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Abstract

The purpose of this research is to examine which factors from the board of directors' characteristics encourage results on good corporate governance. Data was collected from 508 companies listed on the Stock Exchange of Thailand from yearly reports and form 56-1. The independent variables include women on the board, age, postgraduate, education field, political connections, board tenure, and board compensation, while corporate governance, as measured by the corporate governance score, is the dependent variable. The study is based on the Upper Echelon Theory and uses multiple regression analysis for hypothesis testing. The results of the study show that women on the board, board members who graduated in the engineering and business fields, and compensation, have a positive effect on corporate governance score. The finding of the research can be used as a guideline for selecting people to be on the board of directors in the context of gender, field of graduation, compensation, and have the basis of improving their work with good corporate governance.

Keywords : Board of Directors' Characteristics; Corporate Governance; CG Score

Introduction

Business entities play an important role and significantly affect employment and taxation. There are many firms that have been operating for a long period of time and are able to generate income for both the firms themselves and their owners, whereas some firms have failed and closed down, negatively affecting the economy and society. One of the most important aspects of the company operation is the role of the board of directors, which has a duty to professionally manage the firm in order to benefit the organization and business owners through operational transparency, honesty, and ethical behavior. However, some firms have suffered negatively from non-transparency in management by the board of directors. A prominent example of this can be found in 2001, when Enron Corporation, an American energy and services company, declared bankruptcy due to the executive failure on accounting and financial mismanagement. Another infamous example is the bankruptcy of Parmalat Dairy, a large Italian firm that operated in the food industry and was found to be guilty of financial fraud due to the actions of the president and board of directors, who mismanaged the company investment portfolio to suit their personal preferences (Dobson, 2004). In 1997, there was an economic crisis in Thailand called the "Tom Yum Goong Crisis". Unethical business practices were a major factor affecting the crisis. After the financial crisis, the governance concept called "Corporate Governance" was proposed to guide and supervise businesses and offer supervision to enhance confidence in capital markets. In determining corporate governance, executives must perform transparent administration practices and act with responsibility to all stakeholders, and fully accommodate external auditors. Businesses are being forced to change their traditional business models to remain competitive in the age of the digital economy. Even though technological advancements and innovation can make it easier for organizations to monitor their environments, they may run into the opportunistic problem that agents face. This is caused by agents or managers who take advantage of their positions by limiting access to business information to achieve their personal objectives (Osazevbaru and Tarurhor, 2020). Because of the need to respond quickly to such significant changes and complexity, the board of directors must adjust their administration of control and supervision of executives to maximize their effectiveness.

In day-to-day business, the qualifications of the board of directors have an impact on operations, but it is difficult to determine which results are attributed to which characteristics. Moreover, the characteristics of a board member extend part the ability to deliver strong performance as efficiently and effectively as possible. Thus, the questions arise: what qualifications do the board of directors have that will affect business performance, and what characteristics should the board members have? The characteristics of the board of directors are one of the most important factors affecting the administration of an organization in terms of decision making and policy formulation. The properties of both personal and steering committee characteristics affect corporate governance and contribute to the sustainability of the business. The properties of the steering committee and their operation in good faith are important factors that contribute to good managerial governance. Thus, the objective of this work is to examine which factors from the board of directors' characteristics encourage good corporate governance.

Literature Review

Upper Echelon Theory

The Upper Echelon is a theory that describes the relationship between the basic board of directors' characteristics and organizational performance. The theory believes that the background of the board's characteristics can predict future organizational performance (Hambrick and Mason, 1984) because the background of the board's characteristics are different in each organization. If the boards have different basic characteristics, they may have a difference effect on company performance and sustainability (Tulung and Ramdani, 2016). There are several researchers who have recently studied the relationship between the board's characteristics and business performance, such as Herman and Smith (2015), who studied the characteristics of leaders in terms of factors such as work experience and personality, and found that they have an impact on organizational strategy and decision-making. Phan-Udom (2019) studied the management for the sustainability of the listed companies on the Stock Exchange of Thailand and found that the policy and leadership were an important role in the success of the organization sustainability.

