

[DOI: 10.20472/IAC.2018.038.003](https://doi.org/10.20472/IAC.2018.038.003)

**CHAYAKRIT ASVATHITANONT**

Thammasat University, Thailand

**NOPPHON TANGJITPROM**

Assumption University of Thailand, Thailand

**VORAPOL SOCATIYANURAK**

National Legislative Assembly of Thailand, Thailand

## **LONG-TERM PERFORMANCE OF CORPORATE GOVERNANCE IN THAILAND**

### **Abstract:**

The purpose of this study is to review the impact of the market on Adoption of Corporate Governance in Thailand for a decade during 2003-2017. The study examines the firm-level return in both operations, from ROA & ROE, and equity price return from different level of Corporate Governance rating in comparison to the market-Stock Exchange of Thailand through out the period. The study employs the long-term cross sectional comparison between firms which separate the Corporate Governance Rating firms into four quartile rank as Excellence, Very Good, Good and Poor Corporate Governance Rating. The test of quartile differences indicated that the Excellent level of Corporate Governance firms were performing better in comparison to the Poor level in four measures of returns which are Annual Monthly Return and Annual Holding Period Return, ROE and ROA as well as the TOBINQ.

### **Keywords:**

Corporate Governance, Long Term Performance

**JEL Classification:** G34

## 1 Introduction

Corporate Governance in Thailand is dated back to 1995 when the Stock Exchange of Thailand (SET) started to promote and adopt the concept of Corporate Governance with the role of an audit committee. SET has funded the Price Waterhouse Management Consultants Limited to conducted the first Corporate Governance Survey of Thai Listed Companies in 1996. Such steps is too late to create the awareness for Thai companies as well as the public to realize the important of the practices because the Asian Crisis started in mid of 1997 and stormed the Capital Markets through out the Asian Economies with contagious to other part of the world economies. Poor governance was cited as a primary cause for the Crisis.

In 1999, the Working Group of Corporate Governance was established leaded by the Securities Exchange Commission (SEC) with collaboration of many other related parties included the Ministry of Finance, the Ministry of Commerce, the Institute of Certified Accountants and Auditors of Thailand, the Institute of Internal Auditors and SET. Later in 2002, the National Corporate Governance Committee was also established with the role to set out policies, measures and scheme to update the level of Corporate Governance in Thai Business.

In accordance to the corporate governance policies in Thailand, Thai Stock Exchange Commission requires publicly listed companies to file their annual report disclosure statements, known as Form 56-1. Contained in these statements are extensive information on risk factors that the company is facing, management discussion and analysis on past performance, and financial position as reflected in the company's financial statements. In the event where a company realizes any negative effect on its performance, discussion in the annual statement should also provide detailed description of plans to avert the problems. The submission of Form 56-1 and its related information is considered as part of one dimension of corporate governance that is the mandatory requirement of companies. The other dimension does not require companies to compulsorily present the information to the SEC.

Nonetheless, for Thai investors, corporate governance is not the first criteria when they choose to invest. It is, instead, the last criteria, according to an attitude of investment survey conducted by the SEC in 2005. According to the survey, the first criterion for choosing to invest was a firm's historical performance and dividends, followed by a firm's market situation, then its investment policies.

In 2003, the Corporate Governance rating of all companies in the SET was launched. The average score were 52 out of 100 with 15 companies awarded by the SET on Best Corporate Governance Report.

This study aim to investigate the impact of the Corporate Governance adoption of Thai Capital Market participants by reviewing the long-term impact of the Corporate Governance announcements and the benefits' the investors capture from the Corporate Governance practice of Thai Capital Markets through Stock Exchange of Thailand, starting from the beginning since mid of 2002-the announcement of first Corporate Governance Score until the 2013, the ten years later.

