

# The Association between Board of Directors' Characteristics and Firm Performance: Empirical Evidence from Emerging Market of Thailand

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*This research work examines the association between board of director's characteristics and the performance of listed firms in the Stock Exchange of Thailand (SET) during 2010 and 2011. The measures of performance under investigation consist of return on assets (ROA) and Tobin's Q. The study results indicate an inverse relation between the CEO duality characteristic and both ROA and Tobin's Q, implying that firms with CEO duality likely have lower performance. However, the board composition positively correlates with firms' ROA, indicating that firms with higher proportion of independent directors produce higher return on assets. In addition, higher Tobin's Q is detected in firms with the existence of nomination and/or remuneration committee. The findings of this research study which focuses on the emerging market of Thailand are consistent with prior studies of developed markets in that firms in both markets have accrued benefits of improved performance following the implementation of corporate governance mechanisms despite the implementation costs incurred.*

## INTRODUCTION

Corporate governance is seen as one of the most important issues which arise due to the collapse of Enron and WorldCom and the East Asian financial crisis in the year 1997. It is receiving increase attention because of the inherent weaknesses in financial reporting exposed during the economic turmoil and financial crisis. Mandatory requirements that all companies must have audit committees have directly affected the accounting development of many countries in the world. Agency problems and information asymmetry occur due to the separation of principal and agent. A number of agency problems associated with the opportunities or the self-interest of agent exist. For instance, the managers manage the earnings to maximize their own benefits because the compensation is determined by the earnings, which makes the principal and the companies worse-off. Moreover, the agent can also take advantage of information asymmetry, the situation where the principal and agent have access to the different levels of information. This means that the principal is at a disadvantage as the agent will have more information. Agency theory views that agency problems and information asymmetry are minimized by corporate governance mechanisms. In addition, corporate governance has also paved the way for management and organization to focus more on transparency and disclosure of information. Good corporate governance is also a useful tool to prevent management misconduct as well as to protect the interest of stakeholders of the company. Hence, it will lead to an increase of the shareholders' wealth.

The role of corporate governance in Thailand and abroad has become increasingly important to investors and executives, especially companies in Thailand which need to attract funding from investors in order to expand and grow. Even before investors make decision to invest in any business, the investors

want to be sure that the business has a good financial performance and can continue operating on the going concern basis. Corporate governance is an important step to build market confidence and encourage more stable, long-term international investment flows (OECD, 1999: 26). To respond to the efficient allocation of capital in the international financial market, the Stock Exchange of Thailand (SET) has actively promoted corporate governance principles. Moreover, the general provision of the OECD Principles of Corporate Governance published in 1999 are provided as a general framework for countries and corporations worldwide. Several studies have indicated that both international and domestic investors are willing to pay a premium for companies with good corporate governance ratings. It is therefore expected that many companies will emphasize implementing good corporate governance values as corporations vie for investors' attention. Besides, the firms with good corporate governance will be charged the lower rate of cost of capital as the less risky firms.

This study intends to investigate the relationship between corporate governance mechanisms i.e. characteristics of board and characteristics of audit committee and firms' performance in terms of return on assets (ROA) and Tobin'Q. Our inquiry is motivated by the mixed evidence on studies of corporate governance and firm performance by using the listed firms in the Stock Exchange of Thailand—emerging market which has different conditions from the developed market. This study will provide expanded evidence on the performance the effects of the characteristics of board of directors have. This study will encourage stakeholders—shareholders and creditors alike—to pay more attention to the characteristics of directors when exercising their voting powers in the selection of directors and approval of credit lines.

