

# The Influence of the Shareholding Structure on Economic Performance through Good Corporate Governance of Listed Companies in the Stock Exchange of Thailand

**Senee Puangyanee<sup>a</sup>, Piriya Yaowapanee<sup>b</sup>, Krisakorn Duangsawang<sup>c</sup>, Kittisak Jermittiparsert<sup>d\*</sup>**, <sup>a</sup>Faculty of Business Administration and Information Technology, Rajamangala University of Technology Suvarnabhumi, Thailand, <sup>b</sup>IT Department, Webster University, Thailand, <sup>c</sup>PTT Public Company Limited Bangkok, Thailand, <sup>d</sup>Social Research Institute, Chulalongkorn University, Thailand, E-mail: <sup>a</sup>[Seneermutsb@hotmail.com](mailto:Seneermutsb@hotmail.com), <sup>b</sup>[ypiriya@gmail.com](mailto:ypiriya@gmail.com), <sup>c</sup>[krisakorn.d@pttplc.com](mailto:krisakorn.d@pttplc.com), <sup>d\*</sup> Corresponding author: [kittisak.j@chula.ac.th](mailto:kittisak.j@chula.ac.th)

This research aims to investigate the influence of shareholding structure on economic performance through good corporate governance of listed companies in the Stock Exchange of Thailand. This research studied the concentration of the top 10 shareholding ratios, change in reporting patterns, good corporate governance data by CGCODE guidelines, and economic performance of 200 listed companies in the Stock Exchange of Thailand. The structural equation model was used as the research method. The results of this research indicated that an indirect influence of the shareholding structure on Economic Value Added (EVA) through good corporate governance report was not found. However, a positively direct influence of the shareholding structure on good corporate governance (CGCODE) was found with a statistical significance level of 0.5, with an influence coefficient of 0.04. In addition, good corporate governance (CGCODE) report has a direct influence on Economic Value Added (EVA) with a statistical significance level of .05 with the influence coefficient of 0.06. Therefore, it could be concluded that when the company has a more concentrated shareholding structure, the company will increase the strictness of good corporate governance. The company with good corporate governance can improve its economic

performance as well. The increase in the said ratio can attract more investors to invest in the company as well.

**Key words:** *Shareholding Structure, Good Corporate Governance, Economic Performance.*

## **Introduction**

At present, Thai society and the world society are constantly changing. Social, economic, and political dimensions — including communication and technology — belong to the eras of economic systems, distributed knowledgebase, and use of knowledge to be the key driver to push economic growth efficiently and sustainably. For this reason, knowledge is an important basis for today's competitiveness in the world society. The advantage of competing in the economic world is to achieve innovativeness and fast change, compared to knowledge-based economy and its elements, including innovation and technological change, human resources development, technology, and transportation and economic environment (Sinlarat, (2007. The Thai capital market has developed good corporate governance to strengthen the confidence of investors continuously. However, at present, companies listed on the Stock Exchange of Thailand still face increasing challenges. Including in terms of generating returns for the business amid changes in the environment, technology, including expectations, social and environmental responsibility.

While some listed companies still view that CG/ESG is a separate element from business operations and an additional cost. Therefore, the board of directors — as the leader responsible for business operations — must ensure that the company has a mechanism supporting the decisions and operations of everyone in the organisation in the same direction, to enable growth and create value for the business along with stakeholders and society as a whole. In 2017, the Stock Exchange of Thailand issued "Corporate Governance Code for Listed Companies 2017" as the practice supporting the board of listed companies (Self-Discipline) to create a good corporate governance mechanism. Under the effective application of CG, CG Code is for the corporate benefit itself. The shareholders, customers, and related parties will gain benefit together. Most of the content of this CG Code is taken from the principles of good corporate governance for listed companies in 2012. It only adjusts the order of the method of a presentation by the context of the board's performance in each business process, including adding new issues to cover the concepts or factors that have changed.

