

# Causal Relationship Model of Firm Characteristics Factors and Good Cooperate Governance Affecting the Performance of the Companies Listed on the Stock Exchange of Thailand

Senee Puangyanee

Rajamangala University of Technology Suvarnabhumi, Phra Nakhon Si Ayutthaya, Thailand

Supisarn Bhakdinarinath

North Bangkok University, Bangkok, Thailand

The objective of this research was to develop the causal relationship model of firm characteristics factors and good corporate governance affecting the performance of the companies listed on the Stock Exchange of Thailand. The developed model consisted of three latent variables and eight observable variables. The sample of this study was 338 companies listed on the Stock Exchange of Thailand. Data are from annual reports (form-56), annual financial statements and notes to the financial statements during the years 2010-2013. The statistics used in this study were descriptive statistics. The causal model was analyzed through a path analysis with LISREL 8.80 Student Edition. The results showed as follows. By testing the consistence of the causal model of firm characteristics (CHA), the assumed model was consistent with empirical data. Based on the statistical test, the Chi-Square was 22.08. The statistical probability ( $p$ ) was 0.077, the degree of freedom (df) was to 0, 2/2 was 1.58, RMSEA was 0.041, SRMR was 0.037, GFI was 0.98, CFI was 0.99, AGFI was 0.96. The latent variable of firm characteristics (CHA) had directly negative impact on performance (PAL) with a statistical significance level of 0.01. A path coefficient was 0.18. However, CHA variable did not indirectly influence performance (PAL) and it had directly negative impact on good corporate governance (GGN) with a path coefficient of 0.02 without statistical significance level. The latent variable of good corporate governance (GGN) had directly positive impact on the performance (PAL) with a statistical significance level of 0.05, with a path coefficient of 0.18.

*Keywords:* firm characteristics, good corporate governance, performance

## Introduction

The emergence of the economic crisis of 1997 in Southeast Asia has become a concrete example of the importance of corporate governance in developing countries (Rasiah, 1999). The economic loss and damage to investors' valuables was invaluable resulted from the ineffectiveness of the corporate governance mechanism.

---

Senee Puangyanee, Ph.D., assistant professor, Faculty of Business Administration and Information Technology, Rajamangala University of Technology Suvarnabhumi, Phra Nakhon Si Ayutthaya, Thailand.

Supisarn Bhakdinarinath, police major general, Faculty of Political Science North Bangkok University, Bangkok, Thailand.

Correspondence concerning this article should be addressed to Senee Puangyanee, Rajamangala University of Technology Suvarnabhumi, Phra Nakhon Si Ayutthaya Hantra Campus, 60 Moo 3, Asia Road (Bangkok-NakhonSawan), Phra Nakhon Si Ayutthaya 13000, Thailand.

This is due to the laxity of monitoring and supervising the behavior of executives to protect the interests of shareholders from inappropriate behavior. This also includes fraud, misconduct, and misappropriation of the business resources by a management or a group of persons that influence the management of the business or even window dressing the financial statements that mislead stakeholders to make incorrect decision that would ultimately cause enormous losses (Abdullah, Shah, & Hassan, 2008).

The complexity and dynamics of the capital flows under the current global economy system results in the waned boundaries of the country's territory. The uniqueness of the market has defined the deep relationship between the market, financial markets, government, and regulators. For this reason, corporate governance has become more and more important because the efficient corporate governance and control system will enable the business to survive in the rapidly changing business environment (Van den Berghe, 2002). Corporate governance is very important for the growth and the survival of the modern companies. Besides helping companies reduce conflicts of interest and in response to legal requirements, good corporate governance has also attracted the attention of wealthy and institutional investors. Additionally, it will also make the company attract business alliance partner, which gives the company the opportunity to make profitable investments (Bonna, 2012).