## **THEORY, LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **Agency Theory**

Agency theory is widely taught in management schools and is derived from the financial economics literatures. This theory postulates that the firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen & Meckling, 1976)

Agency problems come from the divergences of interests between shareholders and managers and result in a loss of value to shareholders. Agency problems are classified as follows:

1. Moral hazard – Managers consume for private benefits rather than investing.
2. Earnings retention – Managers' benefits increase with firm size, thus they will focus only on benefits from firm size and not benefits from returns.
3. Time horizon – Managers are concerned only during the period of their current employment; this may lead to manipulation of the accounting system and preference for short-term projects to long-term projects with higher net present value.
4. Risk aversion – Managers will attempt to reduce their personal exposure to risk. They will encourage corporate diversification and preference of lower-than-optimum levels of company debts.

This theory is also based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by agents (Adams, 1994). It also assumes that principals and agents act rationally and use the contracting process to maximize their wealth. Asymmetry of information can decrease shareholder value.

The principal can minimize agency problem and information asymmetry by incurring monitoring costs and bonding costs to curb the agent's self-serving behavior (Farinha, 2003). Monitoring costs are the expenditures to measure, observe and control an agent's behavior, such as auditing fees, executive compensation package designing and drafting fees, and ultimately firing managers. Bonding costs are the cost of setting up structures that will see managers act in the shareholder's best interest such as excessive management compensation and the cost of additional information disclosures to shareholders (McColgan, 2001).

Agency problem and information asymmetry can be solved by the corporate governance mechanisms. Corporate governance mechanisms are necessary if agency problems exist and contracts are incomplete (Hart, 1995). Moreover, there are associations between corporate governance mechanisms and either the extent of the asymmetry information or contracting imperfections that firms face (Klapper and Love, 2004).

In addition, firms with better corporate governance mechanisms are firms with better performance because firms minimize the chance of having managers engage in earnings management. Besides, as a result of investors and debtors perceiving well-governed firms as less risky, they expect a low expected rate of return and charge a low cost of debts. This leads to the higher firm financial-based and market-based performances. Thus, if the investors and debtors perceive that corporate governance is beneficial, a positive relationship between corporate governance and firms performance can be expected.

Currently, governance is considered a performance driver of the firm, a crucial criterion for its valuation (Jensen and Murphy, 1990) and a guarantee of the credibility of its financial and accounting reports. There are many studies investigating the effects of performance of corporate governance worldwide. Gompers et al. (2003) investigate the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance. The results are clearly consistent with the hypothesis that well-governed companies outperform their poorly-governed counterparts. Furthermore, well-governed companies have higher equity returns, are valued more highly and their accounting statements show a better operating performance. These findings should encourage investors to consider corporate governance in their investment decision.

Drobetz et al. (2004) studied whether differences in the quality of firm-level corporate governance can explain firm performance in a cross-section of German publicly listed companies for the period between 1998 and 2002. The authors document a positive relationship between governance practices and firm valuation for German public by constructing a broad corporate governance rating related to the German Corporate Governance Code. They also report that, for the median firm, a one standard deviation change in the governance rating results in a 24 percent increase in the value of Tobin's Q.

Black et al. (2005) examined whether the corporate governance practices of firms affected these firms' share prices. The researchers constructed a corporate governance index (KCGI) for a sample of 515 Korean public companies basing on the 2001 survey research of Korea stock exchange. They classify thirty-eight usable variables into four sub-indices and add a fifth ownership parity sub-index. They find a positive relationship between their corporate governance index and Tobin's Q by ordinary least squares, a worst to best change in KCGI expects a 0.47 increase in Tobin's Q. Firms with majority of outside directors have 0.13 higher Tobin's Q.

Klein et al. (2005) studied the relationship between firm value, as measured by Tobin's Q and newly released sub-indices of effective corporate governance for a sample of 263 Canadian public firms in 2002. The results show that sub-indices which measure effective compensation, disclosure, and shareholder rights improve firm performance. However, the board independent sub-index has a significantly negative effect on firm performance. They conclude that not all sub-indices of corporate governance are important; and the performance effects of governance differ by ownership category.