With economic, social, and political changes, every organisation must adjust itself for survival and continuous development. These changes are the challenges for organisations, causing operational constraints, which will inevitably affect the competitiveness. They are



also important factors that lead to new competitive advantages. Therefore, this depends on the ability to learn of personnel in the organisation. If personnel have a faster learning process, the organisation can strengthen its competitiveness and organisational development (Kerzman, 2015). Therefore, conceptual style is another important component of the learning organisation to develop human resources inside and outside the organisation. This enables organisation personnel to gain knowledge and abilities to cope with changes that occur all the time. The personnel in the organisation must have knowledge, be capable, and highly skilled by striving to develop themselves to increase knowledge and skills continuously through a lifelong learning process (Senge, 1990). The concept of developing this learning organisation will range from the individual level to the organisational level, and goals and a system are needed to develop leaders and personnel in the organisation by promoting and enhancing learning to achieve concrete results.

Corporate governance is a topic that gains increasing attention from domestic and international investors because good corporate governance will drive the company to operate professionally, transparently, with international standards and to be accepted by all shareholders and stakeholders. Increasing the company's operational performance will lead to increasing firm value. Prior research on good corporate governance revealed that corporate governance factors based on the roles, duties, and structure of the committee have gained greater attention, including board size or the proportion of independent directors. In addition, another factor that affects the business is the proportion of shareholders' structure or ownership structure. The shareholding structure of most businesses in Thailand is characterised by concentration. Most business operations start with the characteristics of being a family of founders, often as individuals, and the power to manage the work can be maintained by being a major shareholder. The Board of Directors — with a high shareholding ratio — has the power to use their influence to supervise executives to create value for their needs (Harinanon, 2017), and the relationship of corporate governance affects the decision of institutional investors, and returns from institutional investors affects the business value. The sample of this study consisted of companies listed on the Stock Exchange of Thailand between 2013-2014. The results of the study revealed that businesses with good corporate governance would be able to attract institutional investors to invest more in the business significantly and having a higher proportion of institutional investors will create the business return, enhancing firm value as well (Intachaiwong, 2013; Pasopa, 2018; Phoprachak, 2018; Tunpornchai & Hensawang, 2018).

From studying the relationship between corporate governance and the operating results of both domestic and international companies in most cases, the study found that corporate governance has a direct relationship with the performance. Corporate governance factors and the relationship between corporate governance and performance have been studied by the corporate governance index in the UK (Klapper & Love, 2004).



By using the corporate governance rating, organised by Credit Lyonnais Securities Asia (CLSA), it was found that corporate governance will result in good operating results that measure values from Return on Assets (ROA) and result in higher firm value.

In Thailand, in the year 2006, it was found that corporate governance in the structure of the board of directors consisted of the size of the board, proportion of non-executive directors, proportion of shares held by the top five major shareholders, shareholding ratio of the company's executive directors, and the merger of the president and the chairman that are related to the performance measured by Return on Assets (ROA) and Return on Equity (ROE). Therefore, to clarify the relationship between corporate governance in the perspective of the board structure and the operating results of the business, the study focuses on investigating listed companies in the Stock Exchange of Thailand when the Stock Exchange of Thailand revised the guidelines for good corporate governance. Furthermore, to consider whether the results of the study are consistent with the results of past studies, and to confirm that good corporate governance still reflects good relationships with the company's performance. This study will collect data from the good corporate governance report in 2016 — which is also a report of data by the guidelines for reporting good corporate governance data for the year 2012 — and then synthesise information to classify them by CG CODE reporting guidelines for all eight practices.

### ***Research Objectives***

To study the influence of concentration of shares, and the size of the report on good corporate governance data after being reported to the public on the future economic performance of listed companies in the Stock Exchange of Thailand.

