

Corporate Governance Effects on Firm Value and Stock Market Performance: An Empirical Study of the Stock Exchange of Thailand-100-Index Listed Companies

Nicolette C. Prugsamatz¹

Abstract

The little literature there is on Corporate Governance in emerging markets provides supporting evidence straddling short periods whilst addressing some areas of firm-level Corporate Governance adherence. This paper seeks to study the effects of Corporate Governance adoption on Firm Value and Stock Market Performance of 57 SET-Listed Thai Companies, drawing on data from 2000 to 2009. A mixed method approach was adopted which included the use secondary data, an Index (Thai Gov-Index), and Text Content Analysis to measure firm-level Corporate Governance of the selected companies. That firm-level Corporate Governance can serve as a value driver, for both the firm and its shareholders, is to a certain extent justified by what the study findings infer, even though findings of all positive associations appeared to be weak.

Keywords *Corporate Governance, Firm Value, Tobin's Q, Stock Market Performance, Total Returns to Shareholders, Market Value Added.*

Background

In a nutshell, Corporate Governance can be defined as a set of rules and procedures that guarantee management utilizes the principles of value-based management (Brigham and Ehrhardt 2004). It allows for the implementation of wealth maximization in line with key shareholder objectives (*Ibid*).

Much has been written about corporate governance with regard to developed economies (e.g. Gompers; Ishii et al. 2003; Schillhofer et al. 2003; and Brown et al. 2004). However, when it comes to emerging markets, there is a dearth of studies. A lot more research is thus called for, especially in terms of understanding firm-level Corporate Governance on an extensive scale.

Take Thailand for instance, the country considered in this research. Evidence and discussion of Corporate Governance progress and limitations within the capital market of Thailand can only be found in a few studies (e.g. Alba et al. 1998; Klapper and Love 2002; Durnev and Hankim 2005; and Kouwenberg 2006).

In their study, Alba et al. (1998) reported that during the period 1994-1997, all listed firms on the Stock Exchange of Thailand (SET) showed a deterioration of their corporate performance and had weak Corporate Governance and an equally unsubstantial disclosure system as compared to today. They identified five major flaws accounting for this situation, namely, concentrated ownership, high levels of diversification, weak incentives, poor protection of minority shareholders, and weak information standards.

Consistent with these findings, Peralta (2003) argued that companies and conglomerates, owned and controlled by generations of families with joint interests are at the root of the 1997 Asian financial crisis. As a result of this relationship-based environment, firms found themselves unable to compete in the global economy, highlighting the need for more suitable ownership structures, sound financial institutions, transparent banking regulations, accounting standards, effective bankruptcy codes, and availability of accurate and timely information (*Ibid*). The average governance score (48.58) and average transparency ranking (42.08), which Thailand received in 2005, reflect these flaws (Durnev and Hankim 2005).

1.Nicolette C. Prugsamatz is a graduate from Assumption University, Graduate School of Business. She has been working for both the economic and non-governmental sectors in Thailand.

In terms of strength of its legal environment, that year Thailand scored 8.33 on a scale of 0 to 10. As to investor protection, the Kingdom received a score of 2 (on a 0 to 6 scale). Its legal score (which comprises a broad range of legal regimes) was 16.66. These scores clearly justified the country's need for stronger Corporate Governance mechanisms.

Klapper and Love (2002) found that, among the 14 emerging markets surveyed in their study, Thailand had an average firm-level governance ranking of 53.54 (the highest being 66.53 and the lowest, 31.85). Regarding country-level determinants, Thailand scored: 12.92 in terms of legal and economic development (the highest being 19.51 and the lowest, 8.50); 2.00 for shareholder's rights (with 5.00 for the highest and 2.00 for the lowest); and 3.25 for judicial efficiency (the highest being 10.00 and the lowest, 2.50).

In 2001, conceivably in response to these research findings, the SET published its first report on Corporate Governance; an attempt to put in place a stable structure whereupon the groundwork for better operations, accountable conduct, and overall economic development and well-being of the country could be established. The 15 principles of good corporate governance contained in this report, and amended in 2006, are relatively comparable to the Principles of Corporate Governance proposed by the Organization for Economic Corporation and Development (OECD).

Another landmark in the history of Thailand's corporate governance is the 2007 introduction by the SET of the Corporate Governance Self-Assessment to be used for internal usage by listed companies. This enabled companies to assess their level of compliance with the principles of good Corporate Governance prior to reporting their Corporate Governance practices in their annual reports. Some of the assessment criteria which companies used are also derived from the OECD principles of corporate governance since they are found to be

adaptable to a listed company's situation. These guidelines further evidence the initiative undertaken by the nation to reform and act in accordance with international standards.

This study investigates the effects of firm-level Corporate governance on Firm Value (Tobin's Q as proxy), and Stock Market Performance (Total Returns to Shareholders and Market Value Added as proxies), drawing on data pertaining to the 2000-2009 period. After considering first the study's theoretical perspectives, framework and research methodology, the results will be discussed and inferences made as to these findings.

1. Theoretical Perspectives and Related Literature

- Agency Theory

One way to examine the link between a firm's corporate governance and performance is to consider the principal-agent relationship, whereupon the agent acts on behalf of the principal. Under the Principal-Agent theory, as argued by Hart (1995), there is a trade-off between incentives and risk sharing; managers are motivated to work hard through "high-powered" incentives while also protected from risk through "low-powered" incentives, such as, for example, compensation that is insensitive to a firm's performance. Besides, since the agency theory argues that people are motivated by their own self-interest managers will aim to maximize the firm value only if it is in line with their own best interests (Letza et al. 2008). This can in effect lead to a conflict of interests.

