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# BOARD GOVERNANCE AND FIRM PERFORMANCE: THE MEDIATING ROLE OF EFFECTIVE TAX RATE IN THAILAND

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## Abstract

This study investigates the intricate relationship between board characteristics and firm performance, specifically examining the mediating role of the effective corporate income tax rate (ETR) among companies listed on the Stock Exchange of Thailand. Analyzing 313 observations from 2022 to 2024 using quantitative methods, including descriptive statistics, correlation, and multiple regression, the research reveals compelling insights into corporate governance and financial outcomes. Findings indicate that board size and the proportion of directors with an accounting or finance background positively influence ETR. Furthermore, while the proportion of directors with an accounting or finance background directly enhances firm performance, independent directors and board meeting frequency exhibit a negative direct relationship with firm performance. Crucially, the study identifies ETR as a significant transmission mechanism: board size and accounting/finance expertise indirectly enhance firm performance through ETR. These findings challenge conventional views that tax minimization is the sole performance driver, suggesting that a higher ETR can signal responsible tax compliance, fostering investor confidence and firm valuation. This research offers vital policy guidelines for corporate governance and tax management in emerging markets such as Thailand.

**Keywords:** Board Characteristics, Effective Tax Rate, Firm Performance, Corporate Governance, Mediation Analysis

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## Introduction

Despite their economic potential, developing countries still face issues of weak economies and corruption, which undermine the efficiency of financial markets and reflect a lack of robust governance systems (The Stock Exchange of Thailand, 2022). Consequently, listed companies should focus on sustainable business operations rather than solely depending on financial information that may be subject to manipulation (Wonglakron & Mahoran, 2023). In this context, the board of directors plays a vital role in setting the company's direction, providing oversight, and building stakeholder confidence (Chaleampong et al., 2019; Sabsombat & Suralai, 2025). For listed companies in Thailand, the SET and the SEC have established clear guidelines for board structure, including a requirement that the board has no fewer than 5 and no more than 12 directors, with independent directors constituting at least one-third of the total number of directors. Furthermore, boards must meet at least 6 times per year, and at least one director must have an accounting or finance background (The Stock Exchange of Thailand, n.d.).

Good corporate governance is a key factor for business sustainability, as it promotes transparency, ethics, and trust from stakeholders (Wilson, 1968). To this end, the board should proactively consider and integrate Environmental, Social, and Governance (ESG) dimensions in its operations, making them central to strategic planning and oversight (The Stock Exchange of Thailand, 2022). This integration ensures the firm's long-term viability. At the same time, performance evaluation should consider metrics that reflect future value and risk, such as Tobin's Q, rather than relying solely on backward-looking accounting metrics (Chang, 2023). An organization's performance is critically linked to the effective corporate income tax rate (ETR), a legal tool for reducing tax costs and increasing corporate value when managed properly (Lin, 2024). This is particularly relevant in the Thai context, where differing accounting and tax mechanisms can create complexities and significantly affect financial reporting (Sribunruang & Sutthi, 2021). Effective tax management is therefore a crucial element of good corporate governance, as it impacts financial transparency and investor confidence. When the ETR is handled correctly, it minimizes financial and legal risks and signals market stability. Conversely, aggressive or non-compliant tax practices lead to uncertainty and damage the firm's reputation. Therefore, the effective corporate income tax rate must be based on a solid understanding of tax benefits, accurate calculations, and correct tax filing (The Stock Exchange of Thailand, 2020). This commitment to integrity transforms tax compliance into a strategic advantage, directly supporting the firm's sustainable growth objectives.

However, the quality and structure of the board of directors, such as the number of directors, independence, and expertise, are crucial preconditions for establishing an effective tax strategy. A well-governed board possesses the requisite oversight and financial knowledge to formulate sophisticated tax-planning policies and monitor tax compliance, which, in turn, directly determines the level of the Effective Corporate Income Tax Rate (ETR) the firm reports. Thus, the ETR does not merely reflect a financial outcome but acts as a critical transmission mechanism (or mediator): it channels the influence of strong board characteristics into tangible firm performance. Specifically, optimal tax management resulting in a lower and well-managed ETR often translates into reduced operating costs, improved cash flows, and ultimately, enhanced corporate value (Rakhiran et al., 2025).

