shareholders and investors. It features an effective and transparent process should generates corporate value and fosters the company's sustainable development, consequences to the value creation of a corporation, then this study determines whether or not board composition is associated with firm value.

Subsombat (2020) investigates the effect of corporate governance on the business value of SET100 index in the Stock Exchange of Thailand. The research reveals that proportion of shares held by the Company's directors' correlates positively with firm value. However, size of the board of directors and the frequency of board meetings has a negative impact on value of the firm. The duality of chairman and chief executive also has negative impact on market value of companies. The Stock Exchange of Thailand has compiled a list of sustainable stocks, known as Thailand Sustainability Investment (THSI) in 2015.

[†]Presented at the Conference in Management: Summer 2022 (July 9, 2022 at Walailak University, Thailand)

The index of listed firms which is not only conduct environmentally friendly activities, social responsibility, and handling the principles of corporate governance (Environmental, Social, and Governance, ESG) as a suggestion list for investors who would like to invest in sustainable securities. This research aware that promoting sustainable investment is not only provides a solid ground for investor but also helps authority to upheave quality of investment in the market. Consequently, this research explores the impact of board composition, as an indicator of appropriate corporate governance, on firm value in the Stock Exchange of Thailand. Thus, it raises an original question that whether there is an impact of board composition on firm Value in Thailand Sustainability Investment Index of the Stock Exchange of Thailand?

Literature review

Principle of corporate governance

Corporate Governance (CG) is a company's management system that is effective, transparent, verifiable, and takes all stakeholders into consideration. Nonetheless, the corporation must provide shareholders with access to its information, crucial choices, and examination of the work of directors and executives'. Good corporate governance enhances the company's fundraising ability, thus it has a potential to influence the capital market, including a rise in purchasing demand, and confidence boosting, enhancing liquidity (Pimkhiri, 2019). Thailand has steadily improved its corporate governance. Especially during 2006, the Stock Exchange of Thailand announced the significance and advantages of strong corporate governance and suggested principles of good corporate governance to the listed firms. It is comparable to the Organization for Economic Co-operation and Development (OECD) principles of corporate governance, which have worldwide standards for corporate governance and are the norm in many nations. Later, in 2012, the Stock Exchange of Thailand was changed the direction to align with the ASEAN Good Corporate Governance Assessment Criteria.

The Securities and Exchange Commission published good corporate governance standards in 2017 (CG Code). The new guidance version for listed firms that enables enterprises to adapt, expand, and produce value for stakeholders and society as a whole. In addition to inspiring investor confidence, board of directors should oversee the company to achieve the following requirement: 1) Be able to compete and achieve excellent operational outcomes while considering long-term consequences; 2) Conduct business ethically. Honor the rights and obligations of the holders Shares and constituents; 3) Benefit to society and ability to create or reduce negative environmental consequences; and 4) adaptability to changing conditions. In this principle of good board composition, the board of directors must adhere to the following 8 standards of practice.

Principle 1 Recognize the duties and responsibilities of the board of directors as sustainable value creators.

Principle 2 Determine the business's objectives and primary aims for sustainability.

Principle 3 Enhance the effectiveness of the board of directors.

Principle 4 Recruit and develop senior leaders and management.

Principle 6 Ensure that a suitable risk management and internal control mechanism is in place.

Principle 7 Preserve financial credibility and transparency.

Principle 8 Promote shareholder involvement and communication.

Therefore, both the listed companies and the capital market as a whole will gain from the corporate governance guideline. In addition, the review of corporate governance by domestic authorities of listed firms will boost the growth of listed businesses. The Thai Investors Association reports Thai Association of Directors' Corporate Governance Program (CGR), the project of the to evaluate the quality of shareholder meetings, which aims to promote corporate governance practice among the listed companies (Pimkhiri, 2019).