Agency costs, such as auditing, budgeting, control and compensation systems, can arise when there is a "conflict of interest" between managers and shareholders. Reducing agency costs increases a firm's value (Hart 1995). Should a conflict of interest arise, governance structures can facilitate decisions that were not included in the original principal-agent contract through the allocation of "residual rights of control over the firm's nonhuman assets" (*Ibid*).

- *Shareholders' Rights and Equitable Treatment*

Shleifer and Vishny (1997) contended that investor legal protection and a certain level of ownership concentration are necessary components of a good Corporate Governance system. For large investors to be able to exercise power over management with regard to the distribution of profits, they must have certain fundamental legal rights, such as voting rights or the power to pull collateral. Also, if a company is to attract smaller investors to raise capital, this too requires a certain amount of legal protection against such incidence as expropriation by managers and large investors (*Ibid*).

It should be noted that the fundamental reason firms are provided with external financing by investors is because control rights in respect of the assets of the firm can be received in exchange. Financiers therefore have the right to appeal to courts to enforce their rights when contractual terms have been violated by management (*Ibid*).

Another form of shareholders' legal rights, and perhaps one of the most important one, is the right to vote on corporate matters regarding occurrences such as mergers, liquidation, and board election (*Ibid*). There may also be laws that clearly prohibit self-dealing. Furthermore, courts can enforce corporate charters that prohibit it. In addition, there are restrictions requiring minority shareholders to be treated as well as company's insiders (*Ibid*).

Since shareholders have fewer protections from expropriation relative to other stakeholders as a result of their sunken investment, stronger protection may be required. This in turn will induce them to invest. Legal restrictions on managerial self-dealing and on the likes of outright theft from the firm, excessive compensation, or issues of additional securities (like equity), are commonly accepted elements of duty of loyalty to the management and all the other stakeholders concerned.

- *Remuneration and Compensation Practices*

Compensation contracts can motivate managers to take actions that maximize

shareholders' wealth (Florackis 2005). Managerial agency costs can also be reduced through managerial compensation since it is assumed that managers satisfied with their compensation scheme are less likely to exert inadequate effort or expropriate wealth and therefore will also lower their risk of job loss in the process (*Ibid*).

Conversely, managerial compensation can be studied by considering agency problems rather than through its being an instrument with which to address these agency problems as did Lee, Lev and Yeo (2007). They argued that even though managerial compensation can positively impact a firm value, it can also cause "infectious greed" by creating an environment mature for abuse particularly when at its peak. Therefore, given the concerns about excessive compensation packages and how they can negatively impact corporate performance, basic recommendations in the form of best practices has been established whereby the firm should show compliance in order to reduce such problems arising from excessive compensation (*Ibid*).

Furthermore, under the optimal contract assumption, compensation is considered a fractional remedy to agency problems, where it is assumed that the board of directors will design optimal compensation arrangements to encourage managers to maximize shareholder wealth (Florackis 2005). However, it is also argued that the main flaw of this view has to do with how compensation schemes are not sufficiently high-powered owing to the "political limitation" on how liberally executives can be treated (*Ibid*).

Another approach to optimal contracting focuses on a different link between executive compensation and agency problems; this is the managerial power approach. Under this approach,

executive compensation is considered a potential instrument to address agency problems (*Ibid*).

- Stakeholders' involvement

An organization has duties and is accountable to various stakeholders, not just investors (Heath and Norman 2004). So, besides the firm and its managers having individual obligations ensuring shareholders receive a fair return on their investments a firm also has individual obligations to stakeholders which go above and beyond what is stipulated by the law. But, in case of conflicts of interests, the demands and interests of some stakeholders (including shareholders) must be mitigated or sacrificed in order to fulfill fundamental obligations to other stakeholders (*Ibid*).

Therefore, in order to alleviate conflicts of interest that might exist between the firm and its stakeholders, stakeholder governance can be implemented in two ways. One way is through firm-specific investments by employees and other stakeholders giving them "remaining claimant status" together with shareholders. The other way is through building up organizations that can have ongoing innovation while ensuring that all stakeholders are part of the process (Allen et al. 2007).

- Role of Audit Committees

Audit committee financial expertise proves to be complementary to other Corporate Governance mechanisms (Carcello et al. 2006). Turley and Zaman (2004) argued for the promotion of audit committees. Their argument is based on the committee's potential to contribute to the relationship among directors, investors and auditors, and on the directors' discharge of accountability and execution of their irresponsibility. The balance of power between accountability and audit relationship is influenced by audit committees through circumstances related to the adoption or non adoption of the audit committee structures or through particular audit committee characteristics, for example, its level of expertise and independence (*Ibid*).

A second argument for audit committees is based on their impact on external audit and

internal control and audit. Any assessment of suspected weaknesses regarding audit effectiveness allows for recommendations for audit committees to be made, therefore it is necessary to subject outcomes concerning this area to evaluations (*Ibid*).

In addition, the audit committee should also have responsibility towards guiding the management's assessment of business risk (*Ibid*). This in turn may strengthen management's ability to identify and assess internal and external risks. Finally, with regard to whether the existence of audit committees as a governance mechanism could result in better corporate performance or "wealth effects" for investors, defining a definite direct link between audit committees and company performance is still questionable. Nonetheless, since recommended management and governance structures are supposed to improve management practices, positive performance improvements on behalf of investors could also prove consequential (*Ibid*).