However, there are problems with corporate social responsibility reporting in the aspects of appropriate principles and guidelines for corporate social responsibility reporting and most businesses have misunderstandings and are in a narrow frame of mind thinking that corporate social responsibility is to donate to public charity, which is trying to solve problem after the fact and not the root causes (Chewakriengkai, 2007). Additionally, the organization's appropriate size, being well equipped, and having elements of a good quality result in the board's being able to supervise the organization to disclose important both financial and non-financial information relevant to the organization to be accurate, complete, timely, and transparent through equal and reliable channel providing easy access to information (Phattharamontri, 2007). The presence of the commission with proportionate and appropriate decision-making process is also an important factor affecting the performance of CRS (Zahm, 1989). Therefore, it is interesting to study the relationship of corporate governance at the composition of the board and sizes of listed companies (Phattharamontri, 2007).

Therefore, this study was conducted because of the realization of the importance of the causal relationship model of company characteristics and good corporate governance that impact the performance of companies listed on the Stock Exchange of Thailand. The researcher hopes that the results of this research will be beneficial to companies to apply them as a guideline for planning the company's attributes to be in line with good corporate governance and impact the performance of companies listed on the Stock Exchange of Thailand.

### **Research Objectives**

The research on the causal relationship model of company characteristics and good corporate governance that impact the performance of companies listed on the Stock Exchange of Thailand was conducted to develop a causal relationship model of key factors that impact the ability to operate.

### **Conceptual Framework**

In the aspect of the conceptual framework of the research, the researcher aims to study the causal relationship model of company characteristics and good corporate governance that impact the performance of

companies listed on the Stock Exchange of Thailand. The researcher reviewed the literature of foreign and domestic research as shown in Figure 1.

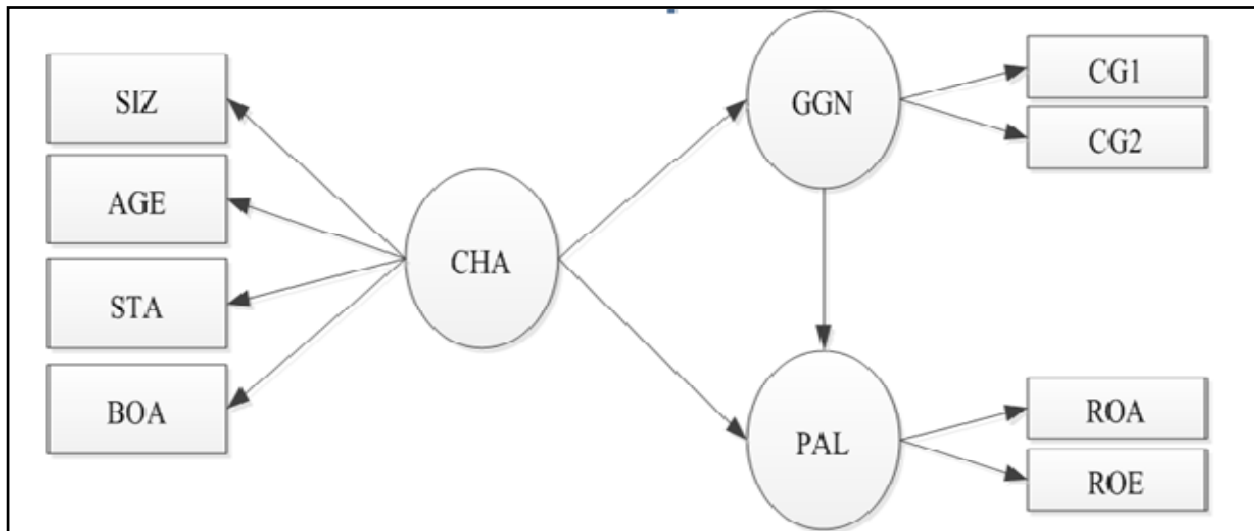


Figure 1. Research conceptual framework.

### Hypotheses

In this research on the causal relationship model of company characteristics and good corporate governance that impact the performance of companies listed on the Stock Exchange of Thailand, the hypotheses were set as follows: company characteristics had direct influence on the performance of companies listed on the Stock Exchange of Thailand and indirect influence through good corporate governance of companies listed on the Stock Exchange of Thailand.