Agency Theory

According to Agency Theory (Jensen and Meckling, 1976), business owners are incapable of making executive decisions in their businesses, possibly due to a lack of knowledge, capability, or experience, and thus rely on an agent to make executive decisions on their behalf. This theory applies to the concept of corporate governance for an executive who works as a business executive and is responsible for supervising business decisions to ensure that the company operates efficiently and transparently while also preventing corruption. Separation of ownership or shareholder and control, disparate risk preferences, information asymmetry, and moral hazard all contribute to the appearance of a conflict of interest (Panda and Leepsa, 2017). The executive, according to Agency Theory, acts as an agent, whereas shareholders act as a principle. Agents are accountable for operating efficiently and effectively and managing the organization limited resources to achieve superior performance, financial results, and continued access to the organization assets. Investors need to quantify performance in order to comprehend the agent's actions. As a result, effective the corporate governance is required to regulate and prevent conflicts between the principal and agent.

Board of Directors' Characteristics

The board of directors is a group of people who act on behalf of shareholders (business owners) who are responsible for formulating strategies, planning and business goals, monitoring results, and including assigned people who are under their command to achieve goals and lead the company to sustainability. The board of directors must act as organizational leaders with an obligation to control and scrutinize subordinates to achieve the company objectives (McFarland, 1979) and have the ability to persuade subordinates to do what the board of directors need (Huse and Gabrielsson, 2012). The board should monitor business operations to ensure that the organization performs with transparency, accountability, and business ethics to meet the needs of all stakeholders. In this research, the elements of the board of directors' characteristics show the following:

1) Gender

The board of directors is composed of people from a variety of backgrounds, encompassing work culture, independent decision-making, creativity, and recognition of different points of view. Gender can influence the diversity of characteristics found on the board of directors. There are studies of women on boards in terms of ethics, responsibility, and personality, with the assumption that they will perform better than men. Board gender has different characteristics, such as female board members being risk averse and having better bargaining power with stakeholders (Kanojia and Khanna, 2019). The research by Jizi (2017) found that female gender on boards affected corporate social responsibility reporting, and the research by Martínez and Rambaud (2019) found that the increasing number of women on boards was positively related to higher financial performance. Furthermore, Arayssi, Jizi, and Tabaja (2020) found that the female gender on boards had a critical effect on sustainability, and research by (Moreno-Gómez, Lafuente, and Vaillant, 2018) also found gender diversity on boards can affect business outcomes.

2) Age

The age of the board of directors is one of the most important factors that affects performance, with older individuals reflecting previous experience that represents various tasks or positions they have held. Several academics have studied the board of directors at various ages. For example, Cheng, Chan, and Leung (2010) discovered that senior members of the board of directors had a significant impact on company results because they were more likely to have a wealth of work experience accumulated through competency and skill. According to the findings of Hafsi and Turgut (2013), senior board members were more sensitive to social issues and more ready to support wellbeing and encourage sustainability activities than their junior counterparts. According to the findings of Ouma and Webi (2017), who researched boards of directors age diversity and discovered that it had a favorable impact on social performance. In a study by Beji, Yousfi, Loukil, and Omri (2020) discovered that age diversity on the board of directors was associated with improved corporate governance. However, a young board has the advantage of excellence, for example, Darmadi (2011) found that a young board had a positive effect on organizational marketing.

3) Education

Board education is the knowledge background that indicates the managers' ability to work to achieve business goals, because education can represent the knowledge of various theories, and clearly define the degree level and study areas for specific abilities. The nature of learning may differ in teaching and practice of different concepts according to different disciplines. Anderson, Reeb, Upadhyay, and Zhao (2011) found that the board's diversity of education has added value for business, as different qualities was beneficial for the company and that educational knowledge would fulfill work objectives. Prabowo et al. (2017) found that educational achievement had a positive effect on CSR disclosure. Beji et al. (2020) found that the educational level of the director, specifically post-graduate directors, had a significant effect on the overall CSR score. This research divided the education field of boards into business administration, science, accounting, engineering, and others.

In addition to the differences in the disciplines, the research has also been carried out into the board's degree level. Ujunwa (2012) found that CEOs who graduated with a Ph.D. had a positive impact on business results. The research by Darmadi (2013) showed that the board's and CEO's education was important in achieving strong company performance as those who had a degree at doctorate level were better equipped than those at other levels. The research from Huang (2013) showed that a committee that graduated with a MBA and a degree in science corresponded with the level of corporate social responsibility that is part of the result of a sustainable organization.

4) Political Connections

Several companies appoint a board of directors with political connections. Therefore, the practice of having members of the board with political connections is common in Asian countries, where the board of directors can be key to supporting business development (Espenlaub, Khurshed, and Sitthipongpanich, 2012). Consequently, Sitthipongpanich and Polsiri (2013) conducted a study on the boards with a network of political connections, and Kim and Lim (2010) researched boards with more government experience with political connections and found that they had a positive relationship with firm performance. Furthermore, Idris, Buchdadi, Muttaqien, and Hariguna (2020) investigated boards with political connections and discovered a positive relationship between them and firm performance.