### **Literature review**

#### ***Corporate Governance (CG)***

Applying good corporate governance processes to enable executives to perform their assigned duties for the company's maximum benefit is supported by Agency Theory (Jensen & Meckling, 1976) and Stakeholder Theory (Freeman, 1984).

Regarding good corporate governance, the Corporate Governance Assessment Score is a key measure that signals to investors in making investment decisions in the company with good corporate governance or trying to avoid the company that has followed some good corporate governance principles to reduce the risk of investment. As shown in the scandal, the Enron company and the WorldCom company window dressed their financial statements and had executives with fraudulent behaviour.



The concept of corporate governance for public limited companies are involved, based on the theory of jurisprudence and economics, which is caused by the separation between ownership and control. This leads to the relationship of the agent, and the agent with a different definition of corporate governance as follows:

The Organization for Economic Cooperation and Development (OECD) defines good corporate governance as a "Supervision and control system by separating the rights and duties of other stakeholders, whether they are board members, executives, shareholders or other stakeholders by setting rules and practice methods to use to make decisions in various cases by adhering to the business objectives." The Stock Exchange of Thailand defines good corporate governance or corporate governance as "A system that provides the structure and process of the relationship between the board, management and shareholders to create competitiveness leading to growth and added value to shareholders in the long term taking into account those who have other disadvantages."

The National Corporate Governance Committee has given the meaning of corporate governance as follows: 1. It is a relationship between the board of directors, management, shareholders, and stakeholders in determining the direction and monitor the performance of the company; 2. It is a structure and process inside held to ensure that the Board of Directors can evaluate the management's performance the company straightforward and effective; 3. Systems that provide leadership processes and structures and control the business to be responsible for their duties with transparency and competitiveness to maintain capital and add value to shareholders in the long term within the framework good ethics by taking into account other stakeholders and society as a whole.

Therefore, corporate governance means the system used to control and inspect executive's transparency and credibility for investors, as well as make it fair for other stakeholders and affect the value added to the business.

The Stock Exchange of Thailand focuses on good corporate governance and continuously promotes it by applying the principles of the Organization for Economic Cooperation and Development (OECD Principles of Corporate Governance, 2004) to define the principles of good corporate governance for listed companies. They are divided into five categories: Section 1 Rights of shareholders; Section 2 Equitable Treatment of Shareholders; Section 3 Role of stakeholders in governance; Section 4 Disclosure and transparency; and Section 5 Responsibilities of the Board.

CG Code has set the eight principles regarding the responsibilities of the board as follows:

Principle 1: Establish Clear Leadership Role and Responsibilities of the Board

Principle 2: Define Objectives that Promote Sustainable Value Creation



Principle 3: Strengthen Board Effectiveness

Principle 4: Ensure Effective CEO and People Management

Principle 5: Nurture Innovation and Responsible Business

Principle 6: Strengthen Effective Risk Management and Internal Control

Principle 7: Ensure Disclosure and Financial Integrity

Principle 8: Ensure Engagement and Communication with Shareholders

Compliance to CG Code is based on the ‘Apply or Explain’ approach. For example, boards of directors adopt the practices in Part 1 to apply as appropriate to the context of their business organisations. Part 2 is all about practical guidelines and explanation for compliance to the practices in Part 1. Boards of directors may use other practices that can accomplish intention as specified in the code, if they are more appropriate by noting reason for those practices accordingly. Compliance to the Apply or Explain approach is different from ‘Comply or Explain’, as it allows boards of directors to use their discretion to consider the code for application to fit the regulations of agencies they supervise. Boards of directors should consider and review the appropriateness of employing CG Code for application, at least once a year. They should note the consideration as part of their resolution and disclose with a confirmatory statement in the annual report and annual registration statement (Form 56-1) that the board of directors made consideration and revision of adoption of practices in CG Code to apply in accordance with the context of business organisations.