## **2. CORPORATE GOVERNANCE AND FIRM PERFORMANCE**

Empirical research on Corporate Governance has utilized market-based or accounting based measures to assess the firm performance. The return on assets (ROA) and return on equity (ROE) has been used as the proxy for operating performance by Klien (1998) and Asvathitanont (2011) similar Brown and Caylor (2009). Moreover, Epps and Careola (2008) have developed the ROA ratio to illustrate the performance from the amount of earnings to generate invested capital assets. Thus, ROA allows users to assess how well a firms' Corporate Governance mechanism is in securing and motivating efficient management of the firms.

The TOBINQ is the ratio of the market value of a firm to the replacement cost of the firm's assets. The Q ratio is useful for the valuation of a company. It is based on in the hypothesis that in the long run the market value of a company should roughly equal the cost of replacing the company's assets (Puksamatanan 2013).

John Colley (2003) and John Core (1999) have proposed the linkages of the good practice of Corporate Governance firm and better performance in either medium run or long run with positive relationship toward the good governance and ROE, ROA and TOBINQ.

Nevertheless, the better Corporate Governance rating has not yet conclusively proven to relate to better performance. The empirical evidences are still inconclusive of the benefit the investors can obtain from focusing on the CG rating as the major factors adding up to the other fundamental factors such as the operations, efficiency and the profit margin (Kouwenberg, 2010)

## **3. DATA AND METHODOLOGY**

Thailand Institute of Director, Thai-IOD had started the survey of listed firm in Stock Exchange of Thailand on the Corporate Governance Issues since 2002. The Stock Exchange of Thailand (SET), The Securities Exchange Commission (SEC) and The Institute of Director (Thai-IOD) jointly organized this survey. The Corporate Governance Report is released on late October each year. The CG score is measured by using the 15 principles of corporate governance published by SET since 2000. Each of the firm is scored

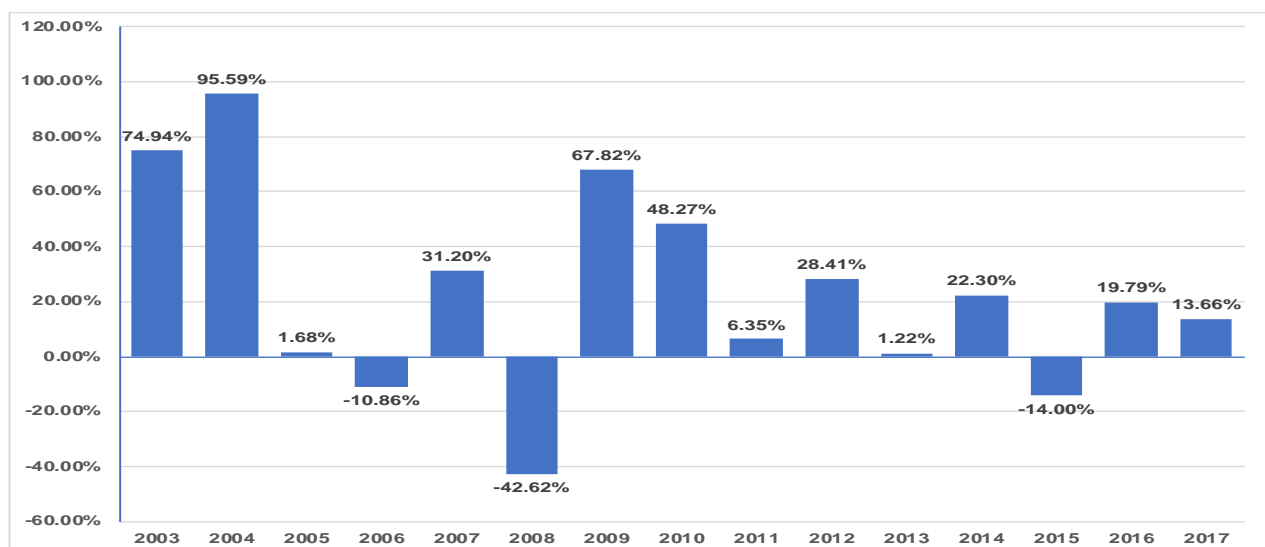
ranging from zero to a hundred points. From this CG score, the firms are grouped into quartiles ranging as illustrated in Table 1.