- Board of Directors Duties and Responsibilities

Relative to other mechanisms, board of directors are the most utilized in terms of hiring, evaluating, compensating and continual monitoring of management by shareholders (Gill et al. 2009). There are three functions that boards can undertake. The first include institutional functions, where companies are linked with external resources. They can also act as significant mechanisms for checking managerial opportunism, and they have a strategic role in strategy formulation (*Ibid*).

There are two common sub-approaches to Corporate Governance reform with regard to the board: board structure and board effectiveness. Typically, board structure concerns leadership such as "CEO duality", composition of the board, and size (Leblanc and Gilles 2003). The other aspect of board governance, board effectiveness, pertains to how boards function in

terms of decision-making and how directors interact with each other (*Ibid*).

An effective board must first be composed of members who are independent, all the while having the necessary skills or “competencies” in line with fulfilling the strategies and obligations of the corporation. Since one of several realities concerning board of directors include boards being made up of diverse groups of individuals demonstrating different patterns of behavior, it should be comprised of members who are able to work together to allow for effective decision making (*Ibid*). Without effective directors it is not possible to have an effective board. Three factors determine director effectiveness: director independence, director competencies, and director behavior (*Ibid*).

- *Disclosure and Transparency*

The primary way by which companies can become transparent to stakeholders is through corporate information disclosure, which includes corporate performance disclosure and financial accounting disclosure (Gill et al. 2009). Investors are attracted to company performance disclosure that is relevant and consistent, all the more when it is regulated (*Ibid*). Indeed, disclosure that is regulated allows for important and new information for investors and is considered to eventually reflect a company’s transparent system (*Ibid*).

Information disclosure also allows shareholders to evaluate management performance in terms of how efficiently the company’s resources are being utilized by management, in line with the principal’s interest, by management (*Ibid*). Agency costs can be reduced through improved disclosure as it is an important element of good Corporate Governance practice. Voluntary disclosure of corporate information can also be linked with the intention to raise external (equity) capital (*Ibid*). Information flows to shareholders from the company allow for less information asymmetry in the firm (*Ibid*). This in turn can lead to firms having a larger pool of potential investors where

such investors will have more accurate beliefs about a firm’s future performance.

Nonetheless, a company’s information disclosure can prove to be a “double-edged sword” in the hands of management. Disclosure about such things as a firm’s human resources and risk can prove effective in reducing information asymmetries and moderating the need for price protection. On the other hand, disclosure of information about marketing, R&D, and technology could also jeopardize a company’s competitive advantage (*Ibid*). Broad and specific information could harm a firm’s value. Moreover, fearing for their image to be tarnished, companies may be reluctant to disclose certain important information, such as employee remuneration at lower hierarchic levels since comparing it with that of employees at higher levels could transmit negative signals to potential investors (*Ibid*).

- *Managerial Shareholding*

As early as 1932, Berle and Means argued that in the modern corporation ownership and control have been separated. Managerial ownership is an effective governance mechanism as it aligns the interests of managers with those of shareholders. A positive effect may therefore be observed from managerial shareholding of the company. This is partly due to a decline in anticipated costs of the agency conflict between shareholders and managers (Gill et al. 2009).

Furthermore, small levels of shareholding by managers allow for an alignment effect where managers (with managerial ownership), are bound to outside shareholders to go after a common goal through (a) the decrease of managerial incentives for bonus consumption, (b) a utilization of inadequate exertion, and (c) engagement in good projects (*Ibid*).

Three types of ownership have been observed to have an effect on a firm’s performance, namely: ownership by CEO, ownership by top management, and ownership by all employees of the firm (*Ibid*).

Ownership structure and control among Thai publicly listed companies involves several specific characteristics. Firstly, owing to the differences in laws and legislation across different capital markets, controlling shareholders in Thailand are those who directly or indirectly own over 25 percent of company votes (Khanthavit et al. 2003). The 2002 Thai Public Limited Companies Act states that a shareholder who owns at least 75 percent of a firm's votes will ultimately have absolute power over a firm. Shareholders with 25 percent of votes also have certain legal rights to perform certain actions as stated in Thai corporate law. In addition, the Thai law does not allow the issuance of multiple voting shares.

Khanthavit et al. (2003) also contended that, relative to other control mechanisms regarding how controlling shareholders own and control a firm, such as, for example, pyramidal structures and cross-shareholdings, direct ownership among Thai public firms seems more prevalent after the 1997 Asian financial crisis years. In 2000, 78.04 % of firms had controlling shareholders using simple direct shareholding as opposed to around 76.53 % in 1996. Another difference is that in 2000, the use of simple pyramids and cross-shareholding ownership was not prevalent, but rather what was dominated then was a combination of pyramids with direct shareholdings and pyramids with direct and cross shareholdings (*Ibid*).

Furthermore, regarding an overall discrepancy between ownership and management, it was found that controlling shareholders among two-thirds of the firms studied were also involved in management. In 2000, there was at least one member from the controlling family who was also part of the board holding top executive and non-executive positions in the 67.84 percent and 60.78 percent of the firm with controlling shareholders (*Ibid*).

