The Impact of Corporate Governance Scores on the Financial Performance of Companies Listed on the Stock Exchange of Thailand

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Abstract

This research examines the impact of corporate governance on the financial performance of listed companies on the Stock Exchange of Thailand. The sample includes 188 companies with corporate governance scores ranging from excellent to below good, collected from annual filings, financial statements, and annual reports between 2008 and 2017. Quantitative analysis was conducted using percentage calculations and stepwise multiple linear regression to test hypotheses. The findings revealed that 69 companies (36.6%) had very good governance scores, 59 companies (31.4%) had below-good scores, 40 companies (21.1%) achieved excellent scores, and 20 companies (10.9%) were rated as good. Hypothesis testing indicated that corporate governance scores, the independence of the board chair, the absence of overlapping executive roles and the board size significantly influenced financial performance at the 0.01 significance level. However, the proportion of independent directors did not significantly affect financial performance.

Keywords: Financial Performance; The Stock Exchange of Thailand; Corporate Governance

Introduction

The research examines corporate governance and its impact on the financial performance of listed companies on the Stock Exchange of Thailand (SET). Corporate governance gained global significance after events like corruption scandals, financial misrepresentation, and major corporate collapses, such as Enron and WorldCom, which underscored the consequences of poor governance. In Thailand, the 1997 Asian Financial Crisis highlighted the absence of effective governance as a significant factor contributing to economic instability. As a result, global and local initiatives have emphasized the adoption of robust governance mechanisms to enhance economic resilience and competitiveness (Maher & Anderson, 2000). Thailand has implemented continuous reforms to align corporate governance standards with the principles of the Organization for Economic Co-operation and

Development (OECD). The SET has conducted annual surveys since 2001 to monitor and improve governance practices among listed companies. These efforts aim to create sustainable governance mechanisms that align with international standards, thereby fostering investor confidence and economic growth (The Stock Exchange of Thailand, 2023). Agency Theory provides a conceptual framework for understanding the importance of governance. When a company's board, acting as agents, prioritizes self-interest over shareholders' goals, agency problems arise. These issues can diminish company value and shareholder returns (Jensen & Meckling, 1976). Effective corporate governance serves as a tool to mitigate these conflicts by establishing mechanisms to monitor and control managerial actions, ensuring decisions align with shareholder interests. This enhances operational efficiency and corporate wealth (McColgan, 2001).

Good governance is increasingly recognized as integral to corporate management, providing transparency and accountability. Empirical studies confirm that well-governed companies outperform peers in profitability metrics, such as return on assets (ROA) and return on equity (ROE) (Khatab et al., 2011). Moreover, companies with higher governance standards demonstrate a significant correlation with superior financial performance and profitability (Coskun & Sayilir, 2012). However, in Thailand, such relationships have been inconsistently observed, suggesting room for further exploration and practical enhancement. This study investigates the role of governance in enhancing financial performance and reducing agency problems. It examines whether governance improvements directly correlate with increased company performance or are merely reflective of broader management quality. The findings aim to reaffirm the importance of governance for Thai listed companies and encourage its rigorous implementation. Enhanced governance practices will not only foster operational efficiency but also elevate Thailand's corporate sector to global standards. Moreover, robust governance can enhance investor confidence, attract foreign investments, and stabilize Thailand's financial and capital markets. This research serves as a foundation for advancing corporate governance practices, promoting ethical management, and fostering long-term economic stability. By demonstrating the tangible benefits of good governance, it provides a roadmap for companies to strengthen their governance frameworks, ultimately contributing to Thailand’s competitive positioning in the global market.

Objectives

To examine the impact of corporate governance scores on the financial performance of companies listed on the Stock Exchange of Thailand.