Some studies investigated the relationship between corporate governance and firm performance in Thailand. For example, Wiwattanakantang (2001) examined the effects of controlling shareholders on corporate performance by using non-financial firms in 1996. The results show that the presence of controlling shareholders is related to higher performance as measured by the return on assets and the sales-to-assets ratio. The researcher also examined the performance effects of types of ownership. The author shows that family-controlled firms have significantly higher performance; foreign controlled firms as well as firms with more than one controlling shareholder also have higher ROA relative to firms with no controlling shareholders. However, if the controlling shareholders are involved in the management, a negative performance effect occurs.

Connelly and Limpaphayom (2004) also examined the association between board of director and firm performance among life insurance companies. The authors report that board composition has a positive relationship to return of assets (ROA), and a negative relationship with the risk taking behavior of life

insurance firms. However, board size does not have any relationship with firm performance. The authors also show that outside directors are still beneficial even for firms with limited managerial discretion such as these life insurance firms. Their results add insights to the relationships between monitoring mechanisms and firm performance of life insurers in an emerging market.

Recently, Nittayagasetwat and Nittayagasetwat (2006) investigated the relationships between a firm's stock return and corporate governance rating announcements by using the event study methodology, the results show that there is no significant abnormal return around the announcement of corporate governance rating by the Thai Rating and Information Services Co., Ltd. They also suggest that good corporate governance may be of little concern to investors.

Weir and Laing (2001) assessed whether the adoption of the governances recommended by the Cadbury Report in the UK are associated with superior performance. These governances mechanisms include the separation of the posts of CEO and Chairman, a representation of non-executive directors, the percentage of non-executive independent directors and the setting up of board subcommittees. The results show that there is no clear relationship between corporate governance and firm performance. They did not make a decision about the most effective type of governance mechanism. They also suggest that the prescriptive recommendations of the Cadbury Report should be replaced with a more flexible approach.

Dehaene et al. (2001) tested whether several board characteristics have an impact on the performance of firms, as measured by return on assets by using a sample of Belgian firms. The authors find that where the functions of chairman and chief executive are combined, the return on assets is significantly higher. Moreover, they also show that board size and the percentage of outside directors are positively associated with firm size and differ significantly across industries.

Anderson and Reeb (2004) examined the relationship between board independence and Tobin's Q in order to test whether governance limits the expropriation of a firm's wealth. The authors show that independent directors are important in mitigating conflicts between shareholder groups. They also conclude that the minority shareholders' interest can be protected from family-owned shareholders through independent directors. Besides, the most valuable public firms are those in which independent directors balance family board representation. However, in firms with continued founding family ownership and relatively few independent directors, performance is significantly worse than in non-founding family firms.

Zimmermann et al (2004) examined whether there is a price effect connected to the degree of compliance with the German Corporate Governance Code. The authors conclude that the degree of compliance with the Code is value relevant information. The results also suggest that the capital markets provide incentive for firms to adopt the German Corporate Governance Code even though the enforcement mechanisms connected to the code are relatively weak.

## **Hypotheses Development**

This study intends to examine the performance effects of six characteristics of board on firm's performance. These characteristics include board size; CEO duality; board size; board composition; board meeting; audit committee meeting; audit committee meeting; and the existence of nominating and/or remuneration committee.

### **1. CEO Duality (DUALITY)**

Chief Executive Officer is also chairman of the board. The chairman has a function of running board of directors meetings and observing the process of hiring, firing, evaluating, and compensating the CEO. Based on the agency theory, the CEO and chairman should be separate because the chairman cannot accomplish these functions without conflicts of personal interest (Jensen, 1993). But, Boyd (1995) argues that the CEO with a chairman of the board offers the clear direction of a single leadership who will be concomitantly faster to respond to external events. The CEO duality should have greater knowledge and commitment to the firm than an outside chairman. He also reported that duality has a positive effect on subsequent performance after controlling for the interaction with uncertain environment. It implies that

firms with CEO duality perform better than those with separate leadership in the condition of complexity. Then, empirical studies are also inconclusive on the effects of duality.