### ***Ownership Structure***

Shareholders — owner of a company or owner of capital investment in a business — comprise various groups of people, such as major shareholders who have a high proportion of capital investment. They are considered persons with executive power in business administration and supervision. Being boards of directors and executives or assigning their representatives to be boards of directors to appoint executives to supervise and operate the business, plays an important role in making decisions on various matters of the company (Boonrod, 2015; Phoprachak, 2018). The study results showed that ownership structure had a positive relationship with selecting BIG 4 auditors with a statistical significance. For example, a company in which its top 10 shareholders had the largest proportion of shareholding, had the potential to select auditors from the BIG 4 group. Similarly, Kerdman (2015) studied the relationship between corporate governance and the return on securities and enterprise value of listed companies on the SET and found that ownership structure of company executives was significantly related in the same direction with return on securities. Intachaiwong (2013) studied the effect of corporate governance on corporate operation performance: a case study of companies listed on the SET, and found that shareholding proportion of common stock of minor shareholders had no relationship with return on common equity. This was attributable to the company’s high shareholding proportion of

minor shareholders, resulting in the fluctuation of stocks and reduced investors' motivation. Prathumsri (2014) studied the relationship between corporate governance and the disclosure of operation information of companies listed on the SET and found that proportion of family shareholding was not related to levels of operation information disclosure.

***An application of Economic Value Added (EVA) to measure firm performance***

Measuring performance is an important issue for conducting a business in today's world. However, performance measured by using financial ratio in a financial statement probably cannot interpret the actual performance of the business, since the figures in a financial statement are from past information. Therefore, a concept was reflecting the wealth of shareholders by Stern Stewart & Co. (2000). It was a technique in measuring firm performance to indicate whether a business was creating higher economic value than invested capital or not. This can be calculated from the below equation.

$$EVA = NOPAT - (\text{Capital Charged})$$

EVA = Economic Value Added

Net Operating profit After Tax (NOPAT) = Operating profit before interest and tax multiplied by (1 - tax rate)

In the case that a calculated EVA is positive, it means that Net Operating profit After Tax (NOPAT) is higher than capital charged, indicating that a firm is adding value to its shareholders. In contrast, in the case that a calculated EVA is negative, it means that Net Operating profit After Tax (NOPAT) is lower than capital charged, indicating that shareholders' value or security shall be decreased. Therefore, it can be said that Economic Value Added (EVA) is another tool for clearly measuring the firm performance.

***Good corporate governance has influence on firm performance***

To consider if the adoption of good corporate governance of companies listed on the SET to the management has effect on business operation, the summary of previous research can be shown clearly. Previous studies used different corporate governance evaluation forms through evaluation scores to measure, and it was found that good corporate governance had positive influence on firm operation (Cheung et al., 2007; Amman et al., 2011; Price et al., 2011; Connelly et al., 2012; Jermsittiparsert et al., 2019; Chatchawanchanchanakij et al., 2019).

**Table 1:** Summary of the literature review on the relationship between corporate governance code and related variables

| Researcher | Research title | Variables | Relationship results |
|------------|----------------|-----------|----------------------|
|------------|----------------|-----------|----------------------|