Literature Review

The literature review of related studies has been conducted to develop the conceptual framework for this research, identifying the following key variables:

1. Corporate Governance (CG), Corporate governance refers to a system that establishes processes and structures for leadership and control within an organization, ensuring accountability and transparency. It enhances competitiveness, protects investments, and increases shareholder value over the long term, all while adhering to ethical standards and considering stakeholders and society at large. The corporate governance principles for Thai listed companies have been continuously developed to align with the OECD standards. To monitor, measure, and promote the continuous development of governance mechanisms, an assessment program evaluates corporate governance based on five categories: Category 1: Shareholders' rights (15%), Category 2: Equitable treatment of shareholders (10%), Category 3: Stakeholder roles (20%), Category 4: Disclosure and transparency (20%), Category 5: Board responsibilities (35%). The highest weight (35%) is assigned to board responsibilities due to the critical role boards play in driving businesses, ensuring policy adherence, and implementing sound governance practices to achieve business objectives. The Thai Institute of Directors (IOD) and the Stock Exchange of Thailand (SET) conduct assessments in this area. In summary, corporate governance encompasses monitoring and control mechanisms to ensure transparency, reliability, and risk management, ultimately achieving organizational goals. In Thailand, the board responsibilities category is assigned the highest weight in governance evaluations for companies listed on the SET (Pongwiritthon K., Srika W., Chaiyo W., 2024).

2. Firm Performance, Firm performance represents the outcomes of effective management processes and serves as a critical indicator of business success. It can be evaluated through financial and market performance, reflecting the company's ability to generate returns exceeding the cost of capital, promote financial stability, and deliver fair value to shareholders and stakeholders. Financial performance, specifically, is used as a measurable outcome that assesses a firm's profitability, operational efficiency, and capacity to generate shareholder returns. This metric reflects the company's ability to sustain financial stability and achieve long-term success (Pongwiritthon K., Srika W., Chaiyo W., 2024).

Research Hypothesis and Research Framework

The measurement of firm performance in this study is based on financial performance indicators, specifically using the Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). These metrics were identified and adapted from a review of related literature to suit the objectives of this research. The conceptual framework developed for this study is illustrated in Figure 1. The researcher has established five hypotheses for the study as follows:

Hypothesis 1: The corporate governance score affects financial performance.
Hypothesis 2: The independence of the board chair affects financial performance.
Hypothesis 3: The proportion of independent directors affects financial performance.
Hypothesis 4: The size of the board of directors affects financial performance.
Hypothesis 5: The absence of dual-role positions among senior executives affects financial performance.