### Research Methodology

Researcher determines the population of this research to be companies listed on the Stock Exchange of Thailand in eight industry groups (The Stock Exchange of Thailand, 2007) selected to be qualified for the study. Only 338 companies were found to have met the selection criteria and appropriate data to conduct a study on the causal relationship model of company characteristics and good corporate governance that impact the performance of companies listed on the Stock Exchange of Thailand. The researcher collected the data by paper to record the disclosure of corporate governance information. The data statistics were compiled from the annual report (Form 56-1), annual financial statements, and notes to the financial statements for the 2013 fiscal year. The research format was an empirical research done by collecting data from secondary sources. Papers were used to collect information about company characteristics and good corporate governance that impacted on the performance of listed companies in the Stock Exchange of Thailand. The research was conducted to collect and analyze data during August to November 2016. When data collection was complete, the researcher proceeded to process of defining the statistics that were appropriate and consistent with statistical data to answer the research objectives set by the statistics used in data analysis which was done with descriptive statistics and inferential statistics by using path analysis (Path Analysis) to determine the causal factors of company characteristics and good corporate governance that impact the performance of companies listed on the Stock Exchange of Thailand and to test the hypotheses defined in the study with statistical significance at 0.05.

## Research Results and Discussion

### Research Results

The analysis of company characteristics, good corporate governance, and performance of companies listed on the Stock Exchange of Thailand is as shown in Tables 1-3.

Table 1

*The Results of the Confirmatory Factor Analysis on Features of Companies Listed on the Stock Exchange of Thailand*

Variable	Factor			
	<i>b</i>	SE	<i>t</i>	R <sup>2</sup>
SIZ	0.09	-	-	0.02
AGE	2.35	1.35	1.74	0.02
STR	6.64	2.89	2.30	0.73
BOA	4.10	1.84	2.22	0.84

$X^2 = 0.70$ ,  $df = 2$ ,  $X^2/2 = 0.35$ ,  $p\text{-value} = 0.70$ ,  $RMSEA = 0.00$

Notes.  $|t| > 1.96$  means  $p < 0.05$ ;  $|t| > 2.58$  means  $p < 0.01$ .

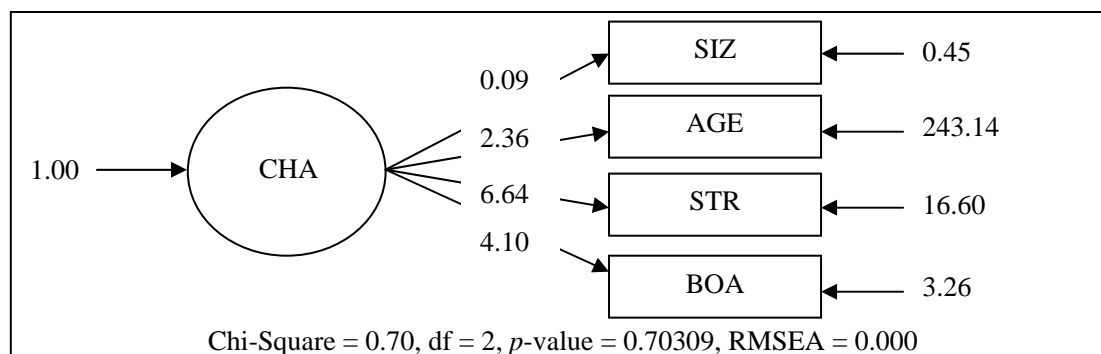


Figure 2. Model of confirmatory factor analysis of company characteristics of companies listed on the Stock Exchange of Thailand.

Table 1 and Figure 2: From the measurement model by characteristics (CHA) analysis, it was found that the model was consistent with the empirical data after model adjustment without cutting off any indicators, it was found that the Chi-Square statistical test result was 0.70, the statistical probability ( $p$ ) was 0.70, degree of freedom ( $df$ ) was 2, value  $X^2/2$  was 0.35, RMSEA was 0.00, SRMR was 0.0074, GFI was 1.00, CFI was 1.00, and AGFI was 0.99. In other words, the CHA consisted of four components: SIZ, AGE, STR, and BOA. The STR was the most important, followed by the BOA, AGE, and SIZ, respectively.

