

## Financial Characteristics of Thai Listed Companies - CG Ranking Base

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### Abstract

Based on the Corporate Governance Report (CGR) of Thai listed companies 2014, published by the Thai Institute of Directors Association (Thai IOD) in collaboration with the Stock Exchange of Thailand (SET) and the Office of the Securities and Exchange Commission (SEC), this paper investigates the determinant characteristics of the Thai listed companies. Our research question is to see the financial characteristics of those Thai listed firms all of which are ranked according to their corporate governance performance. Two groups of company's corporate governance were classified; high rank and low rank corporate governance (CG) levels. Eight efficient CG determinants are taken into our study. The statistical analyses - *t*-test analysis and chi-square- are used in this study. Our result provides evidence that seven determinants (ownership structure, board size, proportion of firm's equity, proportion of independent committee, firm size, board size range, and type of audit firm) out of eight illustrated the statistical significance between the two groups. Only 'dual CEO', as refers to the same person between the CEO and owners, is the only one determinant that did not illustrate statistical differences. These seven determinants are crucial to distinguish between good governance of high and low rank levels. To interpret this result, either the company appoints the owner or major shareholder to become a CEO or else does not influence the quality of the CG ranking of such company. Further research requires for in-depth investigations on those seven determinants.

**Keywords:** *corporate governance, CG Ranking, ownership structures, performance, listed companies, Thailand*

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### 1. Introduction

Corporate governance (CG) broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Corporate scandals have maintained public and political interest in the regulation of corporate governance. In running businesses, the failure to separate between ownership and control of a private corporation could reasonably affect the business performance. The matter of separation or non-separation of ownership and control gives rise to a principal-agent problem, which can result in the suboptimal use of capital (Stiglitz and Edlin, 1995; Shleifer and Vishny 1998). In a situation that ownership is highly dispersed, the individual shareholder has little or no incentive to monitor management due to the cost of the monitoring. It is often that the cost exceeds the marginal benefits of improved performance (Stiglitz, 1982). As early as 1932, Berle and Means mentioned that there is the fundamental principal-agent conflict in the United States. Several firms had transformed from privately owned and entrepreneurial driven entities into public companies, to gain the benefits of scale and access to the stock exchange capital (Chandler, 1990). Over the last twenty years, Europe has experienced fundamental changes in ownership structures. The government control was reduced its control to the large-scale privatization programs. Several stated-owned enterprises privatized to the private sector and be able to raise equity capital on public markets for the first time. The issues of efficient ownership structures and corporate governance are important for the European Union due to a greater percentage of GDP flows through publicly listed companies by which controlled by a small number of shareholders. To solve such agency problem, corporate governance is then concerned and used as a mean to assure the investors on the return on their investment (Shleifer & Vishny, 1997).

In Thailand, The Thai Institute of Directors Association (IOD) in collaboration with the Stock Exchange of Thailand (SET) and the Office of the Securities and Exchange Commission (SEC, Thailand)

has continuously assessed corporate governance practices of listed companies. Good corporate governance (CG) is highly promoted and is seen an essential characteristic of listed companies. As stated by the Stock Exchange of Thailand (SET, 2012) in the Principles of Good Corporate Governance for Listed Companies 2012 Report that 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’ (SET, 2012, p. 52).

Corporate governance has a long history in Thailand. Started in 2002, the Stock Exchange of Thailand supported listed firms to have good CG by proposing the 15 Principles of Good Corporate Governance as preliminary guidelines and revised to be comprehensive and comparable to the Principles of Corporate Governance of the Organization for Economic Co-operation and Development (OECD) (OECD,2006). This version also includes recommendations made by the World Bank in its Report on the Observance of Standards and Codes related to Thai CG (CG-ROSC). Again in 2012, 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. Therefore, all Thai listed companies need to comply with these practices. The report on CG ranking by the Thai Institute of Directors Association (Thai IOD) on the overall average CG score in 2014 is 72 percent (550 companies) which is six percentage points lower than that of 2013 (526 companies). There is only 308 companies (56% of companies) receive a score higher than 70 percent level, with 30 companies (5.5% of companies) earning an “Excellent” level of recognition.

