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

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Abstract

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

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

Background

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

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

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

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

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

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