Table 2

*The Results of the Confirmatory Factor Analysis of the Corporate Governance of Companies Listed on the Stock Exchange of Thailand*

Variable	Factor			
	<i>b</i>	SE	<i>t</i>	R <sup>2</sup>
CG1	36.51	-	-	1.00
CG2	10.88	0.85	12.77	0.32

$X^2 = 0.00$ ,  $df = 0$ ,  $X^2/2 = 0.00$ ,  $p\text{-value} = 1.00$ ,  $RMSEA = 0.00$

Notes.  $|t| > 1.96$  means  $p < 0.05$ ;  $|t| > 2.58$  means  $p < 0.01$ .

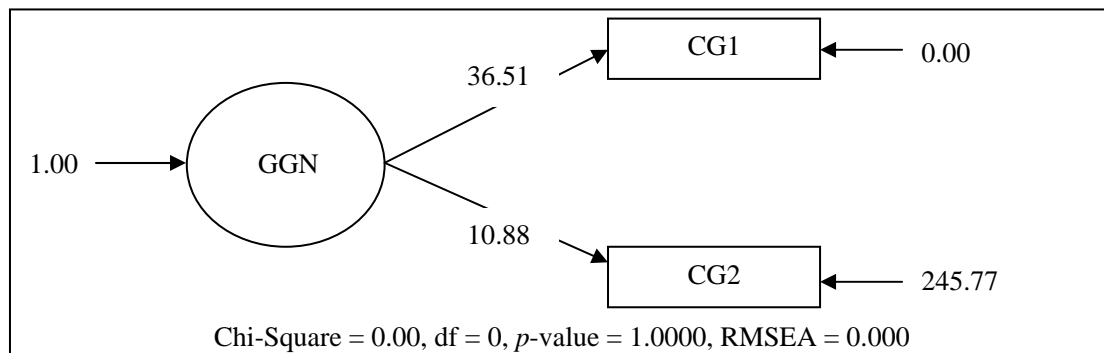


Figure 3. Model of confirmatory factor analysis of good corporate governance of companies listed on the Stock Exchange of Thailand.

From Table 2 and Figure 3, through analysis on measurement model by good corporate governance (GGN), it was found that the model was consistent with empirical data after adjusting the model without cutting out any indicators; it was found that the Chi Square statistical test result was 0.00, the statistical probability ( $p$ ) was 0.00, degree of freedom (df) was 0,  $X^2/2$  was 0.00, RMSEA was 0.00, SRMR was 0.00, GFI was 1.00, CFI was 1.00, and the AGFI was 1.00. In other words, the GGN was composed of two elements: CG1 and CG2. The CG1 was the most important followed by CG2.

Table 3

*The Results of the Confirmatory Factor Analysis on the Performance of Companies Listed on the Stock Exchange of Thailand*

Variable	Factor			
	$b$	SE	$t$	$R^2$
ROA	6.92	-	-	1.00
ROE	9.07	0.29	31.03	0.74

$X^2 = 0.00$ ,  $df = 0$ ,  $X^2/2 = 0.00$ ,  $p\text{-value} = 1.00$ ,  $RMSEA = 0.00$

Notes.  $|t| > 1.96$  means  $p < 0.05$ ;  $|t| > 2.58$  means  $p < 0.01$ .