A literature review indicates that the influence of board characteristics, the effective corporate income tax rate (ETR), and firm performance remains unclear and varies by context. Prior studies often yield conflicting results, particularly concerning the optimal composition and activity level of boards, and few have explicitly tested the ETR as a strategic link between governance and market value in emerging markets. This ambiguity presents a significant challenge for regulatory bodies and investors seeking reliable performance indicators. For this

reason, this study aims to investigate whether board characteristics, including board size, the proportion of independent directors, the number of meetings, and the proportion of directors with an accounting or finance background, influence corporate performance indirectly through the ETR mechanism. Understanding this indirect pathway is vital, as it illuminates how governance quality translates into financial transparency and, subsequently, market confidence. The goal is to obtain clear, useful findings to inform policy formulation and organizational management in a rapidly changing economic environment. Therefore, this research investigates the influence of board characteristics on corporate performance, specifically focusing on the effective corporate income tax rate as a mediating variable for listed companies on the Stock Exchange of Thailand.

## Literature Review

Agency Theory explains the relationship between management and shareholders, which leads to agency problems arising from conflicts of interest (Jensen & Meckling, 1976). Agency theory also raises concerns about the reliability of financial report information prepared by management if conflicts of interest and information asymmetry exist (Melgarejo, 2019). Agency problems can be mitigated through corporate governance mechanisms (Fatma & Hidayat, 2020), which are considered to enhance the credibility and relevance of financial reporting. Performance in line with corporate governance principles is, therefore, a metric that reflects the presence of good corporate governance mechanisms and is related to information in the financial statements. Jensen & Meckling (1976) stated that Agency Theory arises from a situation where shareholders or owners, known as the principal, need a knowledgeable and capable agent because they cannot manage the business alone. The agent's duty is to make decisions and manage the business to achieve the company's primary objective: maximum benefit.

Based on concepts, theories, and a review of past literature, the synthesis of variables indicates that board characteristics play a significant role in good corporate governance and in the effective corporate income tax rate, which affects firm performance and the confidence of stakeholders and investors. Chernviriyakul & Srijunpetch (2022) found that board characteristics, including board size, influence the effective tax rate. A larger board size leading to a lower effective tax rate may indicate that larger boards are more likely to keep the company's effective tax rate within legally defined limits. Wonglakron & Mahoran (2023) found that board characteristics related to accounting-educated directors influence firm performance. This suggests that the higher the proportion of directors with an accounting or finance background on the board, the better the company's performance tends to be. There are still many other board characteristics with conflicting research findings, so the researcher has established the following research hypotheses:

H1: Board size has a positive direct influence on the effective corporate income tax rate.

H2: The proportion of independent directors has a direct influence on the effective corporate income tax rate.

H3: The number of board meetings has a direct influence on the effective corporate income tax rate.

H4: The proportion of directors with an accounting or finance background has a direct influence on the effective corporate income tax rate.

H5: Board size has a direct influence on firm performance.

H6: The proportion of independent directors has a direct influence on firm performance.

H7: The number of board meetings has a direct influence on firm performance.

H8: The proportion of directors with an accounting or finance background has a direct influence on firm performance.

### **Concepts and Theories on Effective Corporate Income Tax Rate**

Corporate income tax is a tax stipulated in the Revenue Code, with the Revenue Department responsible for collecting it from companies and juristic partnerships. Currently, the maximum corporate income tax rate is 20% of taxable profit, calculated from net profit during the previous accounting period. Businesses are required to assess their income under the accrual basis, file an income statement, and pay taxes. In calculating corporate income tax, all revenue must be offset by various expenses that meet the conditions for calculating net profit as specified in Sections 65 bis and 65 tri (Thanjunpong & Bangmek, 2017; Rakhiran et al., 2025). The effective corporate income tax rate (ETR) can be measured by the actual tax rate, where a reduction in taxable profit does not affect accounting profit (Book-Tax Nonconforming Tax Planning), resulting in lower tax expenses, higher accounting net profit, and increased cash flow. The effective tax rate currently defined by law is 20%.