5) Board Tenure

The operational efficiency of the board of directors comes from various knowledge sources related to internal and external organizations and the experience of their position. Newly appointed committees or short-term positions show little understanding of the nature of the business or issues within the business, but long-term positions may lead to a deeper understanding of the business, which leads to better supervision and advice to prevent or resolve problems that may arise in the company. Board Tenure is the number of years that the board of directors holds their respective positions. Harjoto, Laksmana, and Lee (2015) and Fallah and Mojarrad (2019) found that board tenure and expertise increased driving firm social responsibility. Rostami, Rostami, and Kohansal (2016) found that board tenure had an effect on ROA.

6) Board Compensation

In Agency theory, managers are subject to certain ethical issues. They often operate to benefit themselves and may always operate in the best interests of shareholders. One solution to solve the agency problem is to provide appropriate compensation for the board's operations to motivate them to work efficiently without ethical issues. From previous research, Galbreath (2017) discovered that board remuneration had a positive influence on non-financial outcomes, namely society and the environment, which are generally shareholders willing to pay high salaries for sustainability activities. Sustainability activities generally include customer care, concerning for employee well-being and safety, and environmental protection. Since they are part of our social responsibility, agency and social responsibility costs must also be paid more (Collin, Ponomareva, Ottosson, and Sundberg, 2017)

Corporate Governance

Corporate governance is a system that provides a structure and process for the relationship between the board of directors, the executive director, and shareholders (Zadeh, Salehi, and Shabestari, 2018) to create a competitive advantage that drives company growth and returns value to stakeholders. The board of directors is responsible for directing and monitoring the executive director to work with corporate governance (Freihat, Farhan, and Shanikat, 2019) so that they begin with setting goals and assigning responsibilities and roles to the operations department, including monitoring to ensure transparency, audit ability, and compliance with board objectives and do not negatively affect other stakeholders.

Conceptual Framework

The board of directors is responsible for operating according to business objectives, policy formulation, operational processes, monitoring, and follow-up operations to ensure the company is operating with transparency, honesty, and accountability. Due to corporate governance, the board of directors must establish a monitoring mechanism and follow up on the implementation of the system. If the board of directors has no qualifications conductive to efficiency in corporate governance, it may lead to a decline in the quality of corporate governance. The related board of directors, considering organization leadership and good corporate governance, created the research framework as shown in Figure1.

Hypotheses

H1: Having women on the board has a positive effect on CG scores.

H2: Board members who are over 50 years of age have a positive effect on CG scores.

H3: Board members who have higher than a bachelor degree have a positive effect on CG scores.

H4: Board members who graduated in business, science, accounting, engineering, and other fields have a positive effect on the CG scores.

H5: Board members who have political connections have a positive effect on CG scores.

H6: Board tenure has a positive effect on CG scores.

H7: Board compensation has a positive effect on CG scores.

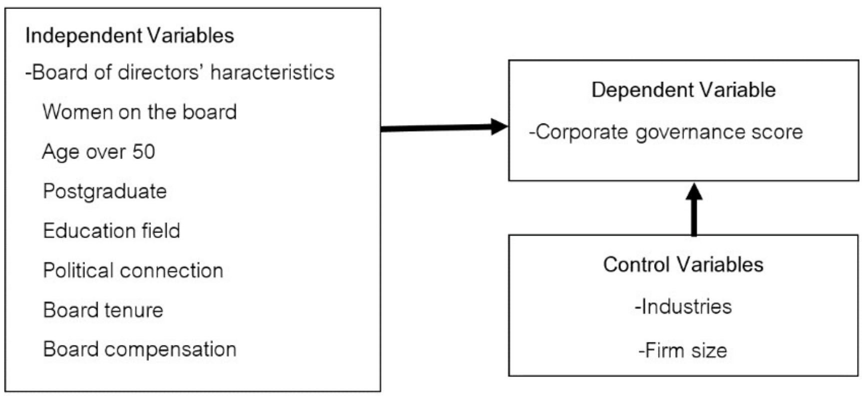

Figure 1 Research Framework

Research Methodology

Population and Samples

The research population consists of 688 companies listed on the stock exchange of thailand from the annual report in 2018 and the cg scores were collected from the thai institute of directors (iod) in the same year. However, The 175 companies did not have complete data and 5 companies were removed due to the problems with data outlier, Therefore the 508 companies were selected as research samples.