- Findings from Other Studies

Several studies provide insight into whether or not adoption of certain Corporate Governance

practices generates value to the firm and its shareholders (e.g. Klapper and Love's 2002; Gompers et al. 2003; and Core et al. 2005). Klapper and Love's (2002) study suggests that firms having better governance also have higher market valuation, especially when country dummies are included. Gompers et al. (2003) found that in the 1990s corporate governance shows strong correlation with stock returns. Brown and Caylor (2004) discovered that firms in the top and bottom deciles of GOV-Score have a Tobin's Q of 0.104 above the industry average (or 0.267 below the industry average), with a spread of 0.371 which is significant at the 1% level.

Core et al. (2005) came up with different results in their comparative investigation between stock returns and operating performance with strong and weak shareholder rights, an extension of the study by Gompers et al. (2003). They provided evidence that firm with weak shareholders rights subsequently have lower operating performance.

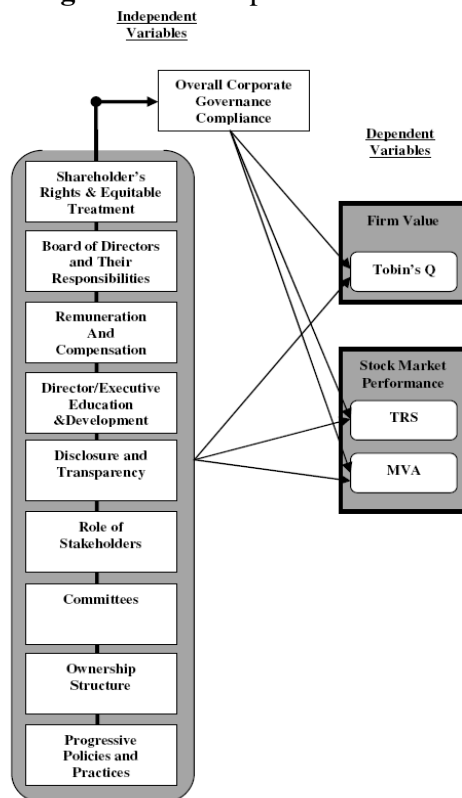
Black et al. (2006) regressed Tobin's Q against the result of their governance index and found that this correlation is highly significant with a coefficient of 0.0064 ($t = 6.12$). They offer an explanation for the causes of the association between corporate governance and firm market value. When firms are better governed they can also be more profitable therefore investors will expect an increase in future profitability. Firms will also be able to pay more dividends at a certain level of profitability and make better investments. Furthermore investors can also value the same dividends (or earnings) more highly since firm insiders will not be likely to divert profits for themselves.

2. Theoretical Framework and Development of Hypotheses

The conceptual framework presented in Figure 1 incorporates the final relationship portrayed between a firm's value drivers with its performance measures that reflect the outcome

of such value drivers, as represented in the Koller's et al. (2005) Comprehensive Value Metrics framework. As Figure 1 shows, the independent variables X to be measured had been categorized into 9 sub-indices: Shareholders Rights and Equitable Treatment; Board of Directors; Directors Remuneration and Compensation; Director and Executive Education and Development; Disclosure and Transparency, Role of Stakeholders; Committees; and Progressive Policies and Practices. An extra category labeled ownership structure had also been included with four items to be measured similar to the items studied by Brown and Caylor (2004) who utilized the Gov-Score Index.

Figure 1 - Conceptual Framework



Source: Created by the author for this study

The first section of the study conceptual framework (Figure 1) includes 9 sub-indices that ultimately encompass firm-level corporate governance compliance, the independent mediator variable in this study.

The dependent variables represent both the firm value of listed companies as measured by Tobin Q and stock market performances of listed companies as measured by Total Return to Shareholders and Market Value Added.

What is represented in this framework is the general intent of the study in trying to understand either the existence of a positive or negative correlation between the dependent and independent variables or the absence thereof. The framework is designed to explore whether value creation can be detected after examining for firm-level Corporate Governance compliance has been considered.

In order to assess corporate governance compliance among SET 100-Index listed companies in Thailand, the study relies at first on data utilizing an Index based on the recommended practices of good governance as amended in 2006 by the SET. What was examined at this stage was the relationship between voluntary compliance to codes and recommended best practices of good governance with firm value and stock performance for the period 2006 - 2009.

The second stage is based on summarized results and findings to further assess the existence of a causal link between corporate governance compliance on Firm Value and Stock Market Performance. 2002 secondary data relevant to corporate governance results and provided by the SET was analyzed. 2002 was the first year publicly listed companies in Thailand disclosed compliance to the SET, after the codes of good corporate governance had been authorized for use. What was observed at this stage is whether the results, based on the extended number of years the study covers (separated into two periods, 2002 – 2005 and 2006 -2009), could make a strong case for causality.

In view of the study's research objectives, 33 research hypotheses have been established (see Appendix 1). Testing of the hypotheses was possible by way of a two-stage approach, whereupon 30 hypotheses were tested at the first

stage and 3 at the second one. The first hypothesis testing stage addressed the relationship, either positive or negative, between overall voluntary Corporate Governance compliance effects on firm value and stock market performance for the period 2006-2009. The relationships, again either positive or negative, between each Corporate Governance sub-indices with firm value and stock market performance were then tested. Furthermore, within this testing phase, it was also determined whether statistically positive and significant correlations could be observed between the Board of Directors' Corporate Governance compliance, Disclosure and Transparency, and Ownership Structure with firm value and stock market performance.

As to the second hypothesis-testing stage, the relationships first considered pertained to whether a statistical significant difference could be observed between influences of voluntary compliance to good Corporate Governance with firm value and stock market performance during two respective periods: 2002-2005 and 2006-2009. Also tested was whether an improvement could be observed for firm value and stock market performance after voluntary compliance to good Corporate Governance.

