The Influence of Good Corporate Governance on the Financial Performance Case Study: Companies Listed on SET Year 2013-2015

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Abstract—The objective of the study was to examine influence of Good Corporate Governance (GCG) on financial performance of the Stock Exchange of Thailand (SET). The quantitative research and documentary research by financial report, annual report. The study focuses on a number of companies who was evaluated for excellence GCG since years 2013-2015 total 65 companies. Using the structural equation model (SEM) in order to data analysis of the GCG’s influence (GCG is consist of 6 factors are the experience of the CEO, number of board directors, the ratio of Independent’s board of all board, the ratio of CEO’s stocks, the ratio of family’s stock and the ratio of fund’s stocks) on financial performance. The findings pointed out only 5 factors of GCG had significant influence on the financial performance are experience of the CEO, number of board directors, the ratio of CEO’s stocks, the ratio of family’s stock and the ratio of fund’s stocks. Additional finding the size of the effect (Beta) are follow +0.139, +0.381, +1.074, +0.02 and -0.180 respectively at 0.05 of the significant level. The study model was fit; (CMIN/DF= 0.978, p-value=0.456, TLC=0.995, CFI=0.998, SRMR = 0.013, RMSEA = 0.006) and the model is consistent with collectable data on good level.

Keywords—EPS; Good Corporate Governance; ROE; ROA; The Stock Exchange of Thailand.

Abbreviations— Experience of the CEO (CEOEXP); Good Corporate Governance (GCG); Number of Board Directors (BOARDSIZE); The Ratio of CEO’s Stocks (INCEO); The Ratio of Family’s Stock (FAMILY); The Ratio of Fund’s Stocks (FUNDST); The Ratio of Independent’s Board of all Board (INDBOARD); The Stock Exchange of Thailand (SET)

I. INTRODUCTION

The relationship between corporate governance and firm performance has been a widely debated and well-researched topic in the developed countries context. However, in the past few years, this issue has also been discussed in the context of emerging countries, such as Thailand, in light of the recent corporate collapses and scams. The corporate collapses resulting from a weak system of corporate governance highlighted the need to improve and reform the governance structure [The Stock Exchange of Thailand (SET), 14]. The failure in preventing these scams has fuelled many debates on the effectiveness of current corporate governance rules, principles, structures and mechanisms [Sun et al., 13].

The firms with weaker governance structures have to face more agency problems and managers of such firms gain more private benefits [Core et al., 3]. The theory of agency problem suggests that the directors of a firm are not likely to be as careful with other people’s money as with their own fund [Letza et al., 8]. The theory further states that the main purpose of corporate governance is to provide assurance to the shareholders that managers are working toward achieving outcomes in the shareholders’ interests [Shleifer & Vishny, 12].

Most of the companies listed on the Stock Exchange of Thailand (SET) have had concentration structure by family team since companies established. Furthermore they have had the main percentage of firm’s stocks and they could control the future capital investment that concern to business performance. That related with Arora & Sharma’s research in year 2016 they found that companies that comply with good corporate governance practices can expect to achieve higher accounting and market performance. It implies that good corporate governance practices lead to reduced agency costs. Hence, it is concluded that firms of the developing world can...
possibly enhance their performance by implementing good corporate governance practices [Arora & Sharma, 1]

Corporate Governance (CG) is used in SET which important to international of the social responsibility. CG firms should to show believable in management team that goes for long term shareholder such as achieve target growth, high value of firm, high performance financial ratio and increasing market share of sustainable organization. The goals for this study is finding the in the influence of good corporate governance on financial performance of the Stock Exchange of Thailand (SET).

II. THE MODEL

Consider a definition of the financial performance then can able to write framework like this:

![Figure 1: Framework for this Study](image)


Dependent Variable is Performance. In Crossref database found the Journal articles used ROA ROE and EPS to measure the financial performance more than 55,402 papers. Especially Elsevier BV publishing have 13,219 papers online at www.sciencedirect.com in 2015 (Crossref.org, September, 30th 2016).

ROA (Return on Asset). For the ROA ratio and the pair return/assets for a set of four firms. The reason was twofold: (a) this ratio is very popular and appears included in many prediction models, and (b) theoretical considerations predict that several kinds of nonlinearities should be especially significant in this specific relationship. As to be detailed below, a nonlinear relationship between return and assets can be induced by a number of factors [De Andrés et al., 4].

ROE (Return on Equity). According to Peter S. Rose & Sylvia C. Hudgins [9] showed that “ROE is a measure of how the stockholders fared during the year”. Irala [5], “ROE indicates how much the firm has earned on the funds employed by the shareholders”. ROE is a ratio that shows the extent to which companies manage their own capital (net worth) to effectively and measure the profitability of the investments made by its own capital owners or shareholders of the company [Van Horne & Wachowicz, 15]. ROE is an important feature of a modern market economy as a whole and for each company [Walsh, 16].

EPS (Earnings per Share). According to Irala [5], “EPS is a measurement of the company's per-share performance”. Based on this definition, EPS is a performance measurement which assessed based on the value per share profit. Meanwhile, according Sawir Agnes [10], “EPS is a ratio used to determine how much net income per share”. For that in its calculations, EPS does not include the cost of capital (debt) for the use of debt will lead to a change in earnings per share (EPS) and also changes in the risk - as these two factors will affect the company's stock price. Ratio Earning Per Share or EPS in question can be calculated and formulated as follows [Brigham & Joel F. Houston, 2].