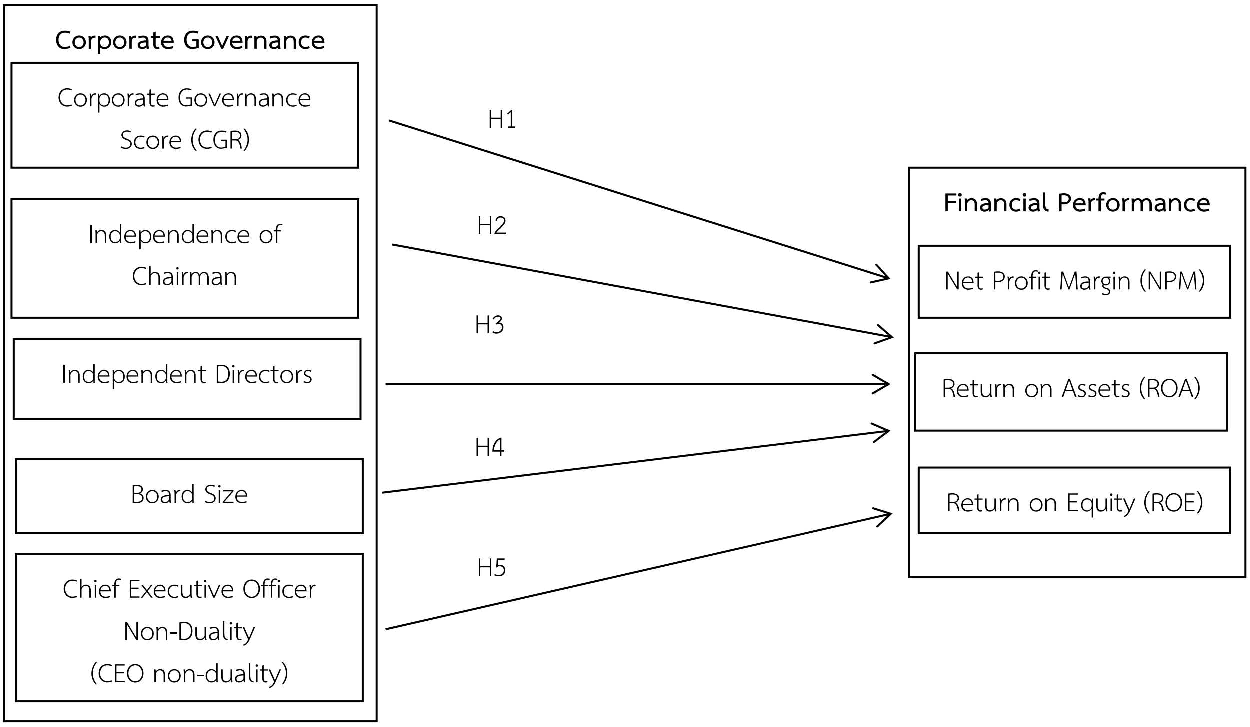


Figure 1: Conceptual Framework of the Research

Research Methodology

This study focuses on examining the effects of corporate governance on the financial performance of companies listed on the Stock Exchange of Thailand (SET). The research methodology is as follows:

1. Population and Sample, the population and sample for this study consist of companies listed on the SET that were registered and surveyed for corporate governance during 2017–2024. A purposive sampling method was employed, selecting companies meeting the SET's criteria and evaluation standards for corporate governance. These include companies with corporate governance scores categorized as "Excellent," "Very Good," "Good," and "Below Good" consecutively during the specified period. A total of 188 companies were included in the sample.

2. Data Collection Instruments, Data were collected using evidence disclosed through SETSMART (SET Market Analysis and Reporting Tools), including annual registration statements (Form 56-1), financial statements, and annual reports of companies listed on the SET during 2017–2024. The study spans eight years and covers the following variables:

2.1 Independent Variables, Corporate Governance Score (CGR), Scores are derived from surveys evaluating corporate governance levels, “Excellent” (90–100 points), assigned a value of 3 “Very Good” (80–89 points): assigned a value of 2 “Good” (70–79 points): assigned a value of 1 “Below Good” (less than 70 points): assigned a value of 0.

2.1.1 Independence of the Chairman (INDCHAIR), These measures whether the chairman of the board is an independent director. A dummy variable is used, independent chairman: assigned a value of 1, non-independent chairman: assigned a value of 0.

2.1.2 Proportion of Independent Directors (INDDIREC), This is calculated as the percentage of independent directors relative to the total number of board members:

INDDIREC (%) = (Number of Independent Directors / Total Number of Directors) x 100

2.1.2 Board Size (BSIZE), This variable measures the total number of board members in a company. CEO Non-Duality (CEODUA), This examines whether there is a separation of roles between the chairman of the board and the CEO. A dummy variable is used, Separation of roles: assigned a value of 1, No separation of roles: assigned a value of 0

2.2 Dependent Variables, Financial Performance Indicators, Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE).

3. Data Analysis, the study employs quantitative data analysis, including the calculation of percentages and stepwise multiple regression analysis to test the hypotheses. A significance level of 0.01 is applied to ensure the objectives align with the research framework, incorporating relevant theories and concepts.

Research Results

The study of the basic information of companies listed on the Stock Exchange of Thailand found that companies with consistent corporate governance scores from 2017 to 2024 were mostly companies with a very good corporate governance score, with 69 companies, accounting for 36.6%. This was followed by companies with a score lower than good corporate governance, with 59 companies, accounting for 31.4%. Companies with an excellent corporate governance score numbered 40, accounting for 21.1%, and companies with a good corporate governance score totaled 20, accounting for 10.9%, as shown in Table 1.

Table 1: Number and Percentage of Companies Classified by Basic Company Information.

Basic Company Information	Number of Companies	Percentage
Companies with Excellent Corporate Governance Score	40	21.10
Companies with Very Good Corporate Governance Score	69	36.60
Companies with Good Corporate Governance Score	20	10.90
Companies with a Corporate Governance Score Below Good	59	31.40
Total	**188**	**100.00**

The analysis of the correlation coefficients between all independent variables requires three steps. The first step is to calculate the correlation coefficient. If the correlation coefficient exceeds 0.50, it indicates that the independent variables are not correlated, and the data cannot be analyzed in the second step. However, the correlation coefficients in this study ranged from -0.502 to 0.400, indicating that the independent variables are correlated and the data can be analyzed in the second step, which involves analyzing the Variance Inflation Factor (VIF). If the VIF is less than 10, the independent variables can be analyzed in the third step. The VIF values in this study ranged from 1.108 to 1.586, indicating that the independent variables can be used for further analysis. Finally, the Durbin-Watson statistic was analyzed, with the condition that the value should be between 1.50 and 2.50. This showed that there is no autocorrelation in the data. The Durbin-Watson value obtained from the analysis was 1.781, as shown in Table 2. Therefore, all independent variables can be included in the stepwise multiple regression analysis.