**TABLE 1: CORPORATE GOVERNANCE SCORES**

Score range	Description
90-100	Excellent
80-89	Very Good
70-79	Good
60-69	Fair
50-59	Pass
Below 50	N/A

Author aims to include all companies, listed in the Stock Exchange of Thailand during 2003 until 2017. The study utilize the monthly closing prices of all companies during that period which included 332 firms from a firm- listed of 59,760. During the period of the study, the author also evaluated the return of SET covering the period of study from 2003-2017 in Table 2 and Table 3 with the four different annualize measurements which are Annual Monthly Return, Buy-Hold Return for 5 years, 10 years and 15 years. The average annualized fifteen years on Annual Monthly Return was at 22.92%. While the annualized return on Buy-Hold for 5, 10 and 15 years were 27.49%, 20.94% and 30.30% correspondingly.

**Graph 1: STOCK EXCHANGE OF THAILAND: Annual Return**



**TABLE 2: STOCK EXCHANGE OF THAILAND: Holding Period Return**

Buy-Hold Return 5 Years		Buy-Hold Return 10 Years	
2003-2007	30.96%	2003-2012	36.47%
2008-2012	17.42%	2008-2017	24.13%
2013-2017	34.10%	Average	20.94%
Average	27.49%	<b>Buy-Hold (HDR) All</b>	<b>30.30%</b>

**Source: Author prepared from Stock Exchange of Thailand (SET) and Bloomberg terminal Retrieved on March 21, 2018**

While the Corporate Governance Score were retrieved from the Institute of Directors of Thailand (Thai-IOD) at 2002 database to measure the long-term impact of the Corporate Governance to the return as well as the risk from the market response, the firm-level data across 2003-2017 has been retrieved from the Bloomberg Data source.

Therefore, the Annual HDR is calculated as

$$BHAR_{it} = \prod_{t=1}^{\tau}(1 + R_{it}) - \prod_{t=1}^{\tau}(1 + E(R_{it})) \dots \dots \dots (1)$$

The Annual MR, monthly return is calculated as

$$AMR_{it} = \sum_{t=1}^{\tau} \frac{V_f - V_i}{V_i} \dots \dots \dots (2)$$

The TOBINQ is measured as;

$$TOBINQ_t^a = \frac{(Equity\ Market\ Value + Liability\ Market\ Value)_t^a}{(Equity\ Book\ Value + Liability\ Book\ Value)_t^a} \dots \dots (3)$$

Where the Return on Assets ROA and Return on Equity ROE are evaluated as;

$$ROA_t^a = \frac{Net\ Income_t^a}{Average\ Total\ Assets_t^a} \dots (4) \quad ; \quad ROE_t^a = \frac{Net\ Income_t^a}{Shareholder's\ Equity_t^a} \dots (5)$$

#### 4. FINDING AND DISCUSSION

The Top Quartile average annual return on Annual Holding Period and Monthly period was at 48.88% and 38.66% while the TOBINQ was at 1.34 and the ROE and ROA were 17.25% and 7.64%. While the other quartile result was presented in the TABLE 3.

**TABLE: 3: DESCRIPTIVE STATISTICS**

**Panel A: Top-Quartile: CG Rating 90-100 (1,620 Observations)**

	<b>Annual HDR</b>	<b>Annual MR</b>	<b>TOBINQ</b>	<b>ROE</b>	<b>ROA</b>
<b>Mean</b>	47.55	42.66	1.34	17.25	7.64
<b>Median</b>	39.76	28.11	1.13	14.55	6.44
<b>Maximum</b>	132.22	89.25	3.7	55.11	22.44
<b>Minimum</b>	19.42	11.66	0.44	0.25	0.11
<b>Std. Dev.</b>	0.44	0.21	0.3	10.27	5.3