**H1:** Firms with CEO duality is positively related to firms' performance

## **2. Board Size (BOD\_SIZE)**

A large board size may have better or worse effects to firm performance. Jensen (1993) indicated that boards are less likely to do a good job and are more easily controlled by the CEO when board size is bigger than seven or eight members. Yermack (1996) supports smaller boards of directors are more effective. The author finds an inverse relationship between board size and firm value. However, Zimmermann et al (2006) show evidence on a positive relationship between board size and firm performance. Then, there are inconsistent pieces of evidence of the effect of board size on firm performance.

**H2:** Firms with bigger size of the board of directors is positively related to firms' performance.

## **3. Board Composition (BOD\_COM)**

The board of directors is one of the major monitoring mechanisms. The more of outside directors should allow the board of directors to fulfill its monitoring duties more effectively (Metrick and Ishii, 2002) The outside directors are more effective in monitoring because they have incentive to develop the reputation as governance experts. Opposite to the inside directors, they do not monitor effectively because they have more incentive to protect their compensation. But, Hart (1995) argues that outside directors may not work well because they may owe their position to management who proposed them to be directors in the first place. They may want to stay in management's good graces in order to be re-elected and maintained their fees. There is mixed evidence on the effectiveness of board composition for monitoring managers and protecting the interest of stakeholders.

**H3:** Firms with higher proportion of independent directors is positively related to firms' performance

## **4. Board Meeting (BOD\_MEET)**

Zahra and Pearce (1989) suggest that the frequency of board meeting, the timeliness and the quality of information exchange between management and directors affect the boards' ability to make decision as well as its contribution to firm performance. Vafeas (1999) examined whether the frequency of board meetings is a remedy to the problems of limited director interaction. The author suggests that boards that meet more frequently are valued less by the market

**H4:** Firms with high number of board meetings is negatively related to firms' performance.

## **5. Audit Committee Meeting (ACOM\_MEET)**

The audit committee has a particular role to ensure that the interests of shareholders are properly protected in financial reporting, internal controls and auditor activities. Chtourou et al. (2001) expect that the high frequency of audit committee meetings, the low level of earnings management. They find that the firms with audit committee meeting more than two times a year are likely to manage earnings. But, Xie et al.(2003) document that the frequency of audit committee meeting is associated with the lower level of earnings management. They conclude that audit committee activity could serve as effective monitor.

**H5:** Firms with more frequency of audit committee meetings is negatively related to firms' performance.

## **6. The Existence of Nomination and/or Remuneration Committees (NR\_COM)**

The nomination committee takes care of the procedures for the appointment of new directors and management. The remuneration committee provides transparency for setting of executive compensation levels. Both committees solve the problem of conflict of interest between managers or directors and their compensation and recruit the skilled, knowledgeable and experienced board and management team. Then, most stock exchanges recommend the existence of nomination and remuneration committees.

**H6:** The existence of nomination and/or remuneration committees is positively related to firms' performance.

## RESEARCH DESIGN

### Data and Sample Selection

The data are collected from those of 2010 to 2011 of the samples of listed companies on the Stock Exchange of Thailand (SET) excluding companies in banking, finance, securities, and insurance industries because of the difference in the nature of their business from other companies in other industries. Also, they are already subject to monitoring by other banking and financial regulatory bodies. Companies whose fiscal year-ends do not fall on 31<sup>st</sup> December are excluded from the samples. The characteristics of board of directors are mostly gleaned from Form 56-1, SETSMART and annual corporate report.

### Research Methods and Model

The statistical data presented comprise Means, Standard Deviations, Minimums and Maximums. The Multiple Correlation Analysis and the Multiple Regression are employed to test the relationships of the hypotheses.