Research Instruments

The independent variables in the research were the proportion of women on the board of directors, the board of directors who are over 50 years old (Bin Khidmat, Ayub Khan, and Ullah, 2020), the board of directors who have higher than a bachelor degree, education of board members in the business field, education of board members in the science field, education of board members in the accounting field, education of board members in the engineering field, education of board members in other field, the board of directors who have political connections, average board tenure, logarithm of the average board compensation, the dependent variable is the CG-Score (corporate governance rating), which defines score = 4 when the company has an excellent, score = 3 when the company has a very good, score = 2 when the company has a good, and score = 1 when the company has a satisfactory and pass. Because the size of the company and type of industry may affect different corporate governance scores, thus this study uses the total assets and industries group as the control variables.

Data Collection and Analysis

The board of directors' characteristics were collected from the annual report and form 56-1 for the year 2018, whereas the CG scores were collected from the Thai Institute of Director Association. Each variable used for analysis was evaluated for a normal distribution according to the technical QQ diagram and histogram view approximately bell-shaped. Skewness and kurtosis indexes were assessed by skewing the index by less than 3 and kurtosis index by less than 8.0 (Kline, 2015). The data was tested for multicollinearity problem by examining the Pearson correlation statistics of the variables, which revealed that there is no problem because the correlation coefficients range from -0.28 to 0.49, and the VIF value ranges from 1.44 to 2.44, which does not exceed 10. The hypothesis testing uses Multiple Regression to analyze available variable data from the research framework.

Results

Descriptive Statistic

The descriptive statistics of the board of directors' characteristics that encourage good corporate governance results. The average proportion of women on boards is 0.27, board members over 50 years old is 0.79, board members with a postgraduate degree is 0.64, board members who have a business degree is 0.54, board members with a science degree is 0.09, board members who have graduated in the accounting field is 0.13, board members who have a degree in engineering is 0.19, board members who have graduated in other fields is 0.20. The average proportion of politically connected board members is 0.17, board tenure is 9.65 years, and CG score is 2.72. According to descriptive statistics, the majority of board members are male, over 50 years old, have a postgraduate degree, and have a degree in business. A few of the boards have a political connection, have around 10 years of experience on boards, the board's compensation is around 720,000 THB, and the CG scores are very good.The majority of research samples are from service companies, while the minority are from consumer and technology companies.

Effect Of Board Of Directors' Characteristics On CG SCORE

Table 1 showed that the model was accepted with F=6.236 (p-value = .00) and AdjustR2=0.19 and WOMEN had a positive effect on CGSCORE (Beta=0.09 p-value < .05), and BUSINESS had a positive effect on CGSCORE (Beta= 0.11 p-value < .05), ENGINEERING had a positive effect on CGSCORE (Beta=0.13 p-value < .05), and Log Compensation had a positive effect on CGSCORE (Beta=0.21 p-value < .05).

Table 1 Multiple Regression Analysis

Variables	Unstandardized Coefficients		Standardized Coefficients	t	p-value	Collinearity Statistics Testing	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.32	0.43		3.03	0.00	0.86	1.15
WOMEN	0.56	0.26	0.09	2.12	0.03	0.78	1.27
AGEOVER50	0.17	0.25	0.03	0.68	0.49	0.53	1.87
POSTGRADUATE	0.19	0.25	0.04	0.74	0.45	0.50	1.98
BUSINESS	0.55	0.27	0.11	1.99	0.04	0.81	1.22
SCIENCE	0.29	0.35	0.03	0.82	0.40	0.86	1.15
ACCOUNTING	0.27	0.35	0.03	0.77	0.44	0.65	1.53
ENGINEERING	0.71	0.27	0.13	2.62	0.00	0.66	1.49
OTHER	-0.16	0.32	-0.02	-0.50	0.61	0.75	1.31
POLITIC	0.09	0.25	0.01	0.35	0.72	0.74	1.34
TENURE	-0.01	0.00	-0.05	-1.26	0.20	0.53	1.88
LogCOMPENSATION	0.45	0.11	0.21	3.82	0.00	0.48	2.07
LogTOTALASSET	0.23	0.07	0.18	3.13	0.00	0.42	2.36
DM_CONSUMER	0.04	0.19	0.01	0.21	0.83	0.62	1.60
DM_FINANCIAL	-0.07	0.17	-0.02	-0.44	0.65	0.53	1.87
DM_INDUSTRIAL	-0.22	0.15	-0.09	-1.44	0.14	0.40	2.44
DM_PROPERTY	-0.16	0.15	-0.06	-1.03	0.30	0.40	2.44
DM_RESOURCE	-0.02	0.19	-0.00	-0.14	0.88	0.50	1.96
DM_SERVICE	-0.02	0.15	-0.01	-0.16	0.87	0.39	2.56
DM_TECHNOLOGY	-0.04	0.18	-0.01	-0.21	0.82	0.61	1.63

Adjusted R2 = 0.19

F =6.236 (p-value = .000)

Dependent Variable : CGSCORE

DM_ARGO was omitted to process with the statistic criteria.