It is of our interest to see that with the different CG ranking recognitions (excellent, very good, good, fair and pass) characteristics of the companies will illustrate any similarities or differences. The paper is divided into five parts. The following part is the literature review, where we reviewed many researches done on CG both in Thailand or overseas (See part 2). On part 3, we stated our objectives of the study and hypothesis setting. Research methodology can be found in part 4 and later on part 5; we draw the results and discussion. The final part of our paper is the conclusion and contribution of the study.

## 2. Literature Review

Corporate governance has developed mechanisms both internal control, and external control to mitigate the agency problem. It is argued by several researchers such as La Porta, Lopez-de-Silanes, Shleifer and Vishny (1996), La Porta and Vishny (1997), La Porta, Lopez and Shleifer (1999) that deficiencies in national Corporate Governance structures are mitigated by higher concentrations of ownership. La Porta et al. (1996), La Porta et al. (1997), La Porta et al. (1999) argued that ownership concentration and institutional differences are a response to differing degrees of legal protection of minority shareholders across countries. Furthermore, political determinants primarily explain differences in ownership concentration (Roe, 2003). Pagano and Lombardo (1999) and Pagano and Volpin (2001) argued that political determinants primarily explain differences in ownership concentration.

The impact of ownership structures on firm performance is vital. Concentrated ownership can provide for better control of management as the size of an ownership stake, and the incentive to monitor are positively correlated. This should improve firm performance and equally benefit minority shareholders. However, it can come with costs for minority shareholders as the controlling owners might try to expropriate from them (Jensen & Meckling, 1976; Grossman & Hart, 1988).

The current ownership arrangements are viewed by Coffee (1999, p.3), as a “product of a path-dependent history rather than the ‘neutral’ result of an inevitable evolution toward greater efficiency”. This suspicion is confirmed by Thomsen et al. (2003), who study firms in the largest continental European countries, concluded that blockholders might destroy firm value. Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) argue that an optimal ownership structure, based on the value maximization principle, be achieved through private contracting between shareholders and management. The financing cost of concentrated ownership increases with firm size. These are because families, and other controlling investors, cannot diversify their portfolio. Therefore, a firm has a natural incentive to move to a more diffuse ownership structure. There is a need to observe an optimal ownership structure where the benefits of control and financing are at equilibrium. In conclusion, they argue that no relation between the two variables can be detectable. The empirical research found no relationship between ownership structure and performance for a sample of US firms between 1976 and 1980. Later in 2001, Demsetz, Harold, and Belen

also study ownership structure and the performance of corporations. They conclude that if ownership is made multi-dimensional, then it is treated as an endogenous variable. The finding also supports the studies of Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) that diffuse ownership also yields compensating advantages that offset such problems. They found that no systematic relation between ownership structure and firm performance is to be expected (Demsetz & Villalonga (2001).

Those arguments above present significant differences in ownership structures within the European Union (Barca & Becht, 2001; Faccio & Lang, 2002). Not only the differences in the European Union are present, but the studies from other countries also show some differences in results of the relationship between ownership structures and firms' performance such as articles from Israel, Turkey, East Asia, China, and Thailand.

Lauterbach and Vaninsky (1999) study examines the effect of ownership structure on the firm performance of 280 Israeli firms. They distinguish between family firms, firms controlled by partnerships, and firms where blockholders have less than 50% of the vote. They found that owner-manager firms are less efficient in generating net income than firms managed by a professional (non-owner) manager. These mean that family firms run by their owners perform (relatively) the worst. This suggestion from this study is that the modern form of business organization, namely the open corporation with dispersing ownership and non-owner managers, promotes firm performance (Lauterbach & Vaninsky, 1999). The results are also similar to the study from Turkey; the authors used data from 2003 to 2010 of 164 industrial firms listed on Istanbul Stock Exchange (BIST-Borsa Istanbul), the empirical exploration of the impact of large shareholders on firm performance measured by ROA and Tobin's Q were done. The finding suggests that large shareholders have a significantly positive effect on the performance of the firms. When ownership of the large shareholder exceeds a certain level, once again, there is a positive relation between large shareholders and firm performance (Isik & Soykan, 2013).

