The Impact of Corporate Governance on Operational Performance of Listed Companies in the Stock Exchange of Thailand

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Abstract
The purpose of this study is to investigate the variation of the corporate governance mechanisms which effects on the operational performance of listed companies in the Stock Exchange of Thailand (SET). The qualitative research methods were used to collect data and used the Panel Data Random Effects to analyze data. The research sampling was selected from the listed Companies in the SET, recorded during 2011-2015. The selected 1,665 listed Companies were used to analyze the impact of the corporate governance. The research results found that corporate governance mechanism, CEO Duality and the number of board meeting held the significant negative impacts on the operational performance of listed companies in the SET. Whereas the board size and the board independence have no significant impacts on the operational performance of listed companies in the SET.
Keywords: Corporate Governance, Operational Performance, Listed Companies, Stock Exchange of Thailand

Introduction
The impact of corporate governance on operational performance has been continuously investigated because its quality is vital in enhancing the economic value of the companies. The three reasons for maintaining good quality of the governance can be listed as follows: 1) it can create and enhance confidence of investors; 2) it can be used to monitor the

management of executive board by shareholders, and 3) it can be listed as one of the expectations of the investors in terms of the future operation of the company (Mouselli & Hussainey, 2014). However, the obtained results of each study are mixed, controversial and not in unidirectional. The differences of country background with various influential factors (historical background, cultures, laws, and regulations) had more influences on the corporate governance mechanisms in terms of the operational performance outcomes. Thus, it is the key question of researchers, investors, and regulators, especially for the Organization of Economic Cooperation and Development (OECD) to find corporate governance mechanisms with positive relationships in term of the operational performance.

From 2001, being a part of new economic countries, the corporate governance mechanism in Thailand has been continuously developed. There are needs of adjustment and adaptation for the forming of efficiency development and integration of the capital markets among the ASEAN countries. Then, in 2017, the better corporate governance has been implemented, which is called "Corporate Governance Code". Consequently, the implementation of "Corporate Governance Code" has revise the role of corporate board in terms of the participation of board meeting e.g. for monitoring the possibility problems of operational processes. Composition of Corporate board has to include board independence for check and balancing and as a part of investor securities. Additionally, CEO Duality, separate the position of Chairman of the Executive Board and Chief Executive Officer, as one governance process, to monitor in related to Agency Theory. Thus, the variations of governance mechanisms are questioned for their effectiveness of monitoring process and the securities of investment in Thailand because the increasing number of suspected companies were found in the Stock Exchange of Thailand (SET) (Stock Exchange of Thailand (SET), 2014, 2017).

This research examines the impact of corporate governance mechanism on the operational performance, including the investigation of the variations of board size, board independence, CEO Duality and number of board meetings. The purpose of this study was to investigate the direct impact of the corporate governance mechanism on the operational performance of listed companies in the Stock Exchange of Thailand (SET). To answer the question of whether the governance mechanism in the by nature and composition of the corporate board can reflect on the operational performance? To be considered as a part of the additional consideration of regulators in the Corporate Governance Code, as for supporting confident and reliability consideration of the investors in capable to the change of business conditions which can impact on growth and survival of companies in the long run.

Literature Review

Concepts of Agency Theory

The problem of separating ownership from administration is the problem first discussed by Smith (1776), in the book named "An Inquiry into the Nature and Causes of the Wealth of Nations". This book indicated that If the executive is working instead of the owner, it may not lead to an effective work because of many factors such as negligence, inconsideration and thoughts that had influence in a poor or better managed. Later, Berle & Mean (1932) state further that in modern management the owner will become a payee and let the administrator do all the manage part. Consequently, Jensen & Meckling (1976) developed an agency theory to discuss the behavior of two parties, namely, owners (so-called principle) and managers (so-called agent). The Principle is the one who delegates authority to the agent to work. Both terms are used and problems may have resulted because both sides are different in terms of risk and perspective. Thus, the decreasing of agency problems and the protection of expropriation of shareholders are important for bettering the corporate governance mechanisms. However, Jensen & Meakling (1976) has proposed two approaches: monitoring mechanisms and bonding mechanisms for improving the corporate governance mechanisms.