Firm value

Firm value theories suggests that the company's performance metrics are essential for measuring performance and driving value. The valuation should represent the company's gain or loss in value within the applicable time period. The financial or commercial worth of the firm is separated into 2 perspectives: Accounting view and market perspective, both perspectives represent distinct corporate principles. Consequently, this study measures the company value from both viewpoints, as follows:

1) Accounting measurement of business value is adopted by investors to make investment decision. The fact that profit data may represent the worth of a company via the stock price or the return on securities demonstrates the importance of the information. Accounting performance indicators as indicators derived from the data in the financial statement, which is regarded as return on equity ratio was adopted for this study. If a firm has a high return on equity, this suggests that it is very profitable, which impacts the company's firm value.

2) Market-based business value is a ratio that combines accounting numbers with the company's market worth, i.e. stock market prices. This covers both historical information and the projections of investors about the opportunity. Tobin's Q ratio is a concept created by Professor James T. Tobin that utilizes stock prices to anticipate the future. The level of business sector investment. Tobin's Q is well accepted as a good metric that accurately represents the enterprise's underlying worth, hence creating shareholder value. (Subsombat, 2020).

Sustainability investment securities in Thailand

Thailand Sustainability Investment (THSI) has been established by the Stock Exchange of Thailand since 2015 as a high reliable security for investors who want to invest in unity with the principles of ESG (Environmental, Social and Governance). THSI shares are chosen among firms listed on the Stock Exchange of Thailand who voluntarily engage in a sustainability evaluation questionnaire. The evaluation will include questions about the ESG dimension. The evaluations are revised yearly in line with worldwide and national sustainability environment and trends. THSI-listed companies must have achieved at least 50 % of the sustainability assessment score in each ESG area, or be a listed company selected as a member of the Dow Jones Sustainability Indices (DJSI) and meet the eligibility criteria, including quality assessment, Corporate Governance Reporting results, net profits, and shareholders' equity.

The credentials of listed firms is optionally add with the Sustainable Investment Working Group comprising of specialists in corporate governance and sustainable development made by the capital market authorities. Be forthright and selective Listed firms on the Sustainable Stock List are regarded to have the capacity to implement sustainability principles into their operations. It is prepared for developing risks and has clear standards for supporting and managing challenges, demonstrating its capacity to generate business possibilities and adapt to the company's shifting trends. In addition, the SET has created a sustainability index by selecting shares from the list of sustainable stocks (THSI) of the previous year that have been traded on the Stock Exchange of Thailand for at least 6 months, have a market capitalization of at least 5 billion baht, have a free-float ratio of at least twenty percent of the paid-up capital, and the number of shares traded is at least 0.5 percent of the Company's registered shares at least 9 out of 12 months. The following advantages are anticipated to result from the sustainability assessment:

1) It may be utilized as a tool for company growth and improvement to address ESG concerns in order to generate opportunities and efficiently manage operational risks.

2) Receive ideas that could enhancing corporate governance in response to ESG challenges.

3) Create prospects for the firm to be appealing to investors via the sustainable investment strategies.

4) Enhance incentives for businesses to develop their operations in accordance with sustainable business practices.

The impact of corporate governance on firm value

Rahmawati et al. (2021) investigated the effect of excellent corporate governance and social responsibility on the value of a moderately successful business. This study's population comprised of Manufacturing firms registered with the SRIKEHATI Index between 2017 and 2019, with a sample size of 10 firms. The fraction of Executive Committee stockholders has increased. Significant positive link to enterprise value. There is a considerable positive association between the Board of Directors and business value. company value is negatively correlated with corporate social responsibility. The result aligns with (Subsombat, 2020) which examined the effect of corporate governance on the business value of SET100 businesses listed on the Stock Exchange of Thailand by collecting data between 2017 and 2018. The result indicated a positive relationship between the proportion of directors' stock ownership and the firm's accounting and market values. However, it detects that the size of the board of directors and the frequency of its meetings have a negative impact on accounting and marketing value of the firm. It also discovers that duality between the chairman and chief executive had a negative impact on the firm's market value.