Among nine East Asian countries, Claessens, Djankov, and Lang (2000) examine the separation of ownership and control for 2,980 corporations. They find that voting rights frequently exceed cash-flow rights via pyramid structures and cross-holdings. For family-controlled companies and small companies, the separation of ownership and control is most pronounced (Claessens, Djankov, & Lang, 2000). While the study by Lemmon and Lins (2003) on the crisis in eight East Asian countries using 800 firm data, also supports that ownership structure plays an important role in determining whether insiders expropriate minority shareholders. The study finds that during the crisis period, the returns from shares of firms where managers who have high levels of control, but have separated their roles on control and cash flow ownership, are 10–20 percentage points lower than those of other firms (Lemmon & Lins, 2003).

The issue of ownership structures and firms' performance raises the concern on corporate governance by which is often regarded as a weak point in Asian company performance (Tam & Tan, 2007). Most studies have focused on the relationship between ownership and firm value, but the instruments that mediate that relationship is often overlooked. The relationship between ownership structures and firm performance is analyzed through variations in governance practices and impact on firm performance studies. The conclusion shows that different types of majority owners exhibit distinct traits of behavior and preferences for corporate governance practices in which an environment of the pervasive concentration of shareholding, and several firm characteristics are found to impact firm performance (Tam & Tan, 2007).

The meta-analysis of the relationship between concentrated ownership and firm financial performance in Asia, there is a significant positive association between both variables. This finding suggests that ownership concentration is an efficient corporate governance strategy. They found that a certain threshold level of institutional development was necessary to make concentrated ownership an effective corporate governance strategy. (Heugens, van Essen, & van Oosterhout, 2009).

In China, the Chinese listed companies have mixed ownership structures with three predominant groups of shareholders - the state, legal persons (institutions), and individuals—each holding approximately 30% of the stock. Ownership structure is heavily concentrated. The five largest shareholders accounted for 58% of the outstanding shares in 1995, compared with 33% in Japan, 57.8% in the Czech Republic, and 79% in Germany. The results show that there is a positive and significant correlation between ownership concentration and profitability (Xu & Wang, 1999). Both fixed effects model and Generalized Methods of Moments (GMM) are used to study the impact of ownership structure on enterprise performance in China.

This study finds that marketized state-owned enterprises outperform the firms that are controlled by the government. It is indicating that partial privatization of state-owned Chinese firms improves the corporate governance of such firms. In China, the non-controlling large shareholders of marketized state-owned enterprises and private enterprises plays active roles in corporate governance. The evidence shows that ownership concentration of a controlling shareholder decreases the incentives to arrogate minority shareholders (Kang & Kim, 2012).

In Thailand, there is some research study the ownership structure of the listed firms. The study of 136 manufacturing firms listed on the Thai Stock Exchange (SET) during 1993-1997, the results, measured by the accounting-based return on asset (ROA) and economic-based total factor productivity (TFP), suggest that there is a significant relation between ownership structure and firm performance. It also finds that significant correlation between the degree of control and ROA and TFP where the level of correlation varies by the type of the ownership. While another determinants - director, institutional, and corporate ownership, generate a positive impact on TFP and director, corporate ownership, and individual ownership has a significant impact on ROA. Interestingly, the government ownership also has a negative impact on firm performance (Trangadisaiikul, 2007).

Such results also were supported by the study of Thai listed firms in 1996 by Wiwattanakantang (2001). It is found that the ownership structure of the listed firms in Thailand is extremely concentrated, 82.59 percent of the firms' sample, the largest shareholders own at least 25% of the shares. The controlling shareholders (a shareholder with this level of shareholding, called a firm's controlling shareholder) are mainly families and approximately 70% of the firms' samples. The controlling shareholders involved in the firms' management as top executives and directors (Wiwattanakantang, 2001).

The issue of corporate governance on firm's value in Thailand is also concerned and studied by many researchers and organizations. CG has become an important issue among stakeholders, with the belief that CG might help to enhance a firm's value. However, having good CG has not come with a cheap cost. Earning management is then linked with the firm's corporate governance. The effective **governance** enhances financial and operational transparency, which in turn, reduces adverse selection (Prommin, Jumreornvong, & Jiraporn, 2014). There is an only high cost involved to have good CG in the firms both recognizing and implementing CG. The finding from concludes that cost of sustaining employees' welfare is the most effective to promote better CG recognition classification (Nawaruek, 2014). The question is raised whether such investment in implementing CG is worth. Thailand has taken many approaches to improve the country's corporate governance. Examples of the approaches are increasing the accountability of the board of directors; making accounting and auditing standards to consistent with the internationally acceptable standards; enhancing the rights of minority shareholders and creditors; and strengthening the enforcement of securities regulation (Persons, 2006).

