

The Relationship Between Good Corporate Governance And Financial Ratio Of Listed Companies In Thailand

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Abstract

The objectives of this study were to study: (1) the level of good corporate governance and the financial ratio of listed companies; (2) the relationship between good corporate governance and the financial ratio of the listed companies in Thailand. Samples in the study were 258 listed companies, including Chief Financial Officers (CFOs) or executives in financial or accounting fields. A questionnaire was used as a research instrument in this study, statistically analyzed by percentage, means, standard deviation (S.D)., and Pearson's correlation coefficient analyses. Research results revealed that: (1) the Chief Financial Officers (CFOs) or financial or accounting executives overall had opinions towards good corporate governance and the financial ratio at a high level; and (2) the results of the relationship between good corporate governance and financial ratio revealed that the good corporate governance was correlated with the financial ratio of the registered companies at the 0.01 level of statistical significance.

Keywords: good corporate governance, financial ratio, listed companies in Thailand.

I. INTRODUCTION

In global circumstances, business investments currently have an important role in correlation with the engagement of financial markets and allocation of financial investment. Generally, business transactions are considered the key mainstream of the achievement of the investment goals (Petchpaisarn & Sincharoonsak, 2021) both in knowledge acquisitions of the entrepreneurs and investment characteristics. Additionally, due to the differences in the number of properties and the rapid changes in business management, mutual funds can provide opportunities for investment allocations for business sectors that cannot reach the bank loan

requirements. This is the result of those business transactions that have no sufficient collateral, fames, and broad relationships in the business world. Therefore, the procedure to search for mutual investment allocations is one of the methods to develop their business for both old and new entrepreneurs to coordinately invest together in their business world (Muhammad et al., 2017). The Stock Exchange of Thailand is a significant factor in mobilizing holistic economic development to focus on the creativity of capital markets to provide benefits for all social sectors. Also, the Stock Exchange of Thailand has arranged its management under 5 missions. The first mission is to develop continually strategic performance excellence to be considered as

modern investing and fundraising resources that are easily approached among domestic, regional, and global regions. The second mission is to build effective products and services that are suited to the needs of corporate investors and support sustainable growth shortly. Next, the third mission is to encourage staff to have efficient performance as well as full of work performance with their proactive abilities and cooperate within other offices and within the offices with their transparency in all work processes. The fourth mission is to emphasize the concept of business management by conforming to the optimal benefits of all business sectors, serving as the best business alliances, and taking responsibility for society as well. Finally, the fifth mission is to focus on explicit and valuable knowledge development within the organization and innovate new knowledge acquisition, exchange, and adapt those knowledge acquisitions to be sustainable properties (Stock Exchange of Thailand, 2019).

The listed companies, registered as public companies in the Stock Exchange of Thailand (SET), have many investors interested in co-investments together by purchasing listed properties offering; therefore, those listed companies must identify the rules and regulations to build the investors' trust to make sure that they equally have the systematic organizations, transparency, and fairness for all of their stockholders. Furthermore, issuing the rules and regulations can help them remain their rights authorized as the listed companies (Stock Exchange of Thailand, 2014). This makes those listed companies have guidelines under the good corporate governance and can spend financial resources and human resources within the companies effectively to invest with the optimal benefits because it can contribute to the investors perceiving the security in investment. When the business sectors are under good corporate governance, they will gain equitable returns on investment, conform to the guidelines of good governance in business, establish good images of the capital markets, and can afford a capital allocation by themselves. That is to say, good corporate governance can overall be correlated

with the financial ratio of business sectors-including liquidity ratio, efficiency ratio, profitability ratio, and leverage ratio-and they can help the business managements increase their financial ratio continually (Nazir & Afza, 2018; Therdbhuthadham, Kanjanawong & Jantarungsri (2019); Phunchanathorn & Saengkhiew, 2021; Boonyoo, 2020).

Therefore, based on those probable problematic challenges, this study aimed to study the relationship between the good corporate governance and the financial ratio of the listed companies in Thailand by using the indicators of good corporate governance factors of Chatjoho's (2007) concept-including the Rights of Shareholders (RS), the Equitable Treatment of Shareholders (ES), The Roles of Stakeholders (RO), Disclosure and Transparency (DT), and the Responsibilities of the Board (RB). The indicators of the financial ratio were implemented by using Therdbhuthadham, Kanjanawong & Jantarungsri's (2019) and Rattanacharuenchai & Chaiwong's (2019) concepts, including Liquidity Ratio (LR), Efficiency Ratio (ER), Profitability Ratio (PR), and Leverage Ratio (LR). The objectives of this study aimed to (1) study the level of good corporate governance and the financial ratio, and (2) the relationship between good corporate governance and the financial ratio of the listed companies of Thailand. This aimed to find out the guidelines for good corporate governance that could build the trust of the investors to recognize the significance of good corporate governance for the listed companies on the Stock Exchange of Thailand increasingly. Additionally, when the companies have good corporate governance, it can provide opportunities to develop better financial ratio performance for the listed companies of Thailand (Phunchanathorn & Saengkhiew, 2021).