Based on the literature review, the good corporate governance mechanisms are one of the mechanisms introduced by agent theory to reduce the behavioral opportunism of the principle(owner) and lower agent costs. The proper role of the company board has been set up by the Stock Exchange of Thailand for monitoring the process and protecting the investors such as the size of company board, board Independence, CEO duality, and the number of board meeting which will be discussed later.

The Related Research and the Hypothesis development

Board Size (BS): In terms of agency theory, the board size (BS) includes shareholders and stakeholders who play a role in monitoring and controlling. In addition, there are various strategies of board size (BS) that can increase the value of the company. However, these roles of board size (BS) are also doubtful questions about the relationships among stakeholders and researchers. The study was conducted to answer these questions. In general, the relationships between the board size (BS) and the operating results are resulted as follows: firstly, if the board size (BS) is large corporation, it may reduce the effectiveness of the governance mechanism because of the high cost of control especially for the decision-making of various participants. Secondly, the size of the board of a large company will benefit from the sharing of knowledge and expertise on each side especially in the corporate strategy. There are many studies showed that the large board size (BS) has a positive impact on performance, such as Bermig & Frick (2010) and Arora & Sharma (2016). However, the large board size (BS) held the negative results in the studies of Ilaboya & Obaretin (2015) and Akpan (2015). However, the roles of board size (BS) are still not clear but in the context of Thailand. The board size (BS) should play an active role in coordinating and controlling under the changing environment. Thus, the researcher has set hypothesis as follows:

Hypothesis 1: The board size (BS) has a significant positive impact on the company's operational performance.

Board Independence (BI): Agency Theory has determined that the effectiveness of Board Independence (BI) will reduce agency costs and protect investors. Additionally, the Board Independence (BI) can enhance the corporate governance mechanism by representing stakeholders in directing or giving opinions in corporate management using their knowledge and experiences. Relationship between Board Independence (BI) and company's operational performance have mixed results. Singh & Gaur (2009) and Fooladi & Shuko (2012) found evidence of a positive relationship while Wang (2014) and Orazalin et al (2016) found board Independence (BI) had no impact on the company's operational performance. The board Independence (BI) may mainly responsible for counseling but not for monitoring the performance. In the context of Thailand, The Stock Exchange of Thailand (SET) valued and provided a guideline for board Independence (BI) defining their features, roles, and practices. Thus, the researcher has set hypothesis as follows:

Hypothesis 2: board Independence (BI) has a significant positive impact on the company's operational performance.

CEO Duality (CEO dual): The key role of the CEO is an important mechanism of corporate governance, particularly the management and executive positions. Dual role in the same person (CEO Duality), may be a problematic issue according to the agent theory. Both advocates have clearly separated the two positions for better a monitoring and for check and balance. But some researchers against and suggest for duality base on line of command for a short, in time and effective order. This aspect will enhance understanding in the management and reduce the agency costs for a better the company's performance. According to the study of Arora & Sharma (2016), the results suggest for merging CEO and Executive in the same person but found no correlation in the performance. Lam & Lee (2008) and Yang & Zhao (2014) found the merging can better compete with environmental change and with better performance. But Syriopoulos & Tsatsaronis (2012) and Fooladi & Shukor (2012) found that

the separation had a positive effect on the performance of the company supporting the agent theory. However, the previous research showed the mixed results of the aspects of CEO duality. The principles of corporate governance in Thailand have encourage to separate the position between each CEO. Thus, the researcher has set hypothesis as follows:
Hypothesis 3: CEO Duality (CEO dual) has a significantly positive impact on the company's operational performance.
Board Meeting (BM): One part in role of corporate board in governance mechanism is in the numbers of board meeting. Number of board meeting are considered as the improving in the efficacy of monitoring in terms of management. This will bring issues to discuss the significant agenda. But, in the past research about the number of meetings and the corporate performance, the results showed in the two aspects: the first aspect, increase in its frequency, will help to increase operational efficiency by using the agenda to monitor and be able to solve problems in time and help guiding direction in future management. The second aspect, some meeting did not have a better impact on performance, because each meeting is time limited with cost in allowance and meeting relating costs. Currently, there are the continuing research on this topic, Lin et al. (2014) and Johl et al. (2015) found that the number of meetings affected in better of the performance. In contrary to Ilaboya & Obaretin (2015) and Akpan (2015), the number of meetings in the conference has a negative effect relationship on performance. There is no conclusion on the direction of their number of meeting-performance relationship impact. For the good corporate governance principles in Thailand require at least 4 meetings a year (Stock Exchange of Thailand (SET), 2014, 2017).
Hypothesis 4: the numbers of Board Meeting (BM) has a significantly positive impact on the company's operational performance.