3. Research Methodology

Financial Information applicable to the study for the annual ending periods of 1999-2009 were collected from financial statements and annual reports provided by the Stock Exchange Commission (SEC), and the SET. Corporate Governance assessment scores for the first period of the study were obtained from the SET's Corporate Governance Center. For the second period of the study, an Index (Thai Gov-Index) has been constructed for measuring Corporate Governance compliance among listed companies. Data pertaining to this period of the study was collected from Corporate Governance reports publicized in company annual reports through the use of a Text Content Analysis approach. Reliability and Validity tests were conducted for this approach using two

independent coders. Final inter coder reliability was checked using the Pearson correlation coefficient; the result was 0.89. A concurrent triangulation strategy was adopted. Standard statistical tests included the Pearson correlation test, and a One-Way ANOVA test.

- Sample Selection Criteria

SET-100-Index-listed companies were selected from the 2009 third quarter Index. These companies were first screened for financial data availability over the 2000-2009 annual ending periods. Listed companies that did not have up-to-date published financial data were excluded from the study. The companies were then screened for Corporate Governance compliance disclosure for the first and second periods considered in this study. Based on information disclosure criteria, any SET-100-Index-listed company from the 2009 third quarter that had no Corporate Governance compliance disclosure in either of the first or second period of the study was also excluded. Out of the 100 listed companies, only 57 companies were therefore included, based on the qualifications that served the purpose of the study.

- Independent Variables

Corporate Governance scores obtained from the Corporate Governance Center were used for the first period of the study. In order to preserve some form of discretion over the use of the data provided, the scoring method for the first and second periods of the study was similar. That is, with reference to first period data, when a company showed full compliance or no compliance but provided reasons, a score of 1 was assigned. And if the company showed no compliance or did not disclose compliance, then a score of 0 was assigned. The total corporate governance compliance scores for this period of the study would therefore be equal to 67 and only this final result (converted to percentile)

was used to contribute to the analysis and

discussion, in line with certain proposed research questions. Corporate Governance for the first period of the study is represented as Tgov1.

As to the second period of the study, a standard approach was also adopted, assigning a code of 1 when a company had shown voluntary compliance (and 0 for non compliance) to any of the 100 proposed elementary factors of good corporate governance to be measured in the Thai Gov-Index. This approach presupposes that all elementary factors included in the Thai Gov-Index are important and should therefore be treated with equal significance (*for similar methodology, see* Gompers; Ishii et al. 2003; Brown and Caylor 2004). Thus, in theory, the Thai Gov-Index sum score should range from 0 to 100. The Thai Gov-Index was further divided into 9 sub-indices, consisting of elementary factors measuring Shareholder's Rights and Equitable Treatment, Board of Directors, Remuneration and Compensation, Director and Executive Education and Development, Disclosure and Transparency, Role of Stakeholders, Committees, Ownership Structure, and Progressive Policies and Practices. Corporate Governance for the second period of the study is represented as Tgov2.

- Dependent Variables

Financial Data was collected and compiled on an annual basis for the 2000- 2009 period. Since the study's proposed research questions encompassed two periods, financial data corresponding to these given periods of the study were used accordingly. Average results pertaining to Firm Value and Stock Market Performance for each period, specifically, 2003-2005 and 2007-2009, were used to offer further insight into some of the study's research questions that look at significant differences between the two periods. Table 1 presents the average values of the study's dependent variables given two periods.

Table 1

Average Values of the Study's Dependent Variables Given Two Periods

Variable	2003	2004	2005	Period 1 Average	2007	2008	2009	Period 2 Average
Tobin's Q	3.56	1.88	1.96	2.47	1.98	1.33	1.79	1.70
TRS	0.79	0.74	0.78	0.77	0.67	1.01	0.94	0.87
MVA	-47,15 0,613,3 00	-75,438, 446,608	11,168,1 35,584	-37,140, 308,108	-70,816, 359,788,	-124,73 3,960,38 9	-99,119, 681,656.	-98,223, 333,944

Source: created by the author for this study

For the first period of the study Firm Value, Total Returns to Shareholders, and Market Value added are represented as FirmQ1, FirmMva1, and FirmTrs1. The dependent Variables for the second period of the study are represented as FirmQ2, FirmMva2, and FirmTrs2. Average results for Tobin's Q, TRS, and MVA for the periods 2001-2002 and 2005-2006 were dropped when testing correlations between the independent and dependent variables in order to allow scope for a distinctive comparison between the first and second periods of the study, based on three-year annual average results.

4. Results and Discussion

Unexpected statistical results as compared to Kouwenberg's (2006) previous study were observed in this research in terms of Corporate Governance Compliance annual averages for Tobin's Q, Total Returns to Shareholders, and Market Value Added for the 2003- 2005 and 2007-2009 periods.

Correlations for Tgov2 with FirmQ2 (*H1*), FirmTrs2 (*H2*), and FirmMva2 (*H3*) are 0.097, 0.066 and -0.49 respectively. There is no significant correlation between the variables. However, Tgov2 with FirmQ2 and FirmTrs2 have a positive relationship for the second period of the study.