Connelly, Limpaphayom, and Nagarajan (2012) develop a comprehensive measure of corporate governance and show that Tobin's  $q$  is the great measurement. They find that  $q$  values are lower for firms that exhibit deviations between cash flow rights and voting rights and the value benefits of complying with "good" corporate governance practices are nullified in the presence of pyramidal ownership structures. It raises doubts about the effectiveness of governance measures when ownership structures are not transparent. The firms with the family control, in other words, is having pyramidal ownership structures can comply seemingly with preferred governance practices. They also, use the control to their advantage (Connelly, Limpaphayom, & Nagarajan, 2012).

The study of CG practices of companies in Thailand by Hoschka, Nast, and Villinger (2002) found that from the 100 largest companies listed on the Stock Exchange of Thailand (SET), the companies with the best overall corporate governance performance were found to have average market valuations 45 percent higher than the average of companies located in the bottom quartile. The author discusses that the companies with poor governance scores can boost their market valuations, and should improve their performance in such dimensions as board oversight, shareholder rights, the treatment of minority shareholders, and financial reporting (Hoschka, Nast, & Villinger, 2002).

### 3. Objectives and Hypothesis Setting

Several ideas and contradict conclusions on ownership structure, firm performance and relating to the corporate governance do exist. Nevertheless, all the evidence implies that such characteristics matter to firm performance, whether positively or negatively and that inevitably affect the CG ranking of such companies. Therefore, in this study, we set out to examine the available evidence on their association between CG component efficiency and CG ranking level.

The objectives of this paper are: i.) to observe the determinants as CG component efficiency and the CG ranking levels of the Thai listed companies, and ii) to investigate the differences in the determinants of companies that have been high CG ranked and low CG ranked.

Our hypothesis is then set based on our perceptions that the determinants of companies with high CG ranking must illustrate some differences from the companies with low CG ranking. Following is our hypothesis.

H1: Determinants of the high CG ranking companies are different from that of the low CG ranking companies

### 4. Research Methodology

#### 4.1 Data

This study is to investigate whether the CG has been efficient in governing the listed firms. We take the Thai listed firms that were ranked by the Thai Institute of Directors (Thai IOD) on their corporate governance practices according to the Corporate Governance Report 2014 of Thai Listed Companies (CGR). According to a result of the survey under the CGR 2014 project conducted by the IOD, with the support of the Stock Exchange of Thailand (SET) and the Securities and Exchange Commission (SEC), Thailand's 550 listed companies had good corporate governance compliance scores at an average of 72%. Comparing companies in each level by some symbols earned from the National Corporate Governance Committee, 308 listed firms had average scores at over 70%. Of the total, 30 companies (5%) had excellence scores at 90% and above, 108 companies (20%) had very good scores at 80-89%, and 171 companies (31%) had good scores at 70-79% (Corporate Governance Report of Thai Listed Companies 2014).

We take the samples into two groups, the firms with performance rating excellent, very good and good recognition levels as one group, and with performance rating fair, pass, and no CG recognition level as another. We observe and comparison of the board size, the proportion of firms' equity, the proportion of independent committee and firms' size, dual CEO, type of audit firms, and ownership structure of such two groups. A majority of corporate governance codes and standards consider that the board must be formed by a 'reasonable' number of members. The size of the board would affect the monitoring and control management actions (Fama & Jensen, 1983). Jensen (1993) hypothesizes that board size affects corporate governance independent of other board attributes. The larger pool of people on the board results in greater monitoring capacity and then enhances the firm's performance (Goodstein et al., 1994). Board size and proportions both of equity and independent committee are matters to clarify the transparency of the firms. Dual CEO also shows the overlap and conflict of interest of the CEO and the owners or major shareholders. We expect to see some differences between those two groups.

Group 1: High - The firms with performance rating excellent, very good and good recognition levels

Group 2: Low - The firms with performance rating fair, pass, and no CG recognition level

We have collected data from the 56-1 report of the companies listed on the stock exchange of Thailand, for five consecutive years starting from 2009 – 2013. Excluding financial institution and firms under rehabilitation, out of 705 companies, the number of companies taken into this study is 327 or 1,635 firm-year observations, all of which have completed financial statements and have been CG ranked by IOD for those five years and have the ending operating date on December 31.