Research Methods

Population and Sample: This research defined the research population studied to include all companies listed on the Stock Exchange of Thailand and performed their business during 2011-2015 with a total duration of 5 years. Thus, the total population included was 2,808 companies. The research population is a company listed on the Stock Exchange of Thailand (SET) with the following definition conditions. 1) It is a company listed on the Stock Exchange of Thailand with the end of fiscal year as of 31 December and listed on the stock market before 2010, It must be active and trade in the Stock Exchange of Thailand to be able to obtain all the measurable and comparable variables. 2) It is a company that is not classified as a company under the process of restructuring or reorganization. According to the quality of data collected, these companies did not have trading data during the study period and thus be bad sample and not consider attractive to investors. 3) It is not listed in banking, finance and securities, insurance, property fund and industrial sectors because of their different accounting practices than other industries. 4) It is not a company with missing complete financial information (Missing Data). The summary of the research sample shows in Table 1.

Table 1 The sample used in the study

The sample used in the study		**Total**
Number of registered companies between 2011-2015		2,808
exclude (-)	Number of companies in the banking sector, Finance and securities, insurance, real estate funds, company in the industrial sector	(529)
Number of registered companies between 2011-2015, after deduction		2,243
exclude (-)	Companies with data that does not meet the criteria *	(578)
Number of sample companies used in the study (N value)		**1,665**

Source: The Stock Exchange of Thailand, 2015

The Variables Used in the Study: This research analyzes inferential statistics by using the Pearson Correlation Analysis and Multiple Regression Analysis to describe the effect of corporate governance mechanisms. The results of operations as follows.

ROA = $\alpha_1 + \beta_1 BS + \beta_2 BI + \beta_3 CEO_{dual} + \beta_4 BM + \beta_5 Size + \beta_6 LEV + \beta_7 CFO + \varepsilon_{it}$

By

Independent Variables

ROA = Net Profit / Total Assets

Dependent Variables

BS = The number of Board independent divided by the entire board size

CEO_{dual} = Measurement of Dummy Variables by
Companies that have been merged between the Chief of Executive Officers = 1
Non- merged Chief of Executive Officers = 0

BM = The number of board meetings in 1 year

Control variables

Size = Natural Logarithm of total assets at the end of the year.

LEV = Total liabilities divided by total assets

CFO = Cash flow from operations in the current year

Results and Discussion

Results of Descriptive Statistics

Table 2 shows the descriptive value of the variables studied for corporate governance, in terms of board size, board size (BS), Board Independence (BI), number of the board meeting (BM). The size of the board of directors (Board Size: BS), the average was 10.43 persons, the lowest number of 4 persons and the maximum number of 21 persons, and the Standard Deviation (SD) is 2.56. The proportion of board Independence (BI), the average proportion score was 0.43, with a minimum of 0.03, a maximum of 9, and a standard deviation(SD) of 0.49. The number of board meeting (Board Meeting: BM) had an average of 7.49, lowest = 1, and highest = 33 with a standard deviation of 3.80.

Table 3 concludes that the merger of CEOs and top executives (CEO Duality) from the 1,665 sample companies found that the companies without a merger between the CEO and the top executives (separated position) has value at 81.74 percent.

Table 4 shows the descriptive values of the company's performance variables through the values of the total Return on Assets (ROA). The average return on total assets was 0.05, the lowest was -1.40, the highest was 1.17, and the standard deviation was 0.12.