**Panel B: Second-Quartile: : CG Rating 80-89(14,040 Observations)**

	<b>Annual HDR</b>	<b>Annual MR</b>	<b>TOBINQ</b>	<b>ROE</b>	<b>ROA</b>
<b>Mean</b>	42.25	37.32	1.44	18.66	8.87
<b>Median</b>	34.05	26.13	1.2	12.11	6.61
<b>Maximum</b>	129.87	98.45	10.6	64.83	38.42
<b>Minimum</b>	21.1	12.81	0.38	0.03	0
<b>Std. Dev.</b>	0.22	0.14	0.83	10.13	6.41

**Panel C: Third-Quartile: : CG Rating 70-79 (21,240 Observations)**

	<b>Annual HDR</b>	<b>Annual MR</b>	<b>TOBINQ</b>	<b>ROE</b>	<b>ROA</b>
<b>Mean</b>	45.88	35.63	1.22	13.75	8.66
<b>Median</b>	35.75	28.65	1.08	11.07	6.33
<b>Maximum</b>	124.23	88.87	12.66	67.22	48.74
<b>Minimum</b>	15.23	12.61	0.43	0.36	0.02
<b>Std. Dev.</b>	0.11	0.25	0.88	0.56	4.67

<b>Panel D: Fourth-Quartile: CG Rating lower than 60 (22,680 Observations)</b>					
	<b>Annual HDR</b>	<b>Annual MR</b>	<b>TOBINQ</b>	<b>ROE</b>	<b>ROA</b>
<b>Mean</b>	41.46	24.21	1.14	13.50	8.69
<b>Median</b>	29.11	18.65	1.04	10.87	6.48
<b>Maximum</b>	237.45	125.71	8.77	66.01	37.65
<b>Minimum</b>	0	0	0.11	0.35	0.00
<b>Std. Dev.</b>	0.96	0.88	0.42	0.55	6.28

Furthermore, the test of differences between SET and Four level of Corporate Governance Rating Quartile were conducted. When comparing the SET and TOP-Quartile in either Annual HDR or Annual MR, the results were significantly difference between both types of return measurements, at difference level of significant. Where the Annual HDR was significant at the level of 5 percent while the Annual MR was at 10 percent. Another set of comparison was on the TOP-Quartile and Second-Quartile, there was no significant level of all factors in the test results. It is interesting to notice that there were differences between all factors, Annual HDR, Annual MR, TOBINQ, ROE and ROA, of comparison for the Third and Fourth Quartile when comparing to The TOP-Quartile. The Results of the test of Difference between different quartile groups as well as the SET is presented in TABLE 4.

**TABLE 4: RESULTS OF THE TEST OF DIFFERENCE BETWEEN SET AND DIFFERENT CG RATING SCORE**

	TOP-Quartile				
	<b>Annual HDR</b>	<b>Annual MR</b>	<b>TOBIN Q</b>	<b>ROE</b>	<b>ROA</b>
SET	0.017**	0.096*	---	---	---
TOP-Quartile	---	---	---	---	---
Second Quartile	0.185	0.125	0.144	0.315	0.322
Third Quartile	0.077*	0.087*	0.073*	0.028**	0.043**
Fourth Quartile	0.013**	0.019**	0.088*	0.017**	0.022**

(\*), (\*\*), (\*\*\*) represent the significance at 10%, 5% and 1% level

## 5. CONCLUSION

The objective of the study is to investigate the benefit of firm embracing Strong Corporate Governance to investors and the market response via firm internal return measurement such as ROE and ROA and external return measurement such as Annual HDR, Monthly Return (MR) and TOBINQ. The study was conclusive that the excellent practice, in the TOP-Quartile rank, of CG has created higher return for investors by all measures when comparing to the good and poor CG practices, in the Third and Fourth Quartiles. Further detail to point out was on the size of value added annually for the period of study, the ROE was higher at about five percents while the Annual Holding Period Return was higher at about seven percents. Likewise, the Excellent level of the Corporate Governance also enable the investors to gain higher return than the SET at 19.74% when measured by annual Market return and about 17.25% when the returns are measured in Buy and Hold annually.