Buranawongtrakul (2017) investigated the impact of corporate governance on firm value of SET100 index. The research explores the firm value as defined by Tobin's Q, Return on Assets, and Return on Equity. The panel data were adopted, regression analysis was performed. The result reveals that corporate governance has little bearing on the firm value. The research framework aligns with (Lertrujivanich, 2016). Which investigates the relationship between corporate governance and firm value. The result indicates that is an impact of the percentage of independent directors and the evaluation of success in the prevention of corruption for Thai listed companies. Corporate Governance of Thai listed companies' quality of meeting of shareholders and the results of assessment of progress in preventing involvement with corruption for Thai listed. Tobin's Q has a large positive association with the market capitalization of the firm. On regarding to theory and relevant research, this research proposed that corporate governance has an association with firm value.

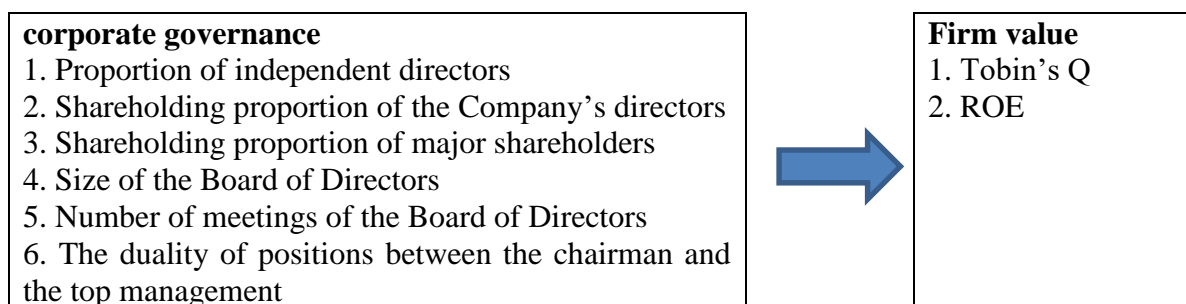


Figure 1 Conceptual structure for study.

This research hypothesis can be developed as:

H1: Corporate Governance has impact on the firm value. Corporate governance can be assessed by H1.1) Proportion of independent directors H1.2) Shareholding ratio of the company's directors H1.3) percentage of significant shareholders' holdings H1.4) Number of Directors on the Board H1.5) Number of Board of Directors meetings H1.6) The duality of the chairman and vice-chairman role.

Research methodology

In the investigation of the impact of corporate governance on firm value of THSI index. Data of 102 listed companies that operate sustainably and with environmental concerns, social responsibility, compliance with Environmental, Social, and Governance (ESG) standards (ThaiPublica, 2020) The Secondary Data were collected from audited financial statements of firms listed on Thailand Sustainability Investment (THSI) gathered from websites (www.set.or.th).

Data collection

Due to the fact that the data used in this study are secondary data (Secondary Data) consisting of information on corporate governance as followed: 1) the percentage of independent directors, 2) Directors' shareholding proportion in the firm 3) Percentage of majority owners' holdings 4) Number of Directors on the Board of Directors 5) The number of meetings of the Board of Directors and 6) the duality of roles between the chairman and the executive leadership. For accounting information, such as the return on equity Ratio (ROE) and corporate value as evaluated by Tobin's Q Ratio, as well as financial risk factors.

Measuring variables

Independent variables

1) Ratio of independent board members determines by number of independent board members divide by the total number of board members.

2) The percentage of shares held by the company's directors determines by the quantity of company shares owned by company directors.

3) Percentage of significant shareholders' holdings is calculated by dividing the number of shares held by the 5 largest owners by the total number of issued and paid-up shares.

4) Number of directors on the board based on the board of directors.

5) Number of board of directors' meetings annually based on the number of meeting agendas of the board of directors.