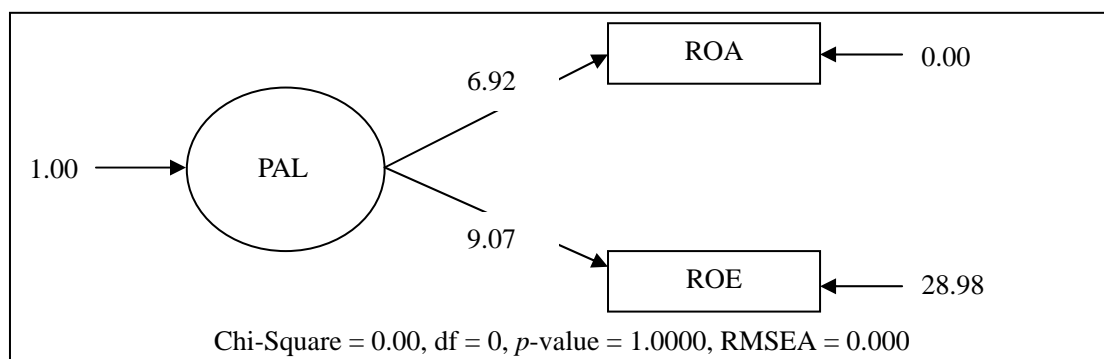


Figure 4. Components model to confirm the performance of companies listed on the Stock Exchange of Thailand.

From Table 3 and Figure 4, through analysis on measurement model by PAL, it was found that the model was consistent with empirical data after adjusting the model without cutting out any indicators, it was found that the Chi Square statistical test result was 0.00, statistical probability ( $p$ ) was 0.00, degree of freedom (df) was 0,  $X^2/2$  was 0.00, RMSEA was 0.00, SRMR was 0.00, GFI was 1.00, CFI was 1.00, and AGFI was 1.00. In other words, the PAL was composed of two elements: ROA and ROE. The ROE was the most important

followed by ROA.

The causal relationship analysis between the company characteristic, good corporate governance, and the performance of companies listed on the Stock Exchange of Thailand is as shown in Tables 4 and 5. Table 4 shows the influence of the model coefficients of the causal factors for company characteristics, good corporate governance, and the performance of listed companies in the Stock Exchange of Thailand. According to the hypothesis, it was consistent with empirical data after research models modification.

Table 4

*The Results of the Causal Relationship Analysis Between the Company Characteristic, Good Corporate Governance, and the Performance of Companies Listed on the Stock Exchange of Thailand*

Dependent variable Independent variable	Supervisor			Ability		
	TE	DE	IE	TE	DE	IE
CHA	-0.02 (0.05)	-0.02 (0.05)	-	-0.19** (0.07)	-0.19** (0.07)	0.00 (0.01)
GGN	-	-	-	0.18* (0.09)	0.18* (0.09)	-

$X^2 = 22.08$ ,  $df = 14$ ,  $X^2/2 = 1.58$ ,  $p\text{-value} = 0.077$ ,  $RMSEA = 0.041$ ,  $SRMR = 0.037$ ,  $GFI = 0.98$ ,  $CFI = 0.99$ ,  $AGFI = 0.96$

Notes.  $p^* < 0.05$ ;  $p^{**} < 0.01$ .

Table 4 shows the model of consistency check of a causal relationship on the CHA, it was found that models based on hypotheses are consistent with empirical data with the Chi Square statistical test result which was 22.08, statistical probability ( $p$ ) was 0.077, the degree of freedom ( $df$ ) was 0,  $X^2/2$  was 1.58, RMSEA was 0.041, SRMR was 0.037, GFI was 0.98, CFI was 0.99, and AGFI was 0.96.

The latent CHA had a direct negative impact on PAL with statistical significance at 0.01 and the coefficient at 0.19 but no indirect impact on PAL. The latent CHA also had a direct negative impact on GGN with the coefficient at 0.02 but with statistical insignificance. The latent GGN had a direct negative impact on PAL with statistical significance at 0.05 and the coefficient at 0.18