|                         |  |  |   |
|-------------------------|--|--|---|
| Haniffa & Hudaib (2006) | The relationship between corporate governance and performance of listed companies in the Kuala Lumpur Stock Exchange | <ol style="list-style-type: none"> <li>1. Board size</li> <li>2. Proportion of Non-Executive Directors</li> <li>3. Merged position of managing director and president</li> <li>4. Proportion of directors holding numerous directorships</li> <li>5. Proportion of shares held by the five largest individual shareholders</li> <li>6. Proportion of shares held by executive directors</li> </ol> | <p>Positively related</p> <p>Unrelated</p> <p>Negatively related</p> <p>Unrelated</p> <p>Positively related</p> <p>Negatively related</p> |
| Beiner et al. (2004)    | The relationship between corporate governance and performance of listed companies in Swiss Stock Exchange            | <ol style="list-style-type: none"> <li>1. Board size</li> <li>2. Proportion of independent directors in the board</li> <li>3. Ownership structure</li> <li>4. Leverage</li> </ol>  | <p>Unrelated</p> <p>Unrelated</p> <p>Positively related</p> <p>Unrelated</p>  |
| Pham et al. (2007)      | The relationship between corporate governance and firm performance   | <ol style="list-style-type: none"> <li>1. Independence structure of directors and board size</li> <li>2. Proportion of internal shareholders</li> <li>3. Proportion of external shareholders</li> </ol>  | <p>Unrelated</p> <p>Unrelated</p> <p>Unrelated</p>  |
| Muiching et al. (2013)  | Corporate Governance Quality and CSR Disclosures   | <ol style="list-style-type: none"> <li>1. Reporting</li> <li>2. Firm size</li> <li>3. Industry type</li> <li>4. Management structure</li> </ol>  | <p>Unrelated</p> <p>Positively related</p> <p>Unrelated</p> <p>Positively related</p>   |
| Puangyane (2018)        | The Influence of Board Independence on Ability to Operate and Capital Structure through Corporate                    | <ol style="list-style-type: none"> <li>1. Ownership structure</li> <li>2. Corporate governance disclosure</li> </ol>   | <p>Positively related</p> <p>Positively related</p>   |

|  |   |  |  |
|--|---|--|--|
|  | Governance Disclosure of Companies Listed on The Stock Exchange of Thailand |  |  |
|--|---|--|--|

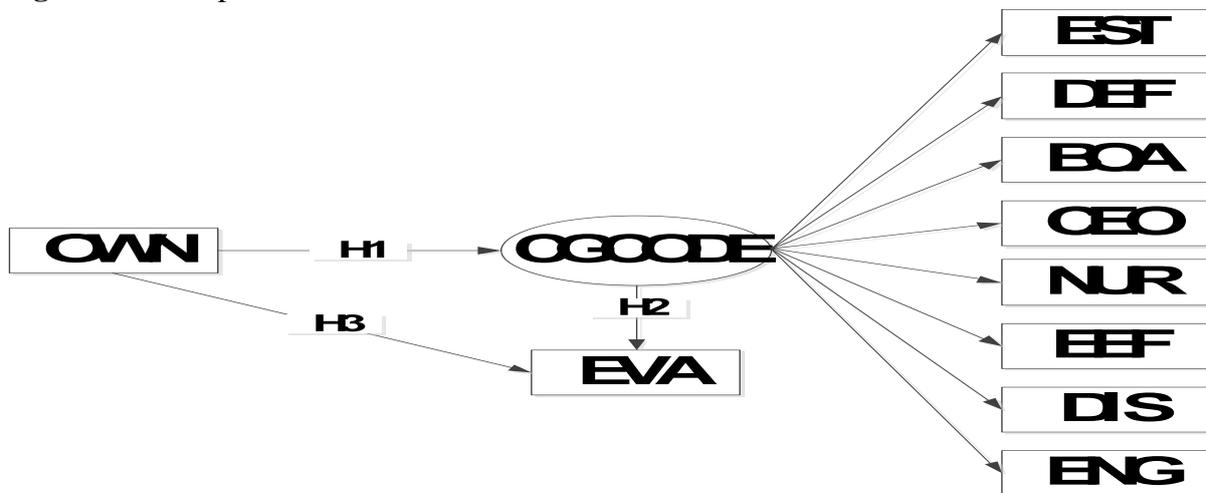
Based on the literature review mentioned above, the researcher could set the research hypotheses as follows:

H1: Ownership structure has a direct positive influence on CGCODE-based corporate governance reporting.

H2: CGCODE-based corporate governance reporting has a direct positive influence on the economic value added.

H3: Ownership structure has a direct positive influence on economic value added.