6) Duality roles between the chairman and the executive leadership. The data collected from the stock exchange of Thailand has a value of 1 when the CEO and chairman of the board are the same person, and a value of 0 otherwise.

Dependent variable

1) Return on Equity ratio calculated by dividing net profit by shareholders' equity

2) Tobin's Q ratio calculated by year-end market value of common stock plus total liabilities divides by total assets.

Control variables

1) Financial risk calculates by dividing total liabilities by shareholders' equity.

2) Size calculates by market capitalization provides the information.

Data analysis

This study employs descriptive statistics, such as the mean and standard deviation, to summarize the sample data. examine the link between independent variables using descriptive statistics (Inferential Statistics) such as Linear Regression Analysis which dependent variables is an analysis using multiple linear regression.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \varepsilon$$

Y implies business value.

X1 represents the percentage of independent board members

X2 refers to the ratio of directors' shareholdings.

X3 represents the proportional shareholdings of the biggest owners.

X4 refers to the number of Board of Directors members.

X5 indicates the number of Board of Directors meetings.

X6 refers to the consolidation of the posts of Chairman of the Board and Chief Executive Officer.

Research finding

A Study of the Impact of Corporate Governance and firm value of listed Companies on Sustainable Business Operations. The results of the research were as follows.

Table 1 Descriptive statistics.

	Max	Minimum	Mean	Standard deviation
1. Proportion of independent directors	80.000	11.110	44.039	1.140
2. Shareholding proportion of the Company's directors	90.940	0	17.857	2.272
3. Shareholding proportion of major shareholders	91.490	0	57.586	2.048
4. Size of the Board of Directors	24	4	11.252	0.305
5. Number of board of directors' meetings	26	2	9.286	0.351
6. Duality of positions between the chairman and the top management	1	0	0.538	0.046
7. Financial risk	190.180	-0.780	4.532	1.804
8. Firm size	6.080	2.510	4.228	0.082
9. Tobin's Q	10.940	0.060	1.428	0.112
10. ROE	37.880	-30.060	7.390	1.004

Table 1 shows descriptive statistics on corporate governance; consisting of the proportion of independent directors with the highest value of 80 %, the lowest value of 11.110 %, the average of 43.981 and a standard deviation of 1.253. Directors' shareholding is highest 99 %, lowest 0 %, with an average of 25.564 %. Considering the shareholding of a major shareholder, the highest is 98.750 %, the lowest is 0.000 %, with an average of 58.776 %. Considering the size of the Board of Directors, the maximum value is 24.000 %. The lowest value is 4.000 % with an average of 11.284 people. The number of meetings of the Board of Directors is the highest of 18, the lowest is 6, with an average of 9.892. The merger between the chairman and the chief executive has the highest value of 1, the lowest of 0, Average value of 0.559. Descriptive statistics of the control variables in the study consists of financial risks the average of 3.124, standard deviation of 1.025. Average firm size is 4.286, standard deviation of 0.086. Descriptive statistics about the value of the firm value; Return on Equity reports the highest value of 30.650, the lowest value of -30.060, with an average of 6.976. Tobin's Q reports highest value of 5.300, lowest value of 0.060, with average value of 1.374.

Table 2 Correlation matrix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Proportion of independent directors	1							
2. Shareholding proportion of the Company's directors	0.172	1						
3. Shareholding proportion of major shareholders	0.151	0.088	1					
4. Size of the Board of Directors	-0.282	-0.283	-0.141	1				
5. Number of meetings of the Board of Directors	0.117	0.113	0.110	0.139	1			
6. The duality of positions between the chairman and top management	-0.002	0.008	0.096	0.156	0.014	1		
7. Financial risk	-0.025	0.148	0.104	-0.032	0.062	-0.071	1	
8. Firm size	0.006	-0.094	-0.102	0.470	0.333	0.069	-0.013	1
9. Tobin's Q	-0.096	0.312	-0.121	0.175	-0.004	-0.011	-0.056	0.269
10. ROE	0.113	0.130	-0.073	-0.049	-0.073	0.014	0.058	0.141

Pearson's correlation analysis reported in Table 2 reveals that no serious correlation among independent variables. However, the correlation between independent and dependent variable also reported weak.