Among those 327 firms, we group them according to their performance rating recognition level on CGR Report (Thai Institute of Directors Association, 2014).

Variables used in this study are detailed as follows.

**Table 1** Variables Used

No	Variables	Meaning
1	Ownership structures	There are four types of ownership structures. 1) Government structure (major shareholders are governmental organizations), 2) Family structure (first five major shareholders has the majority of shareholders more than 50 %),3) Institutional structure (the major shareholders are the Bank of Thailand, commercial banks, insurances and financial institutions, and other mutual funds), and 4) Other structure (any other structures). We assume a significant relation between ownership structures and firm performance. Different CG rank groups will have different ownership structures.
2	Board size	Refer to the total number of directors who sit on the board of a company. We assume that board size affects corporate governance independent. High CG rank group would have different board size when compare with that of the low CG rank group.
3	Proportion of firms' equity	Percentage of managerial ownership.
4	Proportion of independent committee	Percentage of independence directors of the firms
5	Firms' size	Logarithm of ending total assets of the firms
6	Dual CEO	The slip between the chairman and CEO of the firms. We assume that spreading ownership and non-owner managers or not to be the same persons will promote the firm performance. Companies with high CG rank will have a difference on this determinant.
7	Board size range	3 ranges, i. 1 – 10, ii. 11 – 20, iii. 21 - 30
8	Type of audit firms	Audit services by big four firms (EY, Deloitte, KPMG, and PwC) or non-big four firms. We assume that audit services provided by the Big 4 are associated with higher audit quality.

#### 4.2 Methodology

As we examined the differences in the determinants of the two CG rank groups, we employed statistics analysis to these comparisons.

**Table 2** Variables used in the study

No.	Variables	Statistics Used
1	Ownership structures <ul style="list-style-type: none"> <li>• government structure</li> <li>• family structure</li> <li>• Institutional structure</li> <li>• other structure</li> </ul>	Using t-test analysis
2	Board size	Using t-test analysis
3	Proportion of firms' equity	Using t-test analysis
4	Proportion of independent committee	Using t-test analysis
5	Firms' size – using log of total assets	Using t-test analysis
6	Dual CEO (Yes/No)	Using Chi-square analysis
7	Board size range <ul style="list-style-type: none"> <li>• 1 – 10</li> <li>• 11 – 20</li> <li>• 21 - 30</li> </ul>	Using Chi-square analysis
8	Type of audit firms (Big 4 firms/Non-big 4 firm)	Using Chi-square analysis

## 5. Results and Discussion

Characteristics of the sampling firms are described below (see Table 3). From our 1,635 observations, the majority of them, 1,143 observations or 69.7 % is classified in a 'high' ranked group, while 492 observations or 30.1 % in a 'low' ranked group. Optimal board size may vary according to many factors such as the type of organization, and type of business operation. Having a large board size may assist the organization to manage more easily the workload of the board while the small board size may make communication easily but may not consider efficient at some stage. Board ranges which represent the size of the firms' board, 1,433 observations or 87.65 % had the board range of 11 – 20 people, majority of which was in a high ranked group.

**Table 3** The observations' CG ranking recognitions

CG Rank	Total Observations	%
High	1,143	69.9
Low	492	30.1
Total	1,635	100.0

Regarding ownership structure, more than half of our samples (886 observations, 54.19%) was fallen onto the institutional structure and was ranked in a high group. Chief Executive Officer (CEO), often also the chairman of the board, and sometimes the president oversees the company's finances and strategic planning. If CEO and the owners (shareholders) are the same people, in other words, it is called 'duo managers,' it may not cause a conflict of interest, but there are both pros and cons for this. The characteristic of the sampling observations, almost 80 %, is having CEO and owners as different persons, the majority of which is ranked in a high group. The big4-audit firms refer to the four largest accounting firms in the world, providing accounting and auditing services including external audit, taxation services, management and business consultancy, and risk assessment and control. Having the big four firm's services seem to assure the quality of the firms' reports. However, all observations used the big4 firms and non-big four firm's services at close proportions, 46 and 54 %. However, 70 % of them were ranked in a high group (see Tables 4 and 5).