**Figure 1.** Conceptual framework



**Table 2:** Variable Abbreviation and Indicators

| Variables   | Adopt  | Types of variable |
|---|--------|-------------------|
| Ownership structure   | OWN    | Observed variable |
| Corporate governance  | CGCODE | Latent variable   |
| Establish Clear Leadership Role and Responsibilities of the Board | EST    | Observed variable |
| Define Objectives that Promote Sustainable Value Creation         | DEF    | Observed variable |
| Strengthen Board Effectiveness                                    | BOA    | Observed variable |



|   |     |                   |
|---|-----|-------------------|
| Ensure Effective CEO and People Management                | CEO | Observed variable |
| Nurture Innovation and Responsible Business               | NUR | Observed variable |
| Strengthen Effective Risk Management and Internal Control | EEF | Observed variable |
| Ensure Disclosure and Financial Integrity                 | DIS | Observed variable |
| Ensure Engagement and Communication with Shareholders     | ENG | Observed variable |
| Economic Value Added                                      | EVA | Observed variable |

## **Methodology**

### ***Population and sample***

Population in this research are companies in the Stock Exchange of Thailand. The researcher collected annual data for 2017, with a total of 530 companies per year (as of January 10, 2018). Such numbers do not include businesses in the market for MAI, because companies in these groups cannot specify the objectives of the fundraising. Therefore, it may affect the reporting of good corporate governance information, which will affect the data analysis (Booth et al. 2000; Sukcharoensin, 2003).

Structural equation model (SEM) was used to provide parameters from the reliability of analytic results. The sample size was determined by the method of Hair et al. (1998), suggesting that the appropriate sample size is in the range of 100-200 samples. Therefore, this sample size of 530 is appropriate and consistent with the theory.

### ***Research design***

The researcher studied the concepts, theories, and related research results to define the operational definition and structure of the variables to be studied according to the conceptual framework of the research. This leads to the measurement of the level of reporting of good corporate governance information for measuring statistics, disclosure of good corporate governance by checking the information from the annual list (Form 1-56), annual financial statements, Notes to financial statements and good corporate governance report in the accounting period 2017-2018 to calculate the score of the level of good corporate governance report data.

### ***Data Collection***

The researcher recorded the statistics of good corporate governance data of various companies in the industry being studied by using paper to measure the report good corporate governance information. A company disclosing one good corporate governance issue will

receive a score equal to one point. The researcher then recorded the overall disclosure of good corporate governance information and summarised the statistics of good corporate governance information disclosure on an individual basis. However, if the company does not disclose good corporate governance information on various issues, it will get a score equal to zero. If the information disclosed is related to the presentation of good corporate governance information by the guidelines for good corporate governance information of the Stock Exchange of Thailand (SEC), but the information is not relevant to the company, N/A (Not Applicable) shall be applied.

### *The statistics used to analyse data*

The Multidimensional Structural Equation Model was used to analyse the pattern of influence of shareholding and good corporate governance on the economic performance of companies listed on the Stock Exchange of Thailand. The Structural Equation Model was used with statistical software with the Multiple Indicators and Multiple Causes (MIMIC) Model. The researcher used this model because the structural equation model has a distinctive internal relationship estimation and multivariate relationships.

## **Results**

### *Validation of Measurement Model*

Measurement model analysis results by confirmatory component analysis of CG variables found that the model is consistent with empirical data, after adjusting the model without cutting any indicators from the measurement model. It obtained the Chi-square test statistic equal to 17.97, statistical probability (p) equal to 0.26, the RMSEA value is 0.03, SRMR value is 0.01, the GFI is 0.98, the CFI is 0.98, and the AGFI is 0.95. In other words, CGCODE consists of the 8 elements EST, DEF, BOA, CEO, NUR, EFF, DIS and ENG, where ENG elements are the most important variable, followed by NUR, BOA, EFF, EST, CEO, DIS, and DEF respectively.