2. Literature Review

Many organizations nowadays utilize the concept of good corporate governance to control, monitor, and examine the management of the executives to operate their work performance with transparency, effectiveness, and disclosure

(Temboonprasetsuk, 2021). These can provide the optimal benefits and values for organizations and increase the financial ratio performance (Prapho, Chuaychoo & Chammuangpak, 2020). Based on the literature review in concepts, theories, and related studies, it could be concluded as follows:

2.1 Good Corporate Governance

Good Corporate Governance is regarded as a principle of organizational management focusing on all employees in all sections that have the roles of stakeholders to remain the rights of the authorship to protect their privileges through administrative strategic plans. The stakeholders in this area include shareholders, creditors, the board of directors, executives, employees, customers, dealers; whereas, production factors consist of business competitors together with society and environments (Chatjoho, 2007). Additionally, it can reduce the struggles resulting from representatives and help the stakeholders in all sectors trust that the companies administrate their organizations under the correlative structures of transparency, disclosure, standardization, and provide the optimal benefits to all shareholders virtually (Temboonprasetsuk, 2021). Likewise, Nazir & Afza's (2018) and Therdbhuthadham, Kanjanawong & Jantarungsri's (2019) studies showed that good corporate governance can provide trust for the organizations and it is correlated with the financial ratio. Similar to Boonyoo's (2020) study, it showed that good corporate governance can protect the benefits of organizations through administrative strategies- i.e. the Rights of Shareholders (RS), the Equitable Treatment of Shareholders (ES), The Roles of Stakeholders (RS), Disclosure, and Transparency (DS), and the Responsibilities of the Board (RB). These aspects can provide better financial ratio performance for the listed companies under the Stock Exchange of Thailand (SET) in the long term sustainably (Phunchanathorn & Saengkhiew, 2021). Thus,

to make it clear and understandable for the influences, the researcher defined the hypotheses as follows:

Hypothesis 1: The good corporate governance was correlated with the financial ratio of the listed companies in Thailand.

2.2 Financial Ratio

Financial Ratio is the information representing the relationship among values of listed items shown on the financial statements. It is beneficial for planning, organizing, and monitoring the accounting and financial accounts and it can be a decision-making tool for investors to take their investment into consideration (Boonyoung & Acaranupong, 2018). Furthermore, this ratio can help the investors know the figures of achievements of their financial status, policy, and performance both in the previous and current circumstances and know the strengths and weaknesses of the organizations (Sukwatanasinit & Na Nakorn, 2019). Furthermore, the financial ratio can be used to compare the financial information or the figures of 2 lists of the financial balance sheets (i.e. profit VS loss) to show the relationship between those lists shown in the figures of ratios, times, rounds, and days (Kositkanin, 2019). The financial ratio can be categorized into various categories and can be calculated by the number of financial ratios into various types. They involve Liquidity Ratio (LR), Efficiency Ratio (ER), Profitability Ratio (PR), and Leverage Ratio (LE) (Kumpha, 2019).

Based on the related literature reviews, the researcher has developed the conceptual model from the theories and studies concerning the good corporate governance and the financial ratio of the listed companies in Thailand and adapted the conceptual framework based on Chatjoho's concept (2007). Based on the aforementioned literature review; the researcher has created the conceptual framework of this study as the following:

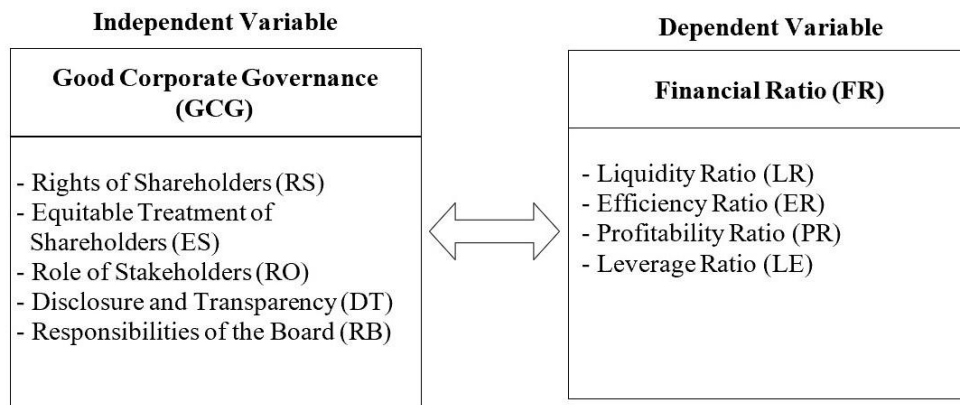


Figure 1. Conceptual Framework

3. Methodology

This quantitative study implemented a questionnaire based on the concepts, theories, and related literature reviews. Population in the study consisted of 725 samples of Chief Financial Officers (CFOs) and executives in the financial and accounting fields of listed companies in Thailand, including 556 samples of listed companies in the Stock Exchange of Thailand (SET) and 169 samples of the Market of Alternative Investment companies (MAI) (Stock Exchange of Thailand, 2019). Samples of the study included 258 respondents of Chief Financial Officers (CFOs) or executives in the financial and accounting fields, including 198 respondents of the listed companies of the Stock Exchange of Thailand (SET) and 60 respondents of the Market of Alternative Investment companies (MAI). The sample size in this study was calculated by using Yamane's formula (1973) with a 95% of reliability level and the acceptable error was +5; whereas the random samplings were implemented into 2 types – namely (1) stratified random sampling and (2) simple random sampling.

A questionnaire was implemented as a research instrument in this study - Part 1 was about the demographic data of the respondents in the questionnaire and Parts 2 and 3 were 5 points of Likert's Scales followed by the Likert's concept (1932) to measure the level of opinions about good corporate governance and the financial ratio. Five points of Likert's scales can be

categorized as: 1 refers to 'strongly dissatisfied'; 2 refers to 'dissatisfied'; 3 refers to 'general'; 4 refers to 'satisfied,' and 5 refers to 'strongly satisfied. To validate the effectiveness of the validity of this study, 5 experts were asked to validate the consistency of the content validity between questionnaire items and the variables. The index of Item Objective Congruence of the questionnaire in this study was 0.60-1.00 and the evaluation was to quantitatively measure the content validity of the population size deduced from the random samplings was at 30 samples. The Cronbach's alpha coefficient of the entire scale was acceptable at 0.70 in all aspects. The data collection of this study was collected from the Chief Financial Officers (CFOs) or executives in financial or accounting fields in 258 listed companies in Thailand. Then, the data was validated the content validity, the coding process, statistical analysis, and the content analysis of the questionnaire. The researcher implemented all data analyses from the questionnaire by using statistic package programs, including (1) the demographic data of the respondents using percentages to analyze the data; (2) good corporate governance and the financial ratio using means and standard deviation to analyze the data; and (3) the relationship of good corporate governance and the financial ratio of the listed companies authorized in Thailand using Pearson's correlation coefficient to analyze the data.

4. Results

The results of the respondents' demographic data revealed that the majority of the respondents were females (76.74%), aged between 41 and 50 years, and gained married marital status (58.14%). Additionally, they had obtained a Master's degree (44.19%) and worked more than 6 years of their working

periods (38.37%).

According to the results for analyzing good corporate governance and the financial ratio of the listed companies in Thailand by using means and standard deviation (S.D.) were show in Table 1

Table 1. The results of descriptive statistical analysis.

Variable	Mean	SD	Level
Good Corporate Governance (GCG)	3.98	0.579	High
Rights of Shareholders (RS)	4.02	0.710	High
Equitable Treatment of Shareholders (ES)	3.96	0.665	High
Role of Stakeholders (RO)	4.02	0.617	High
Disclosure and Transparency (DT)	3.97	0.632	High
Responsibilities of the Board (RB)	3.92	0.624	High
Financial Ratio (FR)	4.05	0.531	High
Liquidity Ratio (LR)	4.00	0.584	High
Efficiency Ratio (ER)	4.04	0.621	High
Profitability Ratio (PR)	4.08	0.626	High
Leverage Ratio (LE)	4.10	0.548	High

Table 1 The results of descriptive statistical analysis of both factors showed that the respondents had commented that (1) the level of good corporate governance was at high in total; meanwhile, after analyzing each aspect-the Rights of the Shareholders (RS), the Equitable Treatment of Shareholders (ES), The Role of Stakeholders (RO), Disclosure and Transparency (DT), and the Responsibilities of the Board (RB), it was found that each of them was at a high level in total as well, ranking at 4.02, 3.96, 4.02, 3.97, and 3.92 respectively and the standard deviation (S.D.) was at 0.710, 0.665, 0.617, 0.632, and 0.624 respectively,

and (2) The overall financial ratio was at a high level. After examining each aspect, it was found that Liquidity Ratio (LR), Efficiency Ratio (ER), Profitability Ratio (PR), and Leverage Ratio (LE) were overall averaged at 4.00, 4.04, 4.08, and 4.10 respectively whereas the standard deviation was at 0.584, 0.621, 0.626, and 0.548 respectively.