Based on concepts, theories, and a review of past literature, the synthesis of variables indicates that Phomkul & Saengkhiew (2022) found that a lower effective corporate income tax rate positively affects firm performance. A decrease in ETR is efficient because it allows the company to keep more money for itself rather than paying it out as taxes, thereby increasing financial resources for investment, business expansion, or generating returns for shareholders, which leads to better overall performance. Thus, the researcher formulated the following research hypothesis:

H9: The effective corporate income tax rate has a direct influence on firm performance.

### **Concepts and Theories on Firm Performance**

According to Chung & Pruitt (1994), measuring firm performance is a crucial component for understanding an organization's efficiency and effectiveness, reflecting management's ability and returns to shareholders. Performance measurement covers two key perspectives: the accounting perspective, which uses metrics like Return on Equity (ROE) to assess past profitability, and the market perspective, which uses a popular metric for measuring firm value, Tobin's Q. Tobin's Q is strategically superior as it is calculated by dividing the market value of the company's assets by the replacement cost of its assets, making it a forward-looking indicator (Ardila & Safitri, 2024). Srihirunpunlop (2018) stated that firm performance is a metric of current success and a reflection of future organizational value. A successful and competitive business must deliver strong performance and create value for its shareholders. Therefore, the researchers derived the following findings and research hypotheses:

H10: Board size has a positive indirect influence on firm performance through the effective tax rate.

H11: The proportion of independent directors has a positive indirect influence on firm performance through the effective tax rate.

H12: The number of board meetings has a positive indirect influence on firm performance through the effective tax rate.

H13: The proportion of directors with an accounting or finance background has a positive indirect influence on firm performance through the effective tax rate.

### **Research Methods**

The population of this study consisted of all 932 companies listed on the Stock Exchange of Thailand that were continuously operating from 2022 to 2024 (3 years). The sample was selected from companies that disclosed data in the Bloomberg Terminal database, which is collected and disclosed at the SET Fin Lab, the Stock Exchange of Thailand. After excluding companies that did not disclose data, the final sample size was 471 observations, and 158 outliers were identified, resulting in a suitable sample size of 313 for this test. The variables are shown in the following table 1. The data analysis in this study consisted of descriptive statistics, including the mean, minimum, maximum, and standard deviation of the overall data,

and inferential statistics using Path Analysis to evaluate relationships and influence among variables by calculating causal correlation and path coefficients.

**Table 1** Variables and Variable Measurement

Variable and meaning	Abbreviation	Measurement Method
<b>Independent Variable: Board Characteristics</b>		
Board Size	BSIZE	Total number of directors on the board
Proportion of Independent Directors	IND	(Number of independent directors/Total number of directors) * 100
Number of Board Meetings	MEETING	Total number of board meetings held by the company
Proportion of Directors with Accounting or Finance Background	BEXP	Number of directors with an accounting or finance background/Total number of directors
<b>Mediating Variable: Effective Corporate Income Tax Rate</b>		
Effective Corporate Income Tax Rate	ETR	Current tax expense/Pre-tax accounting profit
<b>Dependent Variable: Firm Performance</b>		
Firm Performance	Tobin's Q	(Market value of equity + Book value of total debt) / Book value of total assets

## Research Results

**Table 2** Descriptive Statistics Analysis

Variable	n	Max	Min	Mean	Std.
BSIZE	313	17.00	6.00	11	2.36
IND	313	66.67	33.33	44.18	9.73
MEETING	313	21.00	6.00	9.68	3.38
BEXP	313	44.44	1.00	13.54	10.66
ETR	313	28.09	0.13	15.59	6.21
Tobin's Q	313	3.66	0.58	1.49	0.75