Table 2: Correlation Between Independent Variables, Including Corporate Governance Score, Independence of Chairman, Proportion of Independent Directors, Board Size, and CEO Non-Duality.

Independent Variable	Corporate Governance Score (CGR)	Independence of Chairman	Independent Directors	Board Size	CEO Non-Duality	VIF Statistic (Correlation Coefficient) (VIF)
Corporate Governance Score (CGR)	1.000	-0.119**	0.336**	0.307**	0.400**	1.304

Independent Variable	Corporate Governance Score (CGR)	Independence of Chairman	Independent Directors	Board Size	CEO Non-Duality	VIF Statistic (Correlation Coefficient) (VIF)
Independence of Chairman		1.000	-0.150^{**}	0.014^{**} 0.278	-0.502^{**}	1.356
Independent Directors			1.000	-0.047^{*}	0.225^{**}	-
Board Size				1.000	0.117^{**}	1.586
Chief Executive Officer Non-Duality (CEO Non-Duality)					1.000	1.108

The hypothesis testing was conducted using stepwise multiple regression analysis for each hypothesis as follows:

Hypothesis 1: Corporate governance score affects financial performance. The results of the hypothesis test showed that the corporate governance score has an unstandardized regression coefficient of 2.507, a standardized regression coefficient of 0.209, and a t-test statistic of 14.694, with a p-value of 0.000. Since the p-value is less than the statistical significance level of 0.01 (Sig. = 0.000 < 0.01), it indicates that corporate governance score significantly affects financial performance at the 0.01 level.

Hypothesis 2: The independence of the chairman affects financial performance. The hypothesis test results showed that the independence of the chairman has an unstandardized regression coefficient of 6.468, a standardized regression coefficient of 0.236, and a t-test statistic of 16.297, with a p-value of 0.000. Since the p-value is less than the statistical significance level of 0.01 (Sig. = 0.000 < 0.01), it indicates that the independence of the chairman significantly affects financial performance at the 0.01 level.

Hypothesis 3: The proportion of independent directors affects financial performance. The hypothesis test showed that the p-value for the t-test of the proportion of independent directors is greater than 0.01, indicating that the proportion of independent directors does not significantly affect financial performance at the 0.01 level.

Hypothesis 4: Board size affects financial performance. The results of the hypothesis test showed that board size has an unstandardized regression coefficient of 0.341, a standardized regression coefficient of 0.068, and a t-test statistic of 5.176, with a p-value of 0.000. Since the p-value is less than the statistical significance level of 0.01 (Sig. = 0.000 < 0.01), it indicates that board size significantly affects financial performance at the 0.01 level.

Hypothesis 5: The non-duality of top executives' roles affects financial performance. The hypothesis test showed that non-duality of top executives' roles has an unstandardized regression coefficient of 5.363, a standardized regression coefficient of 0.196, and a t-test statistic of 12.497, with a p-value of 0.000. Since the p-value is less than the statistical significance level of 0.01 (Sig. = 0.000 < 0.01), it indicates that non-duality of top executives' roles significantly affects financial performance at the 0.01 level.

Table 3: Results of Corporate Governance on Financial Performance

Model	B	Std. Error	Beta	t	P-value
Constant	-4.675	0.739		-6.325	0.000
Corporate Governance Score	2.507	0.171	0.209	14.694**	0.000
Independence of the Chairman	6.468	0.397	0.236	16.297**	0.000
Non-Duality of Top Executives' Roles	5.363	0.429	0.196	12.497**	0.000
Board Size	0.341	0.066	0.068	5.176**	0.000
Adjusted R Square: 0.128	Dependent variable: Financial Performance				
Durbin-Watson: 1.781					