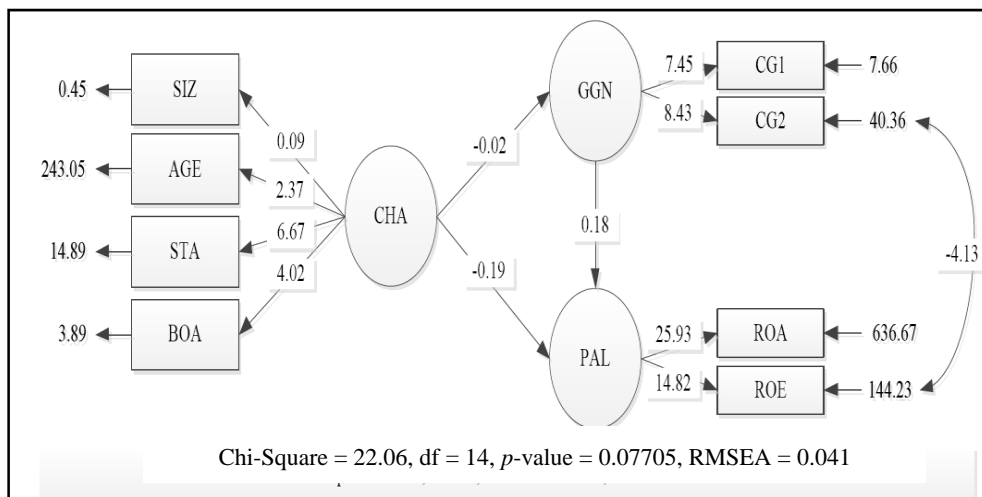


Figure 5. The causal relationship model of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand with the empirical data after model modification.

Therefore, the researcher modified the research model based on the theoretical feasibility and model modification indices: MI, this is the value that the program suggests or the greatest value. The specific statistics

of each parameter are equal to the Chi-Square values. When each parameter is set to be independent parameter or the conditions which are relaxed by defining the variance measurement (Wiratchai, 1999), the data were then used to modify the research model to conform to the empirical data and to obtain the statistic of the criteria as shown in Table 5.

Table 5

*The Result of the Analysis on Statistics of Causal Relationship Model of CHA, GGN, and Performance of Companies Listed on the Stock Exchange of Thailand After the Model Modification*

Index value	Criteria	Statistical value	Considering the results
$X^2/df$	< 2.00	1.58	Through the condition
$p$ -value	> 0.05	0.077	Through the condition
GFI	> 0.90	0.98	Through the condition
AGFI	> 0.90	0.96	Through the condition
CFI	> 0.90	0.99	Through the condition
SRMR	< 0.05	0.037	Through the condition
RMSEA	< 0.05	0.041	Through the condition

From Table 5, it was found that the causal relationship model of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand after the model modification was well consistent with the empirical data based on the Chi Square ( $X^2$ ) statistical test result was 22.08, degree of freedom (df) was 14, statistical significance ( $p$ -value) was 0.077 meaning that the Chi Square had no impact with statistical significance on Chi Square degree of freedom ( $X^2/df$ ) that was at 1.58. The GFI was 0.98, AGFI was 0.96, CFI was 0.99, SRMR was 0.037, RMSEA was 0.041. These statistics meet the criteria set indicating that the research model is consistent with the empirical data/acceptance level. Thus, it can be concluded that the causal relationship model of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand after the modification was in harmony with the data and can be used as a model to develop causal relationships of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand.

### Discussion

The researcher can analyze the results and meanings of the research results, the causal relationship model and examine the components of the CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand as can be as follows:

From the result, it was found that the causal relationship model of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand reflected that the relationship model is harmonious. The researcher has adapted the model. Thus, it is concluded that the model is suitable for use in the development of a causal relationship model of CHA, GGN, and performance of companies listed on the Stock Exchange of Thailand. This is consistent corresponds to the past studies conducted by Camfferman and Cooke (2002), Alsaeed (2006), Adelopo (2010), and Palawan (2004) that found that organizational size had a statistically significant positive correlation with the corporate governance disclosure level of the company and it was found that large companies are more exposed than smaller companies. Due to disclosure, the costs involved are relatively high. Larger companies are less likely to spend less on information than smaller companies. The results are consistent with the results of the study conducted by Palawan (2004) that found that the company's operating life was positively correlated with the degree of disclosure. It was found that companies with long

operating lives had high levels of disclosure. Perhaps due to past experience, the company has learned how to disclose information to interested parties or users, and the research of Pongsapanud (2007) found that the level of disclosure of information and transparency of the business measured by the overall score is associated with poor profitability. That means companies are likely to increase visibility and increase credibility to the shareholders when the performance is unsatisfactory. Additionally, the research conducted by Sukanantasak (2014) found that profits were increased when transparent reporting was done and shareholder confidence is increased. The correlation analysis results were consistent with the results of this study.