The results of using Pearson's correlation coefficient to measure the relationship between good corporate governance and the financial ratio of the listed companies in Thailand were show in Table 2.

Table 2. The results of using Pearson's correlation coefficient.

Relation	RS	ES	RO	DT	RB	GCG	LR	ER	PR	LE	FR
RS		0.808**	0.667**	0.709**	0.642**	0.866**	0.728**	0.620**	0.690**	0.602**	0.739**
ES			0.747**	0.775**	0.710**	0.909**	0.726**	0.564**	0.618**	0.597**	0.700**
RO				0.812**	0.688**	0.873**	0.690**	0.540**	0.604**	0.617**	0.684**
DT					0.895**	0.936**	0.705**	0.514**	0.537**	0.516**	0.635**
RB						0.878**	0.741**	0.420**	0.516**	0.526**	0.614**
GCG							0.806**	0.599**	0.668**	0.642**	0.758**
LR								0.730**	0.729**	0.701**	0.883**
ER									0.813**	0.632**	0.895**
PR										0.771**	0.931**
LE											0.862**
FR											

Notes – (** It was at 0.01 of the statistical significance) (*It was 0.05 of statistical significance) (RS refers to the Rights of Shareholders) (ES refers to the Equitable Treatment of Shareholders) (RO refers to the Role of Stakeholders) (RB refers to the Responsibilities of the Board) (GCG refers to Good Corporate Governance) (LR refers to Liquidity Ratio) (ER refers to Efficiency Ratio) (PR refers to Profitability Ratio) (LE refers to Leverage Ratio) and (FR refers to Financial Ratio).

Table 2 The results of using Pearson's correlation coefficient to measure the relationship between good corporate governance and the financial ratio of the listed companies in Thailand showed that overall the relationship between both of them was correlated at 0.01 of the statistical significance ($r=0.758$). After examining the relationship between each aspect, it showed that Good Corporate Governance (GCG), the Equitable Treatment of Shareholders (ES), The Role of Stakeholders (RO), Disclosure and Transparency (DT), and the Responsibilities of the Board (RB) were correlated with the financial ratio at 0.01 statistical significance as well ($r=0.739$, 0.700 , 0.684 , 0.635 , and 0.614 consecutively).

5. Discussion

Results of analyzing the level of good corporate governance and the financial ratio of the listed companies in Thailand and the relationship between these variables revealed that the Chief Financial Officers (CFOs) or the executives in financial and accounting fields had overall commented at a high level of good corporate governance and the financial ratio. Additionally, good corporate governance was correlated with the financial ratio of the listed companies in Thailand which was consistent with the objectives of the study. Therefore, it was significant that the good corporate governance contribution should be acted as the regulation to contribute to increasing investors' trust. Moreover, administrative strategic plans

under good corporate governance could control and monitor the effectiveness of the financial and human resources within the organizations and could contribute to the profitability of the investment as well. Accordingly, this study was correlated with Nazir & Afza's (2018) and Therdbhuthadham, Knjanawong & Jantarungsri's (2019) studies that good corporate governance was correlated with the financial ratio. That was to say, administrative strategic plans with good corporate governance could provide opportunities for developing the work performance concerning the financial ratio of the companies appropriately. Furthermore, it could promote the capital markets and investment capital allocation for the listed companies to achieve their work performance gradually. Subsequently, this study was consistent with Boonyoo's study (2020) that good corporate governance could provide opportunities to develop the work performance concerning the financial ratio of the listed companies authorized by the Stock Exchange of Thailand (SET) effectively. Finally, this study was similar to Phunchanathorn & Saengkiew's study (2021) that good corporate governance focused on the contribution of roles and responsibilities of the committees would be regarded as a significant factor in promoting trust of the investors, financial institutions, business partners, stakeholders mobilizing the positive relationship for work performance concerning the financial ratio in the long run and sustainably.

6. Conclusion

To conclude the results of this study, this study aimed to examine the level of good corporate governance and the financial ratio of the listed companies in Thailand and the relationship between good corporate governance and the financial ratio of these listed companies. The results of this study could be concluded that (1) the Chief Financial Officers (CFOs) or the executives in financial or accounting fields had overall opinions toward good corporate governance and the financial ratio at a high level; and (2) the relationship between good corporate governance and the financial ratio showed that good corporate governance was correlated with the financial ratio of the listed companies at 0.01 of the statistical significance. For the suggestions of this study, (1) it should be planned the financial system focusing on good corporate governance that promoted the transparency of the rules and regulations and the investors' acceptance so as to establish the administrative strategic plans to enhance the financial ratio in each aspect in in-depth information more increasingly and (2) the companies should investigate and examine the collection of data of each business groups to acknowledge the differences of the data for each business group. This was to help the investors and the general public compare the data within the companies of each business field.

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