As shown in Table 2, the descriptive statistics analysis of the influence of board characteristics on firm performance, with the effective corporate income tax rate as a mediating variable, can be summarized as follows: the studied companies generally exhibit strong corporate governance practices. The Board Size (BSIZE) averaged 11 directors, which falls within an appropriate range for maintaining both agility and diverse perspectives, consistent with the guidelines set by the Securities and Exchange Commission (SEC). The Proportion of Independent Directors (IND) averaged 44.18%, exceeding the minimum regulatory requirement of 33.33% and reflecting a strong commitment to independence and good governance principles. Furthermore, the Number of Board Meetings (MEETING) averaged 9.68 meetings per year, aligning with best-practice recommendations of at least six meetings annually. The Proportion of Directors with an Accounting or Finance Background (BEXP) averaged 13.54%, suggesting a suitable level of financial expertise to ensure effective oversight and management. Regarding the mediating variable, the Effective Corporate Income Tax Rate (ETR) had a relatively low mean of 15.59%, below the standard corporate tax rate of 20%, indicating that companies employ effective tax management strategies. Finally, Firm Performance (Tobin's Q) averaged 1.49, indicating that the companies are generally able to generate positive returns and have strong potential for future value creation.

**Table 3** Pearson Correlation Analysis between Variables

Variable	BSIZE	IND	MEETING	BEXP	ETR	Tobin's Q
BSIZE	1.00					
IND	-0.131*	1.00				
MEETING	0.250***	0.192***	1.00			
BEXP	-0.178**	-0.101	-0.081	1.00		
ETR	-0.156**	0.002	0.045	0.165**	1.00	
Tobin's Q	-0.068	-0.157**	-0.233***	0.219***	-0.236***	1.00

Note: \*p < .05, \*\*p < .01, \*\*\*p < .001

The simple correlation analysis (Correlation) in Table 3 shows that all variables are correlated at most 0.800, which, according to Best (1977), indicates they are independent and exhibit no multicollinearity. The variables are therefore suitable for a reliable path analysis.

**Table 4** Skewness, Kurtosis, and Normal Distribution Test

Variable	Skewness	Skewness SE	Kurtosis	Kurtosis SE
BSIZE	0.27	0.14	-0.29	0.28
IND	0.86	0.14	-0.25	0.28
MEETING	0.83	0.14	-0.18	0.28
BEXP	0.81	0.14	0.13	0.28
ETR	-0.63	0.14	-0.49	0.28
Tobin's Q	1.25	0.14	0.60	0.28

The skewness and kurtosis values for this study are within the acceptable range of -3 to 3, as per the criteria proposed by Ghasemi & Zahediasl (2012) and Doane & Seward (2011).

**Table 5** Model Fit Statistics for the Research Hypotheses with Empirical Data

Statistical Value	Model Value	Consideration Criteria	Result
GFI	1.00	> 0.95	Passed
AGFI	1.00	> 0.90	Passed
RMSEA	0.00	< 0.05	Passed
CFI	1.00	> 0.90	Passed
SRMR	0.00	< 0.05	Passed

The model fit indices indicate excellent conformity with the empirical data, as all indices met the set criteria.

### Direct Influence on ETR and Firm Performance

Regarding the direct effects on ETR, both Board Size (BSIZE) ( $\beta = 0.196$ ,  $p < .001$ ) and the Proportion of Directors with an Accounting or Finance Background (BEXP) ( $\beta = 0.205$ ,  $p < .001$ ) showed a positive and significant influence. This supports the notion that stronger governance structures, characterized by larger and more financially knowledgeable boards, are associated with a higher ETR, suggesting greater tax compliance rather than aggressive tax avoidance. Conversely, the Proportion of Independent Directors (IND) and the Number of Board Meetings (MEETING) had no significant direct impact on ETR. Examining the direct effects on Tobin's Q, the findings are mixed. While BEXP showed a positive and significant direct influence ( $\beta = 0.147$ ,  $p = 0.007$ ), both IND ( $\beta = -0.108$ ,  $p < .05$ ) and MEETING ( $\beta = -0.200$ ,  $p < .001$ ) unexpectedly showed negative and significant direct influences on firm performance. Most crucially, the ETR itself had a positive and significant direct influence on Tobin's Q ( $\beta = 0.226$ ,  $p < .001$ ). This contradicts the view that tax avoidance (lower ETR)

enhances performance, suggesting instead that a higher ETR, a proxy for responsible tax compliance, is directly associated with higher firm valuation and investor confidence.