### EQUATIONS:

$$PERFORMANCE_{i,t} = \beta_0 + \beta_1 DUALITY_{i,t} + \beta_2 BOD\_SIZE_{i,t} + \beta_3 BOD\_COM_{i,t} + \beta_4 BOD\_MEET_{i,t} + \beta_5 ACOM\_MEET_{i,t} + \beta_6 NR\_COM_{i,t} + \beta_7 Log\_Asset_{i,t} + \beta_8 Leverage_{i,t} + \beta_9 Firm\_Risk_{i,t} + \varepsilon_i \quad (1)$$

PERFORMANCE	=	Return on assets (ROA) and Tobin's Q;
DUALITY	=	Dummy variable equal to one if the CEO is also chairman of the board and otherwise it is defined as 0;
BOD_SIZE	=	The total number of directors on the board in a fiscal year;
BOD_COM	=	The ratio of independent directors on the board of directors;
BOD_MEET	=	The frequency of the meetings of the board of directors in a fiscal year;
ACOM_MEET	=	The frequency of the meetings of the audit committees in a fiscal year;
NR_COM	=	Dummy variable equal to one if there is the existence of a nomination and/or remuneration committee. Otherwise, it is defined as 0;
Log_Asset	=	The natural logarithm of firm assets;
Leverage	=	Ratio of total debt to total equity;
Firm_Risk	=	Standard deviation of 5 year monthly stock returns.
$\varepsilon_i$	=	error term from OLS regression

### Measuring Firm Performance (Performance)

This study examines the relation between corporate governance mechanisms and firm performances in terms of return on assets (ROA) and Tobin's Q.

#### Return on Assets (ROA)

Return on assets measures firm performance in terms of its profitability prior to financing effects. By separating the financial effects from the operating effects, ROA provides a better measure of the true profitability of these assets. ROA is calculated by dividing the earnings before interests and tax expenses by average book value of total assets

$$ROA(\%) = \frac{EBIT}{Average\ Total\ Assets} \times 100 \quad (2)$$

where:

EBIT = Earnings before interests and tax expenses

Average Total Assets =  $(Assets_{j,t} + Assets_{j,t-1}) / 2$

*Tobin's Q*

A famous financial measure, Tobin's Q is the ratio of the market value of a firm's assets to the replacement value of its assets. Tobin's Q is also a comparison of the marginal efficiency of capital and the required rate of return of capital. Besides, Tobin's Q is a performance measure in terms of investment opportunity. Tobin's Q greater than one indicates that the market value of the firm's assets exceeds its replacement cost, or that the marginal efficiency of capital is greater than the required rate of return of capital. It implies that investors are willing to pay a premium over the firm's assets. There is an anticipation of good future prospects under the present management (Jiamsagul, 2007)

$$Tobin's\ Q = \frac{MVE + PS + DEBT}{TA} \quad (3)$$

where:

MVE = Market value of equity computed by multiplying the closing price of stock with the common shares outstanding.

PS = Preferred Stock calculated by multiplying the net number of preferred shares at year-end with the stated value per share.

DEBT = Total liabilities

TA = Total Assets

## Measurement of Characteristics of Board of Directors

### *Independent variables*

Six characteristics of board members are used to measure their respective effects on firm's performance. These characteristics include board size; board meetings; board directorships; audit committee meeting; and the existence of nominating and/or remuneration committee. The correlation—positive or negative—of each characteristic of board of directors to the performance of the firms is not predetermined because previous empirical research studies have produced two contrasting views.

1. **CEO Duality** - I use a dummy variable which is equal to 1 if the CEO is also chairman of the board and otherwise it is defined as 0
2. **Board Size** – Board size is calculated by the total number of directors on the board in a fiscal year.
3. **Board Composition** - Board composition is measured by the ratio of independent directors on the board of directors.
4. **Board Meeting** – Board meeting is the frequency of the meetings of the board of directors in a fiscal year.
5. **Audit Committee Meeting** – Audit committee meeting is the frequency of the meetings of the audit committees in a fiscal year.
6. **The Existence of Nomination and/or Remuneration Committee** – I use a dummy variable which is equal to 1 if there is the existence of a nomination and/or remuneration committee. Otherwise, it is defined as 0.