Good Governance is only independent variable in this study. That consists of 6 factors for corporate governance were 1)Experience of the CEO (CEOEXP) 2)Number of board directors (BOARDSIZE) 3)The ratio of Independent’s board of all board(INDBOARD) 4) The ratio of CEO’s stocks (INCEO) 5) The ratio of family’s stock (FAMILY) and 6) The ratio of Fund’s stocks (FUNDST) [The Stock Exchange of Thailand, 14].

III. METHODS

This study is designed by quantitative techniques. And uses secondary data in Thailand companies list on SET who receive good governance awards since 2013-2015. Totally 65
companies. The data have been collected from each company individual site and from the SET by SEM.

Table 1: Standard of Estimate Parameters for SEM

<table>
<thead>
<tr>
<th>Index</th>
<th>Name of Index</th>
<th>standard</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>X²/df</td>
<td>Normed Chi-square</td>
<td>&lt; 3</td>
<td>Carmines and Melver (1981); Ullman (2001)</td>
</tr>
<tr>
<td>p-value</td>
<td>Probability value</td>
<td>&gt;0.05</td>
<td></td>
</tr>
<tr>
<td>CFI</td>
<td>Comparative fit index</td>
<td>≥ 0.95</td>
<td>Carlson and Mulaik (1993)</td>
</tr>
<tr>
<td>TLI</td>
<td>Tucker-Lewis index</td>
<td>&gt;0.95</td>
<td>Hu and Bentler (1998)</td>
</tr>
<tr>
<td>SRMR</td>
<td>Standardized root mean square residual</td>
<td>&lt;0.08</td>
<td>Byrne (1994,2001), Hair et al. (2006)</td>
</tr>
<tr>
<td>RMSEA</td>
<td>Root mean square error of approximation</td>
<td>&lt;0.06</td>
<td>Yu (2002)</td>
</tr>
<tr>
<td>HOELTER</td>
<td>Hoelter’s critical N (α=0.05)</td>
<td>≥ 200</td>
<td>Hoelter (1983)</td>
</tr>
</tbody>
</table>

Source: Adapt from Kumsuprom [6]

Then the assumptions about The Influence of Good Corporate Governance on the Financial Performance Case Study: Companies Listed on SET Year 2013-2015. Upon which the analysis is conducted are:

H1: Experience of the CEO (CEOEXP) have positive influence on Financial Performance

H2: Number of board directors (BOARDSIZE) have positive influence on Financial Performance

H3: The ratio of Independent’s board of all board (INDBOARD) have positive influence on Financial Performance

H4: The ratio of CEO’s stocks (INCEO) have positive influence on Financial Performance

H5: The ratio of family’s stock (FAMILY) have positive influence on Financial Performance

H6: The ratio of Fund’s stocks (FUNDST) have positive influence on Financial Performance.

IV. THE RESULT

In order to reveal the influence between good governance factors and financial performance and specific firm who got rewards 2013-2015. Firstly provided information about total effect, direct effect and indirect effect that exists among the variables that were included into the analysis. The results are presented in table 2.

Table 2: The Result of SEM and Size Effects

<table>
<thead>
<tr>
<th>Independents</th>
<th>Size Effect on Financial Performance</th>
<th>DE</th>
<th>IE</th>
<th>TE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOEXP</td>
<td>0.139*</td>
<td>0.103</td>
<td>0.242</td>
<td></td>
</tr>
<tr>
<td>BOARDSIZE</td>
<td>0.381*</td>
<td>0.281</td>
<td>-0.662</td>
<td></td>
</tr>
<tr>
<td>INCEOST</td>
<td>1.074*</td>
<td>0.792</td>
<td>1.866</td>
<td></td>
</tr>
<tr>
<td>FAMILYST</td>
<td>0.02*</td>
<td>0.033</td>
<td>-0.035</td>
<td></td>
</tr>
<tr>
<td>FUNDST</td>
<td>-0.18*</td>
<td>0.148</td>
<td>-0.032</td>
<td></td>
</tr>
</tbody>
</table>

CMIN/DF/df= 0.978, p-value=0.456, TLC=0.995, CFI=0.998, SRMR = 0.013, RMSEA = 0.006

From table 2, the most of direct effect on financial performance is INCEOST (DE=+1.074 ) followed by BOARDSIZE have +0.384 of direct effect, CEOEXP have+0.139 of direct effect and the smallest direct effect is FAMILYST (DE=+0.02) on the other hand FUNDST have negative direct effect on financial performance is -0.18 to show on figure 3.

However this model have indirect effect on financial performance between -0.281-0.792 but they didn’t have significant at 0.05 level.
From Figure 3, it can be seen 4 positive direct effects on financial performance. Based on these hypothesis H1, H2, H4 and H5 are true. On the other hand H3 and H6, they have to be valid.

V. CONCLUSIONS

The purpose of this research was to point out the good governance influence on financial performance for Thailand companies who list on SET and received CG awards. Initially, information on a sample of 65 companies was collected but due to large interval scale of FUNDST that made negative influence on dependent variable.

Regarding the ratio of Independent’s board of all board (INDBOARD) didn’t have positive effect to financial performance. As a fact, if we increase/decrease independent’s board that not change in good governance of firm. Then we used not to analysis at first.

Future research aims to determine the influence of other corporate governance measure such as the impact of supervisory board and the first order model, this process is conducted upon financial performance using the advance techniques of estimation such as the second level of SEM.

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REFERENCES


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