Conclusion and Discussion

Research on the Corporate Governance Score and Its Impact on Financial Performance of Listed Companies on the Stock Exchange of Thailand. The research on the corporate governance score's impact on the financial performance of companies listed on the Stock Exchange of Thailand (SET) discusses five key points for further analysis:

1. Corporate Governance and Financial Performance, the results of the research show that the corporate governance score has a statistically significant impact on financial performance, measured by the Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE), at a significance level of 0.01. This is consistent with Krafft et al. (2013), who found that companies with higher corporate governance levels (measured by the CGQ index) experienced improvements in financial performance, as measured by Tobin's Q, ROA, and NPM. It is likely that companies with higher corporate governance scores are more likely to have effective governance mechanisms, which enhance transparency, efficiency, and resource allocation. This results in better use of company resources and maximizes shareholder value, leading to increased profits and improved financial performance. This supports the agency theory, which suggests that good governance can reduce agency problems and conflicts of interest (McColgan, 2001).

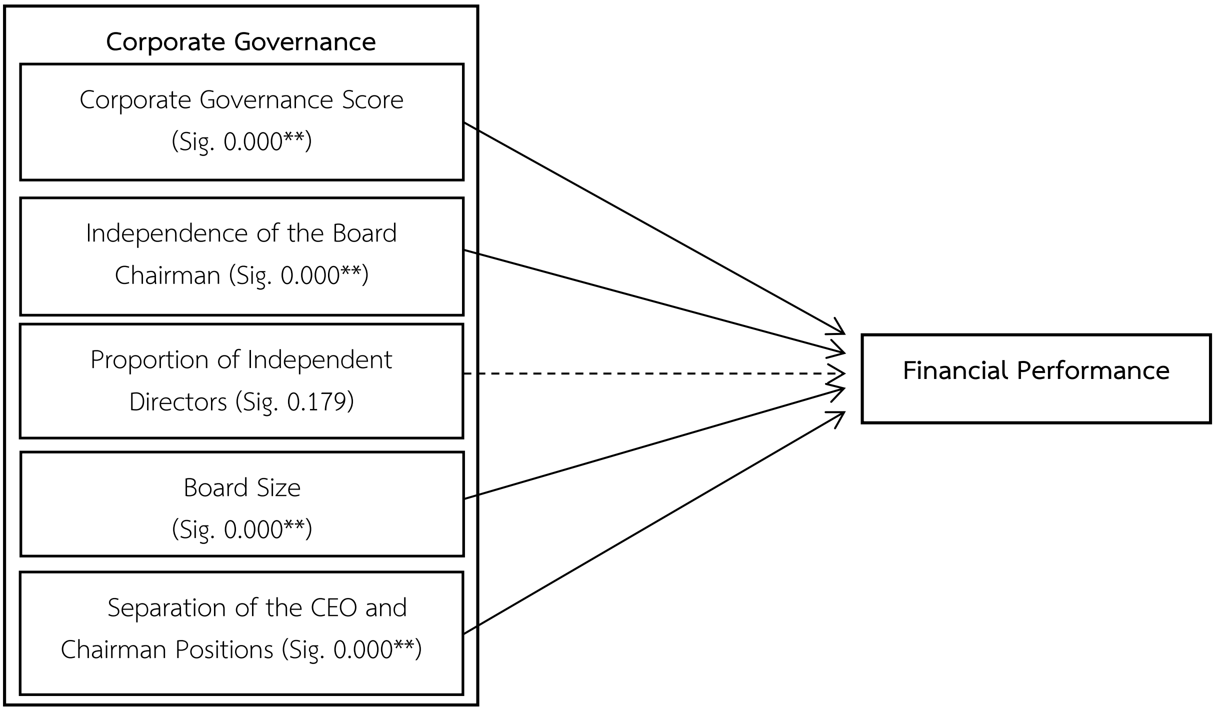
2. Independence of the Chairman and Financial Performance, The research shows that the independence of the chairman has a statistically significant impact on financial performance (NPM, ROA, and ROE) at the 0.01 significance level. This finding aligns with the study by Hussin & Othman (2012), which revealed a positive relationship between the independence of the chairman and financial performance. Companies with independent chairpersons tend to have higher financial performance, including ROA and ROE, because the chairman's independence from management helps prevent decision-making power concentration and conflicts of interest.