**Table 4** The observations' determinants

	Details	Amount			%		
		CG Rank			CG Rank		
		High	Low	Total	High	Low	Total
1.	Board ranges						
	1-10	83	76	159	5.08	4.65	9.72
	11-20	1,021	412	1433	62.45	25.20	87.65
	21-30	39	4	43	2.39	0.24	2.63
	Total	1,143	492	1635	69.91	30.09	100.00
2.	Ownership Structure						
	Government structure	100	7	107	6.12	0.43	6.54
	Family structure	173	102	275	10.58	6.24	16.82
	Institutional structure	647	239	886	39.57	14.62	54.19
	Others structure	223	144	367	13.64	8.81	22.45
Total	1,143	492	1,635	69.91	30.09	100.00	
3.	Dual CEO						
	same person	227	111	338	13.88	6.79	20.67
	different person	916	381	1,297	56.02	23.30	79.33
	Total	1,143	492	1,635	69.91	30.09	100.00
4.	Audit firm types						
	Big 4	454	301	755	27.77	18.41	46.18
	Non-big 4	689	191	880	42.14	11.68	53.82
	Total	1,143	492	1,635	69.91	30.09	100.00

With the board size classified by CG rank, board size of high ranked group is 15 persons, while the low ranked group is 13 persons. Proportions of the equity of high and low ranked groups are 15.66 and 19.24 % accordingly. This illustrates that the low ranked group has a higher proportion of equity than high ranked group. Also, the low ranked group has a smaller number of independent committee, 24%, compared with high ranked group which has a proportion of independent committee at 27.02 %. Asset sizes of both CG ranked groups are similar considering of asset logarithms at 15.8 and 14.6 (see Table 5).

**Table 5** Important figures on characteristics classified by CG ranked groups

<b>Ranging of CG</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Board size</b>			
High	1,143	14.73	2.956
Low	492	13.17	2.820
<b>The proportion of equity of management</b>			
High	1,143	15.66	20.21
Low	492	19.24	20.84
<b>The proportion of independent committee</b>			
High	1,143	27.02	7.77
Low	492	23.99	8.70
<b>Log of total Asset</b>			
High	1,143	15.83	1.87
Low	492	14.57	1.31

We analyzed the observations data considering having two groups of CG rank according to their performance rating recognition level on CGR Report publication. For the scale data, independent t-test analysis is used to investigate the differences between those two groups. The variables taken into the t-test analysis are the board size, the proportion of equity, the proportion of independent committee, a log of total assets, we found that all of the variables illustrates the statistical significances between two CG ranked groups. It can be interpreted that all considering variables between the high ranked groups differ from the low ranked group (see Table 6).

**Table 6** Independent *t*-test analysis summary result

	<b>t</b>	<b>df</b>	<b>Sig. (2-tailed)</b>
Board size	-9.955	1633	.000
proportion of equity	3.256	1633	.001
proportion of independent committee	-6.650	843.677	.000
Log of total Asset	-15.571	1301.401	.000

For the dummy variable, chi-square analysis is employed to see the difference between those two groups. The variables taken into the chi-square analysis are Dual CEO (different person, same person), types of audit firm (big 4 and non-big four firms), ownership structures (government, family, institute, and others), and board ranges. It is found that only the dual CEO did not illustrate the statistical significance at the 99.5 confident intervals (see Table 7).

**Table 7** Pearson Chi-Square analysis summary result

	<b>Value</b>	<b>df</b>	<b>Asymp. Sig. (2-sided)</b>
Duo CEO	1.530a	1	<b>.216</b>
Audit firm type	63.725a	1	.000
Ownership structure	53.294a	3	.000
Board ranges	33.757a	2	.000

This can be interpreted that the differences between two CG ranked groups are not statistically significant. Whether the companies have the same person of CEO and owners, does not matter to the CG rank classification.



## 6. Conclusions and Contributions of the Paper

This paper is a result of the research on corporate governance ranking bases. Data from the 56-1 report of the companies listed on the stock exchange of Thailand, for five consecutive years starting from 2009 – 2013 were collected. Information of financial institution and firms under rehabilitation is excluded from this paper. Out of 705 companies, the number of companies taken into this study is 327 or 1,635 firm-year observations, all of which have completed financial statements and have been CG ranked by IOD for those five years and have the ending operating date on December 31. Among those 327 firms, we group them according to their performance rating recognition level on CGR Report (Thai Institute of Directors Association, 2014).