## RESULTS

### Descriptive Statistics

Table 1 presents descriptive statistics for all observations which consist of mean, standard deviation, minimum and maximum of all variables.

The mean of return on assets (ROA) and Tobin's Q are 13.3634 and 1.2072 respectively. With respect to the board of directors' characteristics variables, the dummy variable of CEO duality (DUALITY) show a mean of 0.1570 implying that 15.70% of the samples firms have CEO who are also the chairman of the board. The mean of board size (BOD\_SIZE) is 10.6955. The mean of board composition (BOD\_COM) is 0.4022, indicating 40.22% of independent directors on the board of directors. The average of board meeting (BOD\_MEET) is 7.5841 times per year while the average of audit committee meeting (ACOM\_MEET) is 5.8318 times per year. The audit committee meeting is at least four times a year for approval financial statement of the company. The dummy variable of the existence of remuneration and/or nomination committees (NR\_COM) is 0.6864 implying that 69 percent of sample firms have remuneration committee and/or nomination committee.

The mean of natural logarithm of sampled firms' assets (Log\_Asset) is 3.7132. The average firm size is 23,180.88 million Thai Baht (approximately USD 724.40 million). The mean of firms' leverage (Leverage) is 1.0743. The firm risk (Firm\_Risk) shows a mean of 0.0257.

**TABLE 1**  
**DESCRIPTIVE STATISTICS ON PERFORMANCE AND**  
**BOARD OF DIRECTORS' CHARACTERISTICS (N= 440)**

Variables	Mean	Standard Deviation	Min	Max
<b>Performance :</b>				
ROA	13.3634	6.7729	0.7726	34.9372
Tobin's Q	1.2072	0.5070	0.4217	3.1225
<b>Board of Director's Characteristics:</b>				
DUALITY	0.1570	0.3640	0.0000	1.0000
BOD_SIZE	10.6955	2.4379	5.0000	17.0000
BOD_COM	0.4022	0.0835	0.2000	0.8000
BOD_MEET	7.5841	3.5405	3.0000	23.0000
ACOM_MEET	5.8318	2.7064	3.0000	18.0000
NR_COM	0.6864	0.4645	0.0000	1.0000
<b>Control Variables:</b>				
Log_Asset	3.7132	0.6479	2.4844	6.1469
Leverage	1.0743	1.0537	0.0101	8.5329
Firm_Risk	0.0257	0.0899	0.0007	1.3411



**TABLE 2**  
**MULTIPLE LINEAR REGRESSION ANALYSIS (N=440)**

$PERFORMAN\epsilon_{i,t} = \beta_0 + \beta_1 DUALITY_{i,t} + \beta_2 BOD\_SIZE_{i,t} + \beta_3 BOD\_COM_{i,t} + \beta_4 BOD\_MEET_{i,t} + \beta_5 ACOM\_MEET_{i,t} + \beta_6 NR\_COM_{i,t} + \beta_7 Log\_Asset_{i,t} + \beta_8 Leverage_{i,t} + \beta_9 Firm\_Risk_{i,t} + \epsilon_i \quad (1)$							
	Expected Sign	ROA			Tobin's Q		
		$\beta$	t-statistic		$\beta$	t-statistic	
Intercept		8.618	3.269		0.644	3.231	
DUALITY	+	-1.716	-1.975	**	-0.153	-2.327	**
BOD_SIZE	+	0.038	0.251		0.000	0.038	
BOD_COM	+	9.400	2.320	**	-0.055	-0.178	
BOD_MEET	-	0.097	0.980		0.006	0.811	
ACOM_MEET	-	0.030	0.228		0.001	0.146	
NR_COM	+	0.615	0.875		0.098	1.847	*
Log_Asset	+	0.364	0.621		0.135	3.051	***
Leverage	-	-1.536	-4.983	***	-0.006	-0.250	
Firm_Risk	+	-7.609	-2.197	**	-0.480	-1.832	*
<b>R<sup>2</sup></b>		0.099			0.081		
<b>Adjust R<sup>2</sup></b>		0.080			0.062		
<b>F-value</b>		5.226			4.201		
<b>P-value</b>		0.000			0.000		
Note: *** significance at 1% level, ** significance at 5% level, and * significance at 10% level							