The impact of corporate governance on firm value

Table 3 displays the result from the analysis of corporate governance on Firm Value in Thailand Sustainability Investment Securities of the Stock Exchange of Thailand. the investigation showed impact of corporate governance on firm value as evaluated by Tobin's Q ratio when taking Number of meetings of the Board of Directors and firm size into consideration.

Rules and procedures of board of directors' meetings are oversea by the Securities and Exchange Commission, Thailand. It indicates that unless relevant laws and regulations or the Company's Articles of Incorporation provide otherwise, the Company's Board of Directors meetings shall be conducted in accordance with the Rules and Procedures of Board of Directors Meetings. It further states that Board Meetings shall be held at least once every quarter but may be held at any time in case of urgent circumstances. Board Meetings shall be convened and presided over by the Chairman of the Board of Directors. However, the first meeting of every term of the newly elected Board of Directors shall be convened and presided over by the Director who has received the largest number of votes after such election; if there are 2 or more persons with such convening rights, they shall elect from amongst themselves 1 person to convene and preside over the meeting.

Table 3 The impact of corporate governance on firm value.

	<i>Tobin's Q</i>			
	Coefficients	Standard error	t Stat	p-value
Intercept	-0.736	0.764	-0.963	0.337
1. Proportion of independent directors	0.001	0.009	0.117	0.907
2. Shareholding proportion of the Company's directors	0.003	0.005	0.630	0.530
3. Shareholding proportion of major shareholders	0.006	0.005	1.146	0.254
4. Size of the Board of Directors	-0.025	0.039	-0.636	0.526
5. Number of meetings of the Board of Directors	-0.062	0.031	-2.005	0.047**
6. The duality of positions between the chairman and the top management	-0.109	0.220	-0.494	0.623
(7) Financial risk	-0.002	0.006	-0.406	0.685
(8) Firm size	0.629	0.144	4.372	0.000***

Adjusted R2 0.110, F = 2.824, sig = 0.007, Observations = 118

, * statistical significance at 0.05 and 0.01, respectively

The impact of corporate governance on firm value

Table 4 displays the result from the analysis of corporate governance on Firm Value in Thailand Sustainability Investment Securities of the Stock Exchange of Thailand. the investigation showed impact of firm size on firm value as evaluated by ROA ratio.

This research accepts H1 which indicates that corporate governance has impact on the firm value. This is the consequence of accepts H1.5) which indicates that percentage of significant shareholders' holdings. However, others hypotheses are rejected that no evidence support that H1.1) Proportion of independent directors H1.2) Shareholding ratio of the company's directors. H1.3) 3. Shareholding proportion of major shareholders. H1.4) Number of Directors on the Board and H1.6) The duality of the chairman and vice-chairman role have a role of firm value.

Table 4 The impact of corporate governance on firm value.

	<i>ROE</i>			
	Coefficients	Standard error	t Stat	p-value
Intercept	-3.122	7.103	-0.440	0.661
1. Proportion of independent directors	0.099	0.087	1.138	0.258
2. Shareholding proportion of the Company's directors	0.049	0.046	1.071	0.287
3. Shareholding proportion of major shareholders	-0.037	0.047	-0.783	0.435
4. Size of the Board of Directors	-0.411	0.364	-1.130	0.261
5. Number of meetings of the Board of Directors	-0.443	0.288	-1.539	0.127
6. The duality of positions between the chairman and the top management	1.190	2.048	0.581	0.562
7. Financial risk	0.043	0.051	0.840	0.403
8. Firm size	3.637	1.339	2.716	0.008***