**Indirect Influence (Mediating Role of ETR)**

The analysis confirms the ETR serves as a significant transmission mechanism (mediator) for specific board characteristics. Both the influence of BSIZE ( $\beta = 0.045, p = 0.009$ ) and BEXP ( $\beta = 0.046, p = 0.006$ ) on Tobin's Q were found to be significantly positive and indirect via the ETR. This indirect positive effect is consistent with the positive direct effects observed: stronger governance (BSIZE and BEXP), higher ETR, and higher Tobin's Q. This suggests that the value generated by a larger, expert board is partly channeled through their tendency to adhere to tax regulations, which, in turn, is rewarded by the market. However, ETR did not significantly mediate the relationship for IND or MEETING.

In conclusion, the results refute the notion that tax minimization is the sole driver of performance. Instead, the findings emphasize that the ETR serves as an indicator of good governance and tax compliance, with a higher ETR contributing positively to firm value, particularly when influenced by board size and financial expertise.

**Table 6** Results of Direct and Indirect Path Influence Analysis

Hypothesis	Path	Estimate	SE	$\beta$	Z	p-Value	Test Result
<b>Direct Influence</b>							
H1	BSIZE → ETR	0.518	0.154	0.196	3.367	<.001***	Accepted
H2	IND → ETR	0.028	0.036	0.044	0.771	0.441	Rejected
H3	MEETING → ETR	0.007	0.106	0.003	0.066	0.947	Rejected
H4	BEXP → ETR	0.119	0.032	0.205	3.662	<.001***	Accepted
H5	BSIZE → Tobin's Q	-0.012	0.018	-0.040	-0.718	0.473	Rejected
H6	IND → Tobin's Q	-0.008	0.004	-0.108	-1.985	0.047*	Accepted
H7	MEETING → Tobin's Q	-0.044	0.012	-0.200	-3.627	<.001***	Accepted
H8	BEXP → Tobin's Q	0.010	0.003	0.147	2.705	0.007*	Accepted
H9	ETR → Tobin's Q	0.027	0.006	0.226	4.206	<.001***	Accepted
<b>Indirect Influence</b>							
H11	BSIZE → ETR → Tobin's Q	0.014	0.005	0.045	2.629	0.009*	Accepted
H12	IND → ETR → Tobin's Q	0.001	0.001	0.010	0.758	0.448	Rejected
H13	MEETING → ETR → Tobin's Q	0.000	0.003	0.001	0.067	0.947	Rejected
H14	BEXP → ETR → Tobin's Q	0.003	0.001	0.046	2.762	0.006*	Accepted
<b>R<sup>2</sup> = 72.6, p-Value = &lt;.001, GFI = 1.000, AGFI = 1.000, RMSEA = 0.000, CFI = 1.000, SRMR = 0.000</b>							

Note: \*p < .05, \*\*p < .01, \*\*\*p < .001

**Conclusion and Discussion**

The study uncovered a significant direct positive influence of board characteristics, including board size and the proportion of directors with an accounting or finance background, on the effective corporate income tax rate (ETR). This finding suggests that a larger board, often associated with broader expertise and heavily populated by financial and accounting experts, places greater emphasis on rigorous and legal tax compliance. Such a composition ensures that the board effectively monitors complex tax planning strategies, steering the firm away from aggressive tax avoidance and mitigating the risks of non-compliance, thus resulting in a higher, more sustainable ETR. This increased compliance not only satisfies regulatory requirements but also signals good corporate citizenship to stakeholders.