### Regression Results

Table 2 presents the regression results, F-statistic of the regression model are significant at the 1% level, indicating that these models are statistically valid. The adjusted  $R^2$  for the return on assets (ROA) and Tobin's Q are 8% and 6.2% respectively. It means that independent variables are able to explain and predict the dependent variable by 6 – 8%. This study finds that the coefficients of CEO Duality (DUALITY) are negatively significant at 5% level in both return on assets and Tobin's Q, indicating firms with the CEO is also chairman of the board likely have lower performance. Consistent with the agency theory which indicating that the CEO and chairman should be separate because the chairman cannot accomplish these functions without conflicts of personal interest (Jensen, 1993). The coefficients of board size (BOD\_SIZE) are not significant. The coefficients of board composition (BOD\_COM) are significant positively at 5% level only in ROA model, consistent with Metric and Ishii (2002), who note that the outside directors are more effective in monitoring and have incentive to develop the reputation as governance experts. Then, firms with more independent directors on board produce higher return on assets. This study notes that the coefficients of board meeting (BOD\_MEET) and audit committee meeting (ACOM\_MEET) are not significant in both ROA and Tobin's Q model. However, the

coefficients of the existence of nomination and/or remuneration committee (NR\_COM) are significant positively at 10% level only in Tobin's Q model. Higher Tobin's Q is detected in firms with the existence of nomination and/or remuneration committed.

The coefficient of natural logarithm of firm assets (Log\_Asset) is positively significant at 1% level in Tobin's Q model, implying firms with higher assets have higher investment opportunity. Besides, the coefficient of leverage (Leverage) is negatively associated with ROA at 1% level, indicating that firms with higher ratio of debt to equity have lower return on assets. Because firms with higher use of debts have to pay more interest expense then decreased their return on assets. Finally, the coefficients of firm risk (Firm\_Risk) are negative and significant for both ROA and Tobin's Q at the 5% and 1% level. It means that firms with higher standard deviation of 5 years monthly stock returns have lower performance.

## SUMMARY

The role of corporate governance in both developed and developing markets has become increasingly important to investors and executive. This study focuses on the emerging market of Thailand which would like to attract funding from investors in order to expand and grow. The purpose of this study is to examine the association between board of director's characteristics and the performance of non-financial listed firms in the Stock Exchange of Thailand (SET) during 2010 and 2011. This study use the multiple regression to analysis the observations. The results show an inverse relation between the CEO duality characteristic and both return on assets (ROA) and Tobin's Q, indicating that firms with CEO is also chairman of the board have lower performance. The CEO and chairman should be separate because the chairman cannot accomplish these functions without conflicts of personal interest (Jensen, 1993). This study also find the board composition have positively associated with firm's ROA, implying that firms with higher outside directors have higher return on assets. The independent directors are more effective in monitoring because they have incentive to develop the reputation as governance experts. Last, the results show that firms with the existence of nomination and/or remuneration committee have higher Tobin's Q. Both nomination and remuneration committee solve the conflict of interest between shareholders and managers about their compensation and recruit the skilled, knowledgeable and experienced board and management team. The results of this study are consistent with prior studies of developed markets noting that the emerging market of Thailand has accrued benefits of improved performance by implementing good corporate governance mechanisms despite the implementation costs occurred.

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