## 6. ACKNOWLEDGEMENT

The authors would like to thank the reviewers for their valuable comments.

## 7. REFERENCE:

- Alba, P., Claessens, S. and S. Djankov (1998), "Thailand's Corporate Financing and Governance Structures: Impact on Firms' Competitiveness", World Bank, Washington DC.
- Asvathitanont, Chayakrit (2011). Do Firms with Better Corporate Governance Level enjoy Lower Cost of Capital?: Evidence from Thai Listed Firms. Global Conference on Business and Finance Proceedings Vol 6, pp. 835-845.
- Baker, Kent H. and Ronald Anderson, CORPORATE GOVERNANCE: A Synthesis of Theory, Research, and Practice, KOLB SERIES IN FINANCE: Wiley, US
- Balling, Morten, et al (1998) Corporate Governance, Financial Markets and Global Convergence, Kluwer Academic:London.
- Bhagat, S. and Bolton, B (2008), Corporate governance and firm performance, Journal of Corporate Finance, 14, 257-273
- Brown, L. D. and M. L. Caylor. "Corporate Governance and Firm Operating Performance." Review of Quantitative Finance and Accounting. 32(2009): 129-244.
- Chaghadari, Masood F., (2011), Corporate governance and firm performance, International Conference on Sociality and Economic Development, IPEDR-IACSIT Press Singapore, 11, 484-489
- Che Haat, M.H., Rahman, R.A. and Mahenthiran S. (2008), Corporate governance, transparency and performance of Malaysian companies, Managerial Auditing Journal, 23, 744-778
- Coles, J. W., McWilliams, V. B. & Sen, N. (2001) An examination of the relationship of governance



mechanisms to performance. *Journal of Management*, 27, 23-50

Colley, John L Jr., Et al (2003), *CORPORATE GOVERNANCE, THE MCGRAW-HILL EXECUTIVE MBA SERIES, US*

Core, John E., et al, (1999) *Corporate Governance, chief executive officer compensation, and firm performance*, *Journal of Financial Economics*, Vol. 51, pp 371-406.

Diacon, S. R. & O'Sullivan, N. (1995) *Does Corporate Governance Influence Performance? Some Evidence from U.K. Insurance Companies*. *International Review of Law and Economics*, 15, 405-424.

Eiteman, D.K., Stonehill A., and Moffett M. (2010), *Multinational Business Finance*, 12th eds, Pearson: USA.

El Mir, Ali and Souad Seboui. (2008) *Corporate Governance and the relationship between EVA and created shareholder value*, *Corporate Governance*, Vol 8 (1), pp 46-58.

Epps, R.W. and Coreola, S.J. (2008), "Do Institutional Shareholder Services (ISS) Corporate Governance Rating Reflect a Company's Operating Performance?" *Critical Perspectives on Accounting*, Vol. 61:8, pp 1135-1148.

Fama, E. (1980), "Agency Problems and the Theory of the Firm", *Journal of Political Economy*, vol. 88, 288-307.

Giroud, X. and Mueller, H.M (2010). *Does corporate governance matter in competitive industries?*, *Journal of Financial Economics*, 95, 312-331

Gompers, P., J. Ishii and A. Metrick. "Corporate Governance and Equity Prices." *The Quarterly Journal of Economics*, February 2003: 107-155.

Hirschey, Mark et al (2003) *CORPORATE GOVERNANCE AND FINANCE*, Elsevier Science US

Hirschey, Mark et al (2004) *CORPORATE GOVERNANCE*, Elsevier US

Hirschey, Mark et al (2005) *CORPORATE GOVERNANCE: A GLOBAL PERSPECTIVE*, Elsevier: US

Klien, P., Shapiro, D. And Young J., (2005), "Corporate Governance, Family Ownership and Firm Value: The Canadian Evidence." *Corporate Governance: An International Review*, Vol. 13:6, pp.769-784.