Furthermore, positive correlations were observed for 'Governance' compliance relating to Shareholders Rights and Equitable treatment with FirmQ2 (*H4*), FirmTrs2 (*H5*) and

FirmMva2 (*H6*). ‘Board of Directors’ shares one positive correlation with FirmQ2 (*H7*). Positive

correlations exist between ‘compliance relating to Remuneration and Compensation’ and FirmQ2 (*H10*) and FirmTrs2 (*H11*). As to ‘compliance relating to Director and Executive Education and Development’, positive correlations were found with FirmQ2 (*H13*), FirmTrs2 (*H14*), and FirmMva2 (*H15*). For ‘Disclosure and Transparency,’ only one positive correlation was observed; one with FirmTrs2 (*H17*).

Also, ‘Governance compliance relating to Roles of Stakeholders’ had positive correlations with FirmQ2 (*H19*), and FirmTrs2 (*H20*). For ‘compliance relating to Committees’ no positive correlation was observed with any of the dependent variables. ‘Ownership Structure compliance shows positive correlations with FirmTrs2 (*H26*) and FirmMva2 (*H28*). ‘Compliance relating to Progressive Policies and Practices showed positive correlations with FirmQ2 (*H28*) and FirmTrs2 (*H29*). No significant correlations were found between any of the Corporate Governance sub-indices and the study’s dependent variables.

Conducting a One-Way ANOVA statistical test also yielded unanticipated results. In terms of Corporate Governance compliance between the study’s two periods, the F ratio was 56.468, with a significance value of 0.000 (lesser than α 0.01). For Tobin’s Q, TRS, and MVA, F ratios were 2.261, 0.018, and 0.728 with significance values of 0.136, 0.893, and 0.379 respectively. There is no significant difference in means between the study’s dependent variables even though they were considered at two different periods as the significance values are greater than α 0.01 (*H31*).

The results of the statistical tests for the first period of the study implied that there exists no positive correlation between Corporate Governance compliance with Tobin’s Q and

TRS. Nonetheless there still is a positive correlation between Corporate Governance compliance with Firm MVA, though this

relationship is not significant. But a plausible assumption for this could be that given the specific period, Corporate Governance compliance can positively influence Firm MVA, taking into account other events and conditions occurring during the period.

On the other hand, the research findings for the second period of the study offer more of a relationship proposition between the variables. Even though no positive and significant correlation was observed for this period, there are positive correlations between Corporate Governance compliance with Tobin’s Q and Firm TRS. This finding suggests that, over time, prevalent Corporate Governance compliance could indeed improve Firm Value (*H32*) as well as positively influence TRS (*H33*).

In view of the role each Corporate Governance compliance sub-indices has in terms of influencing Firm Value and Stock Market Performance for the second period of the study, the correlation results provide further insights. On a positive correlation scale, compliance to Corporate Governance practices relating to Shareholder’s rights and equitable treatment and Remuneration and Compensation has higher positive correlation values with Firm Value, relative to the other seven Corporate Governance sub-indices. Also, Disclosure and Transparency as well as Progressive Policies and Practices show higher positive correlation values with Total Returns to Shareholders. As to the correlations between the 9 Corporate Governance sub-indices with Firm Market Value Added, Director and Executive Education and Development and Ownership Structure, they turned out to have higher positive associations with Firm Market Value Added.

In the course of this research’s literature review process, no previous study was discovered relating to the type of associations

that could ensue between firm-level Corporate Governance with TRS and MVA. This study's statistical results provide preliminary insight into this association.

Conclusions and Recommendations

With reference to the study's research objectives and findings, several conclusions can be drawn. Firstly, the SET 100 Index listed companies of Thailand that were observed between 2000 - 2009 have embedded Corporate Governance initiatives and mechanisms that exist at the firm level. These initiatives and mechanisms have evolved overtime to reflect compliance with national and international standards as recommended by the SET and the OECD respectively.

Secondly, having made use of the Comprehensive Value Metrics Framework by Koller et al. (2005) to address the relationship between the study independent and dependent variables, inferences can be made with regard to several aspects of this relationship. First, that firm-level Corporate Governance can serve as a value driver is to a certain extent justified by what the study findings infer, even though the findings of all positive associations appeared to be weak. Second, not only does the firm generate value for itself in the course of sustaining firm-level Corporate Governance, it also returns this value to its shareholders as governance mechanisms act as a dynamic force for firms to surpass the mark set by market expectations.

A third inference that can be made from this extended finding is that not all Corporate Governance mechanisms can have equal weight over the value-generating ability of firms. Based on the circumstances of the study, it can be deduced that all the mechanisms relevant to addressing the rights and equitable treatment of shareholders, education and development of a firm's directors/executives, remuneration and compensation practices, as well as disclosure and transparency policies, serve as superior catalysts (relative to other mechanisms) towards ensuring proper utilization of the capital

contributed to the firm by its investors or by capital markets.

It is also the author's suggestion that an extension of this study should include the other firms listed on the SET and excluded from the study, while at the same time maintaining the same observational timeline of the study so that all industry sectors can be fairly represented. This effort would provide for an enhanced understanding of the Corporate Governance practices among Thai listed companies that have yet to be unquestionably defined and understood. This would thereby allow effective development of policies or guidelines, and help to identify mechanisms that are fundamental to building effectively performing firms.