**Table 3:** Confirmatory factor analysis

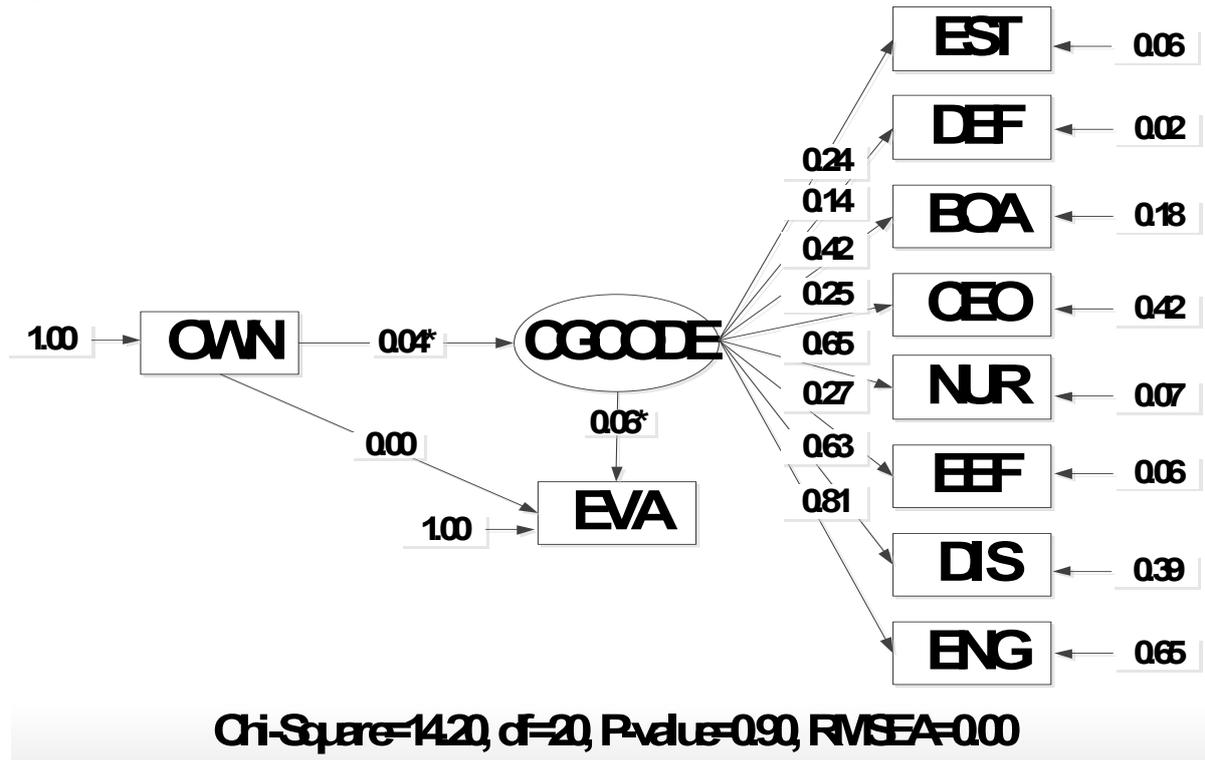
| Variable | Factor |      |      | R <sup>2</sup> |
|----------|--------|------|------|----------------|
|          | b      | SE   | t    |                |
| EST      | 0.33   | -    | -    | 0.31           |
| DEF      | 0.16   | 0.20 | 1.04 | 0.08           |
| BOA      | 0.42   | 0.38 | 2.33 | 0.14           |
| CEO      | 0.29   | 0.40 | 2.24 | 0.25           |
| NUR      | 0.50   | 0.50 | 3.42 | 0.08           |
| EEF      | 0.37   | 0.35 | 2.12 | 0.18           |
| DIS      | 0.27   | 0.41 | 3.43 | 0.03           |

|  |      |      |      |      |
|--|------|------|------|------|
| ENG  | 0.55 | 0.45 | 2.22 | 0.11 |
| $\chi^2 = 17.97, df = 15, p\text{-value} = 0.26, RMSEA = 0.03$ |      |      |      |      |