Adjusted R2 0.043, F = 1.669, sig = 0.114, Observations = 118

*** statistical significance at 0.01

Summarize and analyze the findings

The findings on the impact of board composition as an indicator of corporate governance and firm value based of 102 firms in the THSI group in 2020 among listed companies in THSI index reveals that size has impact on firm value. In other words, larger organizations are often valued at a greater amount than smaller ones. Other findings are as followed;

1) Number of meetings of the board of directors has no association with business value, most likely because the number of directors in each company is unique and in compliance with stock market listing rules. In order to be listed on a stock market, a company's board of directors should have the necessary meeting, neither too few nor too many so as to lack flexibility and efficiency. This is consistent with Orataiwan (2019) and Lertrujivanich's (2019).

2) Size of the Board of Directors, and the duality of positions between the chairman and the top management. This is a criterion for quantifying the impact between effective corporate governance and firm value.

This study utilizes data creation from businesses sustainable practices. However, the study findings may be applied to the following:

1) As a guide for establishing investment strategies for investors or for formulating corporate governance or corporate governance regulations in order to achieve sustainability for the business and its stakeholders.

2) Investors, analysts, and general consumers of financial statements may utilize the findings of such connection studies as a tool to assist investors in making investment choices and to reflect variations in the relationship. This enables investors to use the study findings as data for making prudent investment selections.

Based on this study Interested parties may conduct research by employing time series data to widen the scope of data to include all listed businesses on the stock market.

Reference

- Buranawongtrakul, S. (2017). *Relationship between corporate governance and business value of companies in the SET100 group agro-service industry and food industry* (Master's thesis). Thailand: Mahidol University.
- Lertrujiwanich, O. (2016) *The relationship of corporate governance, anti-corruption, and value of corporations listed on the Stock Exchange of Thailand*. (Master's thesis). Thailand: Thammasart University.
- Mokthaisong, P. (2021). Structure and relationship between corporate governance of commercial banks in Thailand to business value. *Journal of Management Science Pibulsongkram Rajabhat University*, 3(2), 1-15.
- Orataiwan, S. (2019). *Relationship between corporate governance and market value and market-to-book price ratio of companies listed on the stock exchange of Thailand, technology industry group* (Master's thesis). Thailand: Sripatum University.
- Pimkhiri, P. (2019). Factors of corporate governance influencing business value of listed companies in the stock exchange of Thailand (SET100). *Journal of Arts and Management Sciences*, 6(2), 27-40.
- Rahmawati, A., khudin, R., & Prastiwi, A. (2021). Effect of good corporate governance and corporate social responsibility on firm value moderate by profitability. *International Journal of Research in Business and Social Science*, 10(4), 59-66.
- Sornsongkram, P. (2017). *A study of the relationship between environmental, social responsibility and corporate governance (ESG) to business value (Tobin's Q) in the energy business sector listed on the stock exchange of Thailand (SET)* (Master's thesis). Thailand: Thammasat University.
- Srijanphet, S. (2012). Important principles of corporate governance. *Journal of Business Administration*, 35(133), 1-4.
- Subsombat, N. (2020). The relationship between corporate governance and business value of companies listed on the stock exchange of Thailand in SET100. *Walailak University Journal of Management*, 9(4), 1-14.
- ThaiPublica. (2563). *SET announcing the list of 124 sustainable stocks in 2020*. Retrieved from <https://thaipublica.org/2020/11/set-announcement-of-thsi-new-list>
- The Stock Exchange of Thailand. (2021). *List of Thailand sustainability investment (THSI) last year*. Retrived from <https://www.setsustainability.com/libraries/710/item/Thailand-sustainability-investment-lists>
- The Stock Exchange of Thailand. (2021). *Sustainable equity - Thailand sustainability investment (THSI)*. Retrived from <https://www.setsustainability.com/page/thsi-thailand-sustainability-investment>
- Udomthanatira, K. (2018). *Good corporate governance*. Retrieved from <https://iok2u.com/index.php./article/e-book/460-good-corporate-governance>