References

- Abor, J., & Biekpe, N. (2007). Corporate governance, ownership structure and performance of SMEs in Ghana: Implications for financing opportunities. *Corporate Governance*, 7 (3), 288-300. Retrieved November 15th, 2009 from <http://www.emeraldinsight.com/Insight/viewContentItem.do?jsessionid=AD841D2DD6D963FEDB9A8D866824D35?contentType=Article&contentId=1611297>.
- Alba, P., Claessens, S., and Djankov, S. (1998). *Thailand's Corporate Financing and Governance Structures: Impact on Firm's Competitiveness*. Paper presented at the conference on Thailand's Dynamic Economic Recovery and Competitiveness 20-21 May 1998 UNCC Session 3- Industrial Sector Competitiveness (I): Technology and Corporate Finance, Bangkok, Thailand. Retrieved September 15th, 2009 from <http://econ.tu.ac.th/class/archan/RANGSUN/MB%20663/MB%20663%20Readings/%E0%B9%93.%20%E0%B8%9A%E0%B8%A3%E0%B8%A3%E0%B8%A9%E0%B8%B1%E0%B8%97%E0%B8%A0%E0%B8%B4%E0%B8%9A%E0%B8%B2%E0%B8%A5/Corporate%20Governance/Thailand/Thailand's%20Corporate%20Financing%20and%20Governance%20Structures.pdf>.
- Allen, F., Carletti, E., and Marquez, R. (2007). *Stakeholder capitalisms, corporate governance and firm value* (Working Paper Series). United States of America: University of Pennsylvania and Arizona State University. Retrieved August 15th, 2009 from [http://www.eui.eu/Personal/Carletti/JF-MS6731 Revision corporate-governance-with-figures-16sep09-final.pdf](http://www.eui.eu/Personal/Carletti/JF-MS6731%20Revision%20corporate-governance-with-figures-16sep09-final.pdf).

- Beiner, S., Drobetz, W., Schmid, M.M., & Zimmerman, H. (2004). *An integrated framework of corporate governance and firm valuation: Evidence from Switzerland* (Finance Working Paper N°. 34/2004). Switzerland: European Corporate Governance Institute. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=489322.
- Berle, A.A. and Means, G.C. (1932). *The modern corporation and private property*. New York: Macmillan.
- Black, B.S., Love, I., Rachinsky, A. (2005). *Corporate governance and firm's market values: Time series evidence from Russia* (Working Paper No.FIN-0505). University of Texas: McCombs School of Business. Retrieved August 15th, 2009 from <http://ssrn.com/abstract=866988>.
- Brown, L.D., & Caylor, M.L. (2004). *Corporate governance and firm Performance* (Working Paper Series). United States of America: Georgia State University. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=586423.
- Carcello, J.V., Hollingsworth, C.W., Klein, A., and Neal, T.L. (2006). *Audit committee financial expertise, competing corporate governance mechanisms, and earnings management* (Working Paper). United States of America: University of Tennessee. Retrieved August 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=887512.
- Core, J.E., Guay, W.R., & Rusticus, T.O. (April, 2005). *Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations* (Working Paper Series). Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=533582.
- Drobetz, W., Schillhofer, A., & Zimmermann. (February, 2003). *Corporate governance and expected stock returns: Evidence from Germany* (Finance Working Paper No.11/2003). Germany: European Corporate Governance Institute. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=379102.
- Durnev, A., and Hankim, E. (2005). To steal or not to steal: Firm attributes, legal environment, and valuation. *The Journal of Finance*, 60(3), 1461-1493. Retrieved August 15th, 2009 from <http://people.mcgill.ca/files/artiom.durnev/steal.pdf>.
- Florackis, C. (2008). Agency costs and corporate governance mechanisms: Evidence from UK firms. *International Journal of Managerial Finance*, 4(1) 37-55. Retrieved August 15th, 2009 from www.emeraldinsight.com/1743-9132.htm.
- Gill, M. S., Vijay, T. S., & Jha, S. (January, 2009). Corporate governance mechanisms and firm performance: A survey of literature. *The Icfai University Journal of Corporate Governance*, 8 (1), 7-21. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1322362.
- Gompers, P., Ishii, J., & Metrick, A. (February, 2003). Corporate governance and equity prices. *The Quarterly Journal of Economics*, 118 (1), 107-155. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=278920.
- Hart, O. (1995a). Corporate governance: Some theory and implications. *The Economic Journal*, 105 (430) 678-689. Retrieved August 15th, 2009 from [http://www1.fee.uva.nl/fm/COURSES/1_multipart_xF8FF_3_Hart % 20EJ% 2095% 20Corp % 20Gov.pdf](http://www1.fee.uva.nl/fm/COURSES/1_multipart_xF8FF_3_Hart%20EJ%2095%20Corp%20Gov.pdf).
- Heath, J., and Norman, W. (2004). Stakeholder theory, corporate governance and public management: What can the history of state-run enterprises teach us in the post-Enron era? *Journal of Business Ethics*, 53, 247-265. Retrieved August 15th, 2009 from <http://www.springerlink.com/content/r7u0180368jh1165/>.
- Khanthavit, A., Polsiri, P., and Wiwattanakantang, Y. (2003). *Did families lose or gain control? Thai firms after the East Asian financial crisis* (CEI Working papers). Thailand: Thammasat University. Retrieved August 15th, 2009 from <http://hermes-ir.lib.hit-u.ac.jp/rs/bitstream/10086/13906/1/wp2003-1a.pdf>.
- Klapper, L.F., & Love, I. (April, 2002). *Corporate governance, investor protection, and performance in emerging markets* (World Bank Policy Research Working Paper 2818). United States of America: World Bank. Retrieved November 15th, 2009 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=303979.
- Koller, T., Goedhart, M., and Wessels, D. (2005). *Valuation: Measuring and managing the value of companies* (4th ed.). United States of America: John Wiley and Sons.
- Leblanc, R., & Gillies, J. (September/October, 2003). The coming revolution in corporate governance. *Ivey Business*

Journal, 68 (1), 1-12. Retrieved November 15th, 2009 from http://www.iveybusinessjournal.com/view_article.asp?IntArticle_ID=441.