Table 2 Basic Statistics of Corporate Governance Mechanisms by Executive Committee Characteristics

Variables	**Mean**	**Minimum**	**Maximum**	**Standard Deviation (SD)**
Board Size: BS	10.43	4.00	21.00	2.56
Board Independence: BI	0.43	0.03	9.00	0.49
Board Meeting: BM	7.49	1.00	33.00	3.80

Table 3 Frequency and percentage of the merger of the executive chairman and chief executive officer (CEO Duality)

The Holding Position	Frequency	percentage
The companies that have no position between Executive Chairman and Top Executive (separate position)	1361	81.74
The companies that have been merged between the CEO and top management (merger)	304	18.26
Total	**1665**	**100**

Table 4 The Basic Statistics of Company's Performance Variables

Variables	Mean	Minimum	Maximum	Standard Deviation (SD)
Return on Assets (ROA)	0.05	-1.40	1.17	0.12

Results of correlation analysis

Table 5 shows the correlation between two variables. When considering only the correlation coefficient between pairs, the relationship was not very high by observing the correlation coefficients for each pair of values less than 0.7, it was shown that the correlation between variables was not problematic in term of multicollinearity, which is similar to the results of Mela & Kopalle (2002).

Table 5 Analysis of Correlation (Correlation Coefficient).

Variables	ROA	BS	BI	CEO $_{dual}$	BM	Size	LEV	CFO
ROA	1							
BS	0.004	1						
BI	0.011	0.015	1					
CEO $_{dual}$	-0.037	0.001	0.107***	1				
BM	-0.126***	0.114***	0.143***	0.063***	1			
Size	0.025	0.302***	0.103***	0.088***	0.180***	1		
LEV	0.061**	0.041	0.011	-0.043	-0.011	0.136***	1	
CFO	0.182***	0.078***	0.015	0.009	-0.083***	0.026	-0.026	1

***. Correlation is significant at the 0.01 level (2-tailed). **. Correlation is significant at the 0.05 level (2-tailed).

Analysis of Multiple Regression

Table 6 shows the results of the study in terms of the direct impact of corporate governance mechanism on the operational performance of the company as follows:

Hypothesis 1: The Board Size (BS) has a negative impact on the company's operational performance. Thus, Hypothesis 1 was not accepted because it did not meet the set research hypothesis.

Hypothesis 2: The Proportion of Board Independent (BI) has a positive Impact on the company's operational performance, but with no statistically significant. Thus, hypothesis 2 was not accepted because it did not meet the set research hypothesis.

Hypothesis 3: The CEO duality (CEO Dual) has a negative impact on the company's operational performance with its statistically significant ($\beta3$ =-0.018, p <0.05). Thus, hypothesis 3 was accepted because it met set research hypothesis.

Hypothesis 4: The numbers of Board Meeting (BM) has a negative impact on the company's operational performance with its statistically significant ($\beta3$ =-0.003, p <0.01). But, the hypothesis is set that the effect should be positive. Thus, the Hypothesis 4 was not accepted because it did not meet the set research hypothesis.

Table 6 The results of multiple regression analysis on the impact of the mechanism of corporate governance at the Company's results of operations.

Independent Variables	Expect Sign	Dependent Variables
		ROA
Board characteristics		
BS	+	-0.001 (0.001)
BI	+	0.005 (0.006)
CEO dual	-	-0.018** (0.007)
BM	+	-0.003*** (0.001)
Control Variables		
Size		0.004 (0.006)
LEV		0.021*** (0.008)
CFO		0.075*** (0.012)
Constant		0.020
F		8.119***
Adjust R^2		0.075
Maximum VIF		2.494

*** p < 0.01, ** p < 0.05, * p < 0.10, Beta coefficients with standard errors in parenthesis

Discussion

From the Agency Theory concept, the board size should play a role in monitoring, controlling, and planning strategies to increase the efficiency of company operations. However, the board size is insignificant in terms of performance, i.e. the large or small of the board size does not affect the operating results. For other reasons, Sarpal & Singh (2013) described that the structure of most companies in each country is structured as the family-own structure or the grouping by shareholders to influence on decision making of the company board. In addition, there may be employees of the company being appointed to represent the board (Bermig & Frick, 2010). This result is consistent with research by Bermig & Frick (2010) and Sarpa & Singh (2013)