Note:  $|t| > 1.96$  refers to  $p < .05$ ;  $|t| > 2.58$  refers to  $p < .01$

*Path analysis model*

**Figure 2.** Path analysis after model adjustment



**Table 4:** Path analysis results

| Dependent variable<br>Independent variable | CGCODE          |                 |    | EVA             |                 |                 |
|--|-----------------|-----------------|----|-----------------|-----------------|-----------------|
|  | TE              | DE              | IE | TE              | DE              | IE              |
| OWN  | 0.04*<br>(0.30) | 0.04*<br>(0.30) | -  | 0.00<br>(0.01)  | 0.00<br>(0.01)  | 0.00<br>(0.01)- |
| CGCODE                                     |                 |                 | -  | 0.06*<br>(0.01) | 0.06*<br>(0.01) |                 |

$\chi^2 = 14.20, \chi^2/df = 0.71, df = 20, p\text{-value} = 0.90, RMSEA = 0.00$

Note:  $p < .05$ ;  $p < .01$ ;  $p < .001$

The results of testing the alignment of causal relationship model of the ownership structure influencing corporate governance code (CGCODE) and economic value added indicated as follows: listed companies in the Stock Exchange of Thailand showed that the model was consistent with the empirical data; Chi-Square statistic was 14.20, probability (p) was 0.90,

degree of freedom (df) was 20,  $\chi^2/2$  was 0.71, RMSEA was 0.00, SRMR was 0.01, GFI is 1.00, CFI was 1.00 and AGFI was 0.96.

Ownership structure (OWN) had a positive direct influence on corporate governance code (CGCODE) with a statistical significance level of 0.05, with an influence coefficient of 0.04; however, it had no direct and indirect influence on economic value added (EVA). Corporate governance code (CGCODE) variable had a positive direct influence on economic value added (EVA) with a statistically significant level of 0.05, with an influence coefficient of 0.06.

## **Discussion and Conclusion**

The study concerning the relationship of ownership structure affecting corporate governance (CG CODE) and economic operation performance of listed companies on the SET, showed that ownership structure has positive influence on corporate governance (CGCODE). Namely, when companies have an increase in concentrated ownership structure, the companies shall strictly improve corporate governance. It is consistent with the study result of Martin et al. (2016) showing that when a group of shareholders strongly gather together, and a group of board of directors is full of diversified qualifications, it brings about efficient management. The study of Emma et al. (2013) found a significant positive relationship between independence of boards of directors and operation performance. Such of this relationship is also indicated in this study as well. Furthermore, this study also found that corporate governance (CGCODE) had influence on economic value added (EVA). Similarly, John et al., (2015) found a significant positive relationship between the size of boards of directors and operational performance. Therefore, supervising agencies, shareholders, and investors can consider and apply these results to gain more understandings about the influence on economic value added based on the empirical evidence found in this research.

## **Recommendations**

The recommendations of this study could be divided into two parts as follows:

### **1. Practical recommendations**

The disclosure of good corporate governance (CGCODE) is a study from the annual report where annual registration statement (Form 1-56), financial statements and notes to the financial statements of the company are disclosed only to public information.



## **2. Recommendations for further research**

1. For further study, the research should be extended to cover other variables and different contexts and standards of reporting. Other effects can be studied from remuneration paid to boards of directors, experience of boards of directors or the size of business.
2. In relation to levels of corporate governance information disclosure, qualitative study should be conducted for further study. For example, numbers of activities or cost of expenses on activities.
3. Further study should be conducted by expanding the studying period to prove study results regarding consistency and difference of duration of times used in this study. Further study should be conducted when no political change happens for making additional analysis and comparison.



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