Observation on important CG determinants was investigated. The findings have shown that seven out of eight variables which represent the CG characteristics have significant influence over CG ranking classification. These important factors include ownership structure, board size, board size range, the proportion of firm's equity, the proportion of independent committee, firm's size and types of the audit firm. The only factor - Dual CEO, does not show the impact on CG performance. With this result, it brings us to accept the set hypothesis that states determinants of the high CG ranking companies are different from that of the low CG ranking companies. However, not all determinants will comply with that statement. We found that both types of CG ranking recognitions had used the duo CEO – both CEO and major shareholders are the same persons.

First of all, the Board size is considered to be an important factor. If some the board members is too high or too few, it will both create the problem in management and difficulty in decision-making. From the sample data, 87.65% of observations show that the board range of 11-20 people is most popular among all listed companies. On average, board size of companies in high ranked group is 15 members, while it is 13 persons for companies in the low ranked group. This result illustrates the level of concentrated control of board members of the high CG rank group companies higher than the other group. This is similar to the conclusion of Jensen (1993) who hypothesizes that board size affects corporate governance independent and board size also affects the monitoring and control management actions (Fama & Jensen, 1983). Goodstein et al. (1994) also state in his research conclusion that the larger pool of people on the board results in high monitoring and then enhances the firm's performance.

Secondly, the proportion of equity has also proven to have significant influence over the CG performance. It is also interesting to know that low ranked group tends to have a higher proportion of equity than high ranked group. Also, the total asset which represents the firm's size also has the influence of the difference in CG ranking. Our finding matches with the finding of Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) that the financing cost of concentrated ownership increases with firm size because the firms with small size, by which family members, and other controlling investors, cannot diversify their portfolio.

Regarding the proportion of independent committee within firms, data analysis shows a statistically significant relationship to CG ranking classification. On average, companies at high ranked group have a higher proportion of independent committee than companies at the low ranked group. It can be explained by the existence of more independent committee might help to manage the business operations more effectively and efficiently. One of the significant CG characteristics is ownership structure. Among four categories of business structure, the institutional structure has the highest proportion of all observations in sample data. It is important to understand that the concentration of ownership will create the difference in CG practices and performances. The data analysis also shows a clear impact of types of the audit firm to the CG ranking classification.

The choice of whether using audit service from Big Four firms or non-big four firms might affect to the CG practice of business. It is kind of interesting to observe that among all companies in high ranked group, the number of companies using non-big four firms' services is greater than the ones using big four firms' services. This might need further investigation in the future. Last but not least, the factor of dual CEO eventually shows no influence over CG performance of the business. It means in case the company has CEO and owner as the same personnel; it will not create any different in CG practices comparing to other firms rank group. This result might contradict to literature above; Goodstein et al. (1994) conclude in their study that dual CEO presents the overlap and conflict of interest of the CEO and the owners or major

shareholders. The dispersing ownership and non-owner managers promote firm performance (Lauterbach & Vaninsky, 1999), and the returns about 10 – 20 percentage points lower are from firms where managers who have high levels of control, but separate their roles on control (Lemmon & Lins, 2003). With no difference on this determinant on both CG rank groups, further investigation in the future research is needed.

In conclusion, this paper has identified which CG determinant has significant influence over CG ranking classification. It provides valuable information for business with its CG practices. The contribution of this research will help managers to evaluate the current CG performance of their companies, identify the weaknesses and make a plan to improve the effectiveness and efficiency of CG. Therefore, it will support business to improve its overall performance as well. Furthermore, CG is particularly important for investment whether new or potential investors will invest in the companies may reasonably related to CG of that company. Inevitably, having effective governance in a company will enhance its financial and operational transparency. It will also reduce adverse selection (Prommin, Jumreornvong, & Jiraporn, 2014). To give more insightful and detail understanding of CG practices, our research will continue to develop in the future. Expanding the size of data and investigating further into the relationship between these CG determinants stated above and CG performance are needed. All in all, good governance comes with a high cost for both recognizing and implementing CG.

## 7. References

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