3. Board Size and Financial Performance, the research indicates that board size has a significant impact on financial performance (NPM, ROA, and ROE) at the 0.01 level of significance. This is consistent with the findings of Sunday (2008), which showed that larger boards, in line with good governance practices, lead to higher financial performance. A larger board provides a wider range of expertise and experience, which enhances decision-making and strengthens governance. A well-functioning board can improve organizational efficiency, create value, and contribute to the company's overall success.

4. Non-Duality of Executive Roles and Financial Performance, the study found that non-duality of executive roles (separating the roles of chairman and CEO) has a statistically significant effect on financial performance (NPM, ROA, and ROE) at the 0.01 level. This result supports findings by Sunday (2008) and Pongwiritthon et al. (2017), which suggested that separating the chairman and CEO roles improves financial performance by reducing conflicts of interest and enhancing management accountability. Non-duality helps ensure that corporate decisions are made in the best interests of the company and shareholders.

5. Proportion of Independent Directors and Financial Performance, the study found no significant relationship between the proportion of independent directors and financial performance (NPM, ROA, and ROE). This result aligns with Sunday (2008) and Pham, Suchard, and Zein (2011), who also did not find a strong correlation between the proportion of independent directors and company performance. While a higher proportion of independent directors could enhance corporate governance, the study suggests that this does not necessarily lead to better financial performance.

In conclusion, corporate governance, particularly the corporate governance score, the independence of the chairman, and non-duality of executive roles, significantly impact financial performance of SET-listed companies. However, the proportion of independent directors does not seem to have a significant impact on financial performance. As shown in Figure 2.



** Indicates statistical significance at the 0.01 level (Sig.)*

→ *Indicates a Positive Relationship,* - - - - → *Indicates a Negative Relationship.*

Figure 1: Summary of the Effect of Corporate Governance on Financial Performance.
Source: Summary Results from the Research Team.

Recommendations

1. Practical Recommendations

Recommendations for Applying the Research Findings, based on the research findings, the following recommendations can be made for companies listed on the Stock Exchange of Thailand (SET) regarding the implementation of effective corporate governance practices:

1.1 Enhancing Corporate Governance Practices: Companies should focus on improving their corporate governance score, as it has been shown to significantly impact financial performance. This can be achieved by ensuring transparency, accountability, and robust mechanisms for monitoring and controlling management activities.

1.2 Strengthening the Independence of the Board Chairman: The research suggests that the independence of the board chairman is positively correlated with financial performance. Companies should prioritize appointing independent board chairs to reduce conflicts of interest and enhance decision-making.

1.3 Reevaluating Board Size and Composition: While the board size was found to influence financial performance, companies should also consider optimizing the composition of their boards by ensuring that they have a balance of skills, experience, and independence among directors.

1.4 Separation of CEO and Chairman Roles: Companies should ensure a clear separation between the roles of the CEO and the chairman, which has been linked to improved governance and financial outcomes. This separation can prevent concentration of power and ensure a more objective approach to decision-making.

1.5 Encouraging the Appointment of Independent Directors: The findings suggest that the proportion of independent directors may not directly impact financial performance, but promoting independence within the board remains crucial for overall corporate governance, particularly in monitoring and controlling management actions.

2. Recommendations for Future Research

For future research, the following suggestions could enhance the understanding of corporate governance and its relationship with financial performance:

2.1 Expanding the Sample Size: Future studies could include a larger and more diverse sample of companies, especially from various industries, to gain a more comprehensive understanding of how corporate governance affects financial outcomes across different sectors.

2.2 Longitudinal Studies: Conducting longitudinal studies would provide deeper insights into the long-term effects of corporate governance practices on financial performance, as the current research might only capture short-term correlations.

2.3 Incorporating Additional Governance Variables: Future research could explore other dimensions of corporate governance, such as executive compensation, shareholder rights, and the role of audit committees, to better understand their potential impact on financial outcomes.

2.4 Exploring the Role of Corporate Social Responsibility (CSR): Investigating how CSR practices interrelate with corporate governance could provide insights into the broader impact of governance on financial performance and stakeholder relationships.

2.5 Comparative Studies: Comparative studies between companies in different countries or regions would allow for a broader understanding of how cultural, regulatory, and economic differences influence the relationship between corporate governance and financial performance.

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