This positive relationship extends further, as the results confirm that the ETR itself has a direct positive influence on Tobin's Q, the widely accepted measure of firm performance and future value. The implication here is critical: companies that demonstrate superior governance through transparent, law-abiding tax management tend to achieve higher market valuation and

greater investor confidence. A high ETR, in this context, is interpreted by the market not as a cost burden but as a sign of financial stability and ethical management, reducing perceived regulatory and reputational risk, which ultimately drives up the firm's stock price and long-term performance.

Furthermore, the research reveals a nuanced, less intuitive finding: the proportion of independent directors and the number of board meetings exhibit a negative direct influence on firm performance. This counterintuitive result warrants careful interpretation. It may be that an overly high number of independent directors, while formally meeting governance standards, are less informed about the deep, day-to-day operational specifics, limiting their decision-making effectiveness. Similarly, frequent board meetings might signal underlying, persistent organizational distress or conflict that consumes valuable management time and corporate resources without delivering tangible benefits. The quality of the oversight, rather than merely the quantity of meetings or independence, appears to be the determining factor.

Most importantly, the results demonstrate a powerful positive indirect influence of board size and the proportion of accounting/finance-qualified directors on firm performance, specifically through the mediating mechanism of the effective corporate income tax rate. This key finding confirms the hypothesized channel: a well-composed and qualified board improves performance not just by making better strategic decisions, but by ensuring excellent tax management. This superior oversight leads to an ETR that is compliant and sustainable, thereby enhancing the firm's reputation and reducing its risk premium in the eyes of the market. The ETR acts as a verifiable output of good governance, translating board quality into increased corporate value and securing long-term stakeholder benefits. This study, therefore, provides actionable evidence for policymakers and corporate management on the precise governance factors that support both tax integrity and enhanced firm valuation in the Thai capital market. These findings primarily support Agency Theory and Stakeholder Theory, but offer a refined perspective on the role of tax policy. The significant positive influence of Board Size (BSIZE) and Director Financial Expertise (BEXP) on the ETR confirms that stronger monitoring mechanisms, a core tenet of Agency Theory, led to greater Tax Compliance, consistent with regional evidence (Chernviriyakul & Srijunpetch, 2022; Puchjan et al., 2024). This suggests that governance mechanisms effectively mitigate the agency conflict arising from managerial opportunism in tax planning. Most crucially, the significant positive direct influence of ETR on Tobin's Q suggests that the market rewards firms for transparency and responsible tax behavior, aligning with Stakeholder Theory. In this view, paying a higher, compliant ETR signals to stakeholders (including investors) that the firm prioritizes long-term sustainability and ethical governance over short-term tax minimization, thereby reducing information asymmetry and increasing firm valuation (Phomkul & Saengkhiew, 2022; Rakhiran et al., 2025). This market premium reflects lower perceived regulatory and reputational risk. Furthermore, the ETR mechanism mediates the positive indirect influence of BSIZE and BEXP on Tobin's Q, suggesting that the value accretion from these governance characteristics is channeled through the verifiable compliance signal provided by the ETR. Conversely, the negative direct effects of the Proportion of Independent Directors and the Number of Board Meetings on Tobin's Q highlight a possible limitation of Agency Theory's emphasis on formal independence, indicating that the potential costs and inefficiencies of excessive oversight (Jensen & Meckling, 1976) such as slow decision-making or board capture, may outweigh the benefits (Sirithanatrakarn et al., 2023; Ardila & Safitri, 2024). This critical nuance underscores that the quality of governance engagement is more vital than mere structural formality.

Therefore, companies should review and adjust their board structure by focusing on the expertise of their members, particularly those with accounting and finance backgrounds. The number of directors and meeting frequency must also be carefully considered to ensure effective oversight without hindering agile decision-making. For academic research, future

studies should expand their scope by using a wider range of variables, such as tax avoidance and the role of the audit committee, and by extending the study period to capture long-term trends and the dynamic nature of corporate governance and tax policies. Finally, investors and stakeholders should recognize and utilize board characteristics and effective tax management as key factors when evaluating a company, using this information to make better investment and governance decisions.

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