According to Agency Theory, the proportion of board independence plays a role in the company's performance by monitoring and controlling its management. Board independence can express their decision freely and ready to oppose the actions of the executives or CEO to protect the interests of the shareholders and to enhance the effectiveness of operational performance. But, according to this study, the proportion of board independence cannot explain the result described. Fuzi et al. (2016) explained that the company may require a proportion of board independence only to comply with legal requirements, but they have no power to have influence on decision making or the appointed executives were without knowledge or lacking the experience that might benefit the company. In addition, Leung et al. (2013) state that the proportion of board independence will not have a positive impact on the performance of the family-own structured company but the regulatory mechanism can be improved. This result is consistent with Wang & Oliver (2009) and Fuzi et al. (2016).

For the CEO Duality, it showed that clear separation of the two executive positions allowed for a better monitored. Because most companies comply with good corporate governance principles in section 5, The responsibilities of the board; the chairman and executive shall not be the same person for the benefit of check and balances. Within our research of 1,665 samples, 81.74 % of the companies are not complied with CEO Duality, while the rest (18.26%) are. This result is consistent with the studies of Shrivastav & Kalsie (2016), Mca (2016), Rutledge et al. (2016) which was conducted in India and Sri Lanka, respectively.

For the number of the board meeting, it has less positive impact on company performance. The agenda of meeting might not reflect or include the main issue or the positive key impact points to boost performance in the meeting debate. Each meeting also has time limit leading to the increase of meeting reception cost and allowances with number of meeting. In addition, the number of board meeting may also indicate the performance of a company that fails to meet its goals. The activities of the Executive Committee must be increased. This research result is consistent with Danoshana & Ravivathani (2014) and Pamburai et al. (2015) studied in Sri Lanka and South Africa, respectively.

Control variables on the financial risk have a positive impact on the operational performance of the company which were measured by return on assets with statistically significant. The financial risk is caused by the company making the decision on financial loan, which will become part of the capital structure that management must make the right and appropriate decision. This will be the cost of capital that will affect the company performance. The policy on financial loan is considered as part of reducing the cash flow problem and paid back in term of interest. However, with high level of loan in the investment structure, the risk of bankruptcy is high and problem of representative future investment cost issues. However, the results showed that liabilities from loans are remain in a proper level. Farooq & Masood (2016) studied in Pakistan showed that the control variables for operational cash flow have statistically significant positive impact on company performance as measured by return on assets. Based on the concept of representation theory, it can be determined that executives may manipulate cash flow for their own benefit, regardless of investor returns, by investing in non-profitable projects with negative current value. This also reflect that with low performance of the company, it may be led to increasing of representative problems. However, the results of this study showed that management operating cash flow at the proper level is needed for the return of asset, this is in line with the studies of Lachheb & Slim (2017) and Wijewaradana & Munasinghe (2015), in France and Sri Lanka, respectively.

Suggestions

The Regulatory Authority and The Listed Company in The Stock Exchange of Thailand (SET)

Based on the research results, the board size and the proportion of board independence did not play a role in reducing agent costs in accordance with the studies of Jensen & Meckling (1976). Thus, the Regulator Authority and the listed company in the Stock Exchange of Thailand should improve the selection process of board in each company with a clear audit trail. The management roles of the CEO must apply the principles of good corporate governance that distinguish their roles and responsibilities to enhance the effectiveness of operational performance. For each executive meeting, it may not be necessary to consider the number of meetings in the meeting as a basis for good corporate governance. Therefore, the company's board should consider the core content of each meeting, as well as the opinions of the experts in each decision-making session.

Recommendations for Future Research

It should be tested by expanding the scope of the study to other countries with similar characteristics to Thailand such as a comparative study with other countries such as Malaysia, Indonesia or others for more pieces of evidence leading to investment decision of ASEAN investors. Otherwise, do a study of the effectiveness of the corporate governance mechanism on the company's performance, and then compare with before and after using the “Corporate Governance Code”.

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