It was also found that the impact of causal factors on the performance of companies listed on the Stock Exchange of Thailand was higher than the direct impact of the CHA on the performance of listed companies in the Stock Exchange of Thailand. Therefore, the ability to operate listed companies in the Stock Exchange of Thailand can be improved by improving the performance of companies listed on the Stock Exchange of Thailand to continuously have quality CHA, GGN.

### Suggestions

Researcher has divided the presentation of the suggestion in this section into two parts as follows:

#### 1. Suggestions for practical implications

Because this was conducted using corporate governance disclosure, annual reports (56-1), financial statements, and notes to financial statements so the data may be inconsistent with the actual data.

#### 2. Suggestions for further research

(1) Further research should be conducted on expansion of variables that can be done by increasing the context with different aspects of reporting standards.

(2) In view of the degree of disclosure, good corporate governance should further provide qualitative view of additional information.

(3) Further study may also be conducted by extending the duration of the study to prove further research in terms of consistency and contrast to the duration of this study.

### References

- Abdullah, M. S., Shah, S. Z. A., & Hassan, A. (2008). Impact of corporate governance on financial performance of firms: Evidence from Pakistan. *Business Review*, 11(2), 282-289.
- Adelopo, I. (2010). Voluntary disclosure practices among listed company in Nigeria. *Advances in Accounting*, 27(2), 338-345.
- Alsaheed, K. (2006). The association between firm-specific characteristics and disclosure: The case of Saudi Arabia. *Managerial Auditing Journal*, 21(5), 476-496.
- Bonna, A. K. (2012). The impact of corporate governance on corporate financial performance (Doctoral dissertation). *Walden Business Review*, 11, 282-289.
- Camfferman, K., & Cooke, T. E. (2002). An analysis of disclosure in the annual reports of U.K. and Dutch Companies. *Journal of International Accounting Research*, 1, 3-31.
- Chevakriengkai, A.. (2007). *Business operation with corporate social responsibility*. Bangkokbiznews.
- Palawan, A. (2004). The interaction between the level of information disclosure of listed companies on the Stock Exchange of Thailand (Accounting Master Thesis). Chulalongkorn University Graduate School.
- Phattharamontri, A. (2007). Good corporate governance, modern internal audits, concepts, and case studies, Bangkok.
- Pongsapanud, P. (2010). Characteristics of profits and the level of disclosure and transparency of governance: Evidence from Thailand (Accounting Ph.D. dissertation). Chulalongkorn University Graduate School.
- Rasiah, R. (1999). Assessing the recovery plans of Asian economies destabilized by financial crisis. Conference paper.
- Sukanantasak, S. (2014). *The study of the relationship between the logical mechanism of corporate governance and the quality of earnings of companies listed on the Stock Exchange of Thailand* (10th year, 27th ed., April, 2014, pp. 14-431).



- The Stock Exchange of Thailand, Corporate Social Responsibility Institute (CSRI), Thaipat Institute. (2013). Guidelines for the preparation of sustainability reports. Bangkok: Edition 1.
- The Stock Exchange of Thailand. (2007). Exchange's regulations on information disclosure of listed companies (online). Accessible from [http://www.set.or.th/th/regulations/rules/disclosure\\_files/BorJorPor2300\\_TH.pdf](http://www.set.or.th/th/regulations/rules/disclosure_files/BorJorPor2300_TH.pdf) [2556, 30]
- Van den Berghe, L. (2002). *Corporate governance in a globalizing world*. Dordrecht: Kluwer Academic Publishers.
- Wiratchai, N. (1999). *LISREL model: Statistical analysis for research*. Bangkok: Chulalongkorn University Printing House.
- Zahm, S. A. (1989). Boards of directors and corporate social responsibility performance. *European Management Journal*, 7(2), 240-247.