Lee, W.K., Lev, B., and Yeo, G.H.H. (2007). Executive pay dispersion, corporate governance, and firm performance. *Review of Quantitative Financial Accounting*, 30, 315-338. Retrieved August 15th, 2009 from <http://www.springerlink.com/content/p910314738127r0x/>.

Letza, S., Kirkbride, J., Moores, J., Sun, X., and Smallman, C. (2008). Corporate governance theorizing: Limits, critics and alternatives. *International Journal of Law and Management*, 50 (1) 17-32. Retrieved August 15th, 2009 from www.emeraldinsight.com/1754-243X.htm.

Peralta, O.B. (2003). *Corporate governance and development finance institutions in Asia and the Pacific*. United States of America: Center for International Private Enterprise. Retrieved September 15th, 2009 from <http://www.cipe.org/pdf/publications/fs/peralta.pdf>.

Shleifer, A., Vishny, R. (1986). Large shareholders and corporate control. *Journal of Political Economy*, 4, 461-488

Turley, S., and Zaman, M. (2004). The corporate governance effects of audit committees. *Journal of Management and Governance*, 8, 305-332 . Retrieved August 15th, 2009 from <http://www.springerlink.com/content/k74422035g536n63/>.

Appendix 1

Stage 1	<i>Examines the relationship between voluntary compliance to codes and recommended best practices of good governance with firm value and stock performance for the period 2006 to 2009</i>
Research Hypothesis	Description
Hypothesis 1	Examines whether or not there is a positive relationship between overall voluntary compliance to good Corporate Governance with Tobin's Q.
Hypothesis 2	Examines whether or not there is a positive relationship between overall voluntary compliance to good Corporate Governance with Total Returns to Shareholders.
Hypothesis 3	Examines whether or not there is a positive relationship between overall voluntary compliance to good Corporate Governance with Market Value Added.
Hypothesis 4	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Shareholder's Rights and Equitable Treatment of shareholders with Tobin's Q.
Hypothesis 5	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Shareholder's Rights and Equitable Treatment with Total Returns to Shareholders.
Hypothesis 6	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Shareholder's Rights and Equitable Treatment of shareholders with Market Value Added.
Hypothesis 7	Examines whether or not there is a statistically positive and significant Relationship between voluntary compliance to good governance of Board of Directors with Tobin's Q.
Hypothesis 8	Examines whether or not there is a statistically positive and significant Relationship between voluntary compliance to good governance of Board of Directors with Total Returns to Shareholders.
Hypothesis 9	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Board of Directors with Market Value Added.
Hypothesis 10	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Remuneration and Compensation with Tobin's Q.
Hypothesis 11	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Remuneration and Compensation with Total

	Returns to Shareholders.
Hypothesis 12	Examines whether or not there is a positive relationship between voluntary Compliance to good governance of Remuneration and Compensation with Market Value Added.
Hypothesis 13	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Director/Executive Education and Development with Tobin's Q.
Hypothesis 14	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Director/Executive Education and Development with Total Returns to Shareholders.
Hypothesis 15	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Director/Executive Education and Development with Market Value Added.
Hypothesis 16	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Disclosure and Transparency with Tobin's Q.
Hypothesis 17	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Disclosure and Transparency with Total Returns to Shareholders.
Hypothesis 18	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Disclosure and Transparency with Market Value Added.
Hypothesis 19	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Role of Stakeholders with Tobin's Q.
Hypothesis 20	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Role of Stakeholders with Total Returns to Shareholders.
Hypothesis 21	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Role of Stakeholders with Market Value Added.
Hypothesis 22	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Committees with Tobin's Q.
Hypothesis 23	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Committees with Total Returns to Shareholders.
Hypothesis 24	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Committees with Market Value Added.
Hypothesis 25	Examines whether or not there is a statistically positive and significant Relationship between voluntary compliance to good governance of Ownership Structure with Tobin's Q.
Hypothesis 26	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Ownership Structure with Total Returns to Shareholders.
Hypothesis 27	Examines whether or not there is a statistically positive and significant relationship between voluntary compliance to good governance of Ownership Structure with Market Value Added.
Hypothesis 28	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Progressive Policies and Practice with Tobin's Q.
Hypothesis 29	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Progressive Policies and Practices with Total Returns to Shareholders.
Hypothesis 30	Examines whether or not there is a positive relationship between voluntary compliance to good governance of Progressive Policies and Practices with Market

	Value Added.
Stage 2	<i>The second stage of the study relies on summarized results and findings from 2002-2005 and 2006-2009 to further assess the existence of a causal link between corporate governance compliance on Firm Value and Stock Market Performance</i>
Research Hypothesis	Description
Hypothesis 31	Examines whether or not there is a statistically significant difference between influences of voluntary compliance to good Corporate Governance with Firm Value and Stock Market Performance given two different periods (2002 to 2005, and 2006 to 2009).
Hypothesis 32	Examines whether or not there is an improvement in Firm Value after voluntary compliance of good Corporate Governance.
Hypothesis 33	Examines whether or not there is an improvement in Stock Market Performance after voluntary compliance of good Corporate Governance.