Larcker, D.F., S.A. Richardson, and I. Tuna. "Corporate Governance, Accounting Outcomes, and Organizational Performance." *The Accounting Review* 82 (2007): 963-1008.

MITTON, T. (2002) *A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis*. *Journal of Financial Economics*, 64, 215-241.

Nelson, J. (2005), *Corporate governance practices, CEO characteristics and firm performance*, *Journal of Corporate Finance*, 11, 197-228.

Organization for Economic Cooperation and Development. (1999) *OECD Principles of Corporate Governance*. Business Sector Advisory Group on Corporate Governance,

Phunnarungsi, V. (2010), *Corporate Governance, Violations and Market Reactions*, CMRI, The Stock

Exchange of Thailand <http://www.set.or.th/setresearch/setresearch.html>

Price Waterhouse Management Consultants Ltd. (1997) Corporate Governance in Thailand: A Price Waterhouse Survey. Bangkok: Price Waterhouse.

Puksamatanan, Jitipol (2013) Corporate Governance and Equity Returns: Evidence from Corporate Governance Reports of Thai Listed Companies, CMRI Working Paper 1/2013, Retrieve from <http://www.set.or.th/setresearch/>

Ramly, Z. (2009), Corporate governance and the cost of capital: review of the empirical literature, doi: <http://bai2009.org/file/Papers/1360R.doc>

Rehman, Mobeen Ur. (2013). Impact of Corporate Governance on Overall Firm Performance, Interdisciplinary Journal of Contemporary Research in Business, March 2013 Vol 4, No 11 pp581-601.

Richter, F.; Mar, P. C. M. and Schwab, K. (2004), Asia's New Crisis: Renewal Through Total Ethical Management, New York: Wiley & Sons.

Shank, Todd, et al (2013) Does investors benefit from good corporate governance?, Corporate Governance, Vol 13 (4), pp 384-396.

Shleifer, A., and Vishny, R. W. (1997), A survey of corporate governance. The Journal of Finance, 52, 737-783.

Stock Exchange of Thailand (2003), Corporate Governance Assessment of Listed Companies 2003, Thailand.

-----, (1998). The Roles, Duties and Responsibilities of the Directors of Listed Companies. Bangkok: Boonsiri Printing.

-----, (SET). (1999a). Code of Best Practice for Directors of Listed Companies. Bangkok: Boonsiri Printing.

-----, (SET). (1999b). Best Practice Guidelines for the Audit Committee. Bangkok: Boonsiri Printing.

-----, (SET). (2000). "Report on the Survey for Corporate Governance by the Committee of Good Corporate Governance Development". A report by the Working Committee in July 1999. In Report on Corporate Governance, pp. 34-43, Bangkok: Listing Department, Stock. Bangkok: Boonsiri Printing.

-----, (SET). (2000). SET Vision 2003: International Standards of Enforcement and Corporate Governance. Bangkok: SET.

Tangjitprom, Nophon (2013) Earning Management and Corporate Governance in Thailand, International Proceedings of Economics Development and Research. Vol 61 (9)

Thai Institute of Directors (2017), Corporate Governance Report of Thai Listed Companies 2013, Thai IOD: Thailand.

----- (2013), Corporate Governance Report of Thai Listed Companies 2012, Thai IOD: Thailand.

- (2002), Corporate Governance Report of Thai Listed Companies 2002, Thai IOD: Thailand.
- Tsui, J. and Shieh T. (2004), Corporate Governance in Emerging Markets: An Asian Perspective, International Finance and Accounting Handbook, 3rd eds, Frederick D.S. Choi, editor, Wiley, 24.4-24.6
- Wheeler, D. and Sillanpaa, M. (1997), The Stakeholder Corporation. Chichester: Wiley.
- Wilkes, John. (2004) Corporate Governance and measuring performance, Corporate Governance, Vol 8 (4), pp 13-16.