Hypothesis Testing

According to Table 1, the accepted hypotheses are as follows. Hypothesis H1 women on the board has a positive effect on CG score. Hypothesis H4 board members in the business and engineering fields have a positive effect on CG score. Hypothesis H7 board compensation has a positive effect on CG score.

Conclusion and Discussion

This research objective is to examine which factors from the board of directors' characteristics encourage results on good corporate governance. The following are the findings of hypothesis testing: 1) The proportion of women on boards improves corporate governance. 2) The proportion of the board of directors who have a business or engineering background has a positive impact on corporate governance. 3) The compensation of the board of directors has a positive impact on corporate governance.

Women on board influences corporate governance because women have good relationships with shareholders and understand the business environment. This is consistent with the research of Srinidhi, Gul, and Tsui (2011), who found that women on the board resulted in quality profit and income which resulted from good corporate governance. Smith, Smith, and Verner (2006) stated that women on the board have enhanced understanding of the business environment. Ullah, Muttakin, and Khan (2019) found that women on the board resulted in corporate social responsibility disclosures.

The educational background of the board can indicate the depth of knowledge within the various disciplines that can assist in understanding and monitoring the business. Board members who graduated from the business administration field influenced corporate governance due to having studied business administration whose course curricula often promotes ethics. Matten and Moon (2004) found that most business schools around the world have begun to integrate CSR into their curriculum and the research of Beji et al. (2020) found that business education background is positively associated with corporate governance dimension. Board graduation from the engineering field has a significant effect on corporate governance because board members that graduated from the engineering field, generally have the skills to create useful inventions that can add value to the organization, concepts for preserving the environment, ideas for working improvements, and present solutions to conserve energy for the organization, and they will help an organization achieve the results of good corporate governance. The findings are consistent with the findings of Koyuncu, Firfiray, Claes, and Hamori (2010), who studied and found that firm performance managed by CEOs with an engineering education performed better than those with other backgrounds, as well as the findings of Zaidi, Azouzi, and Sadraoui (2021), who discovered that board members' engineering education was related to firm performance.

Finally, in terms of board compensation, the board of directors appointed to be members of the board of directors must have knowledge, skills, and expertise in various disciplines. Because the hiring of the board of directors requires the payment of compensation, business owners usually consider previous performance and ensure that compensation is consistent with other companies in the same industry. The research findings show that board compensation is one of the factors that affects corporate governance. This is consistent with the research of Barontini and Bozzi (2008), who found that board compensation and corporate governance of companies listed in Italy had a positive effect on corporate governance. Adeusi, Igbekoyi, and Olusola (2019) found that board compensation had relationship with the corporate governance mechanisms.

Contribution

1) Recommendations for government agencies

The findings of this study can be used by the SEC in policy formulation and to encourage companies listed on the stock exchange to implement corporate governance principles in accordance with the desired objectives through the mechanism that determines the qualifications of the boards that affect good corporate governance. Boards should have a variety of characteristics, including vision, knowledge, experience, gender diversity, and a variety of educational fields, as well as at least one person with expertise in direct principled knowledge of business.

2) Recommendations for the Industry

The Thai Stock Exchange has classified industries into eight groups, each with its own set of operating characteristics. Adopting corporate governance principles in business will benefit all industry groups because the industry is highly competitive both in Thailand and internationally. The Corporate Governance mechanism is a tool for increasing competitiveness and promoting the potential to improve the quality of operations in a variety of industries. The Bank of Thailand, the governing body of the Department of Industrial Promotion, an agency that regulates and improves industry group competitiveness, can use research results as data to determine the board's qualifications. Gender diversity, education, age, and compensation are all factors to consider. Compensation has an impact on corporate governance.

3) Recommendation for business

Business owners (shareholders) must appoint a board of directors to represent them in setting the direction, goals, and supervising the operation of management to ensure transparency and ethical work while taking into account all stakeholder groups.

Future Research

For future research studies on the board of directors' characteristics without the CG Score, it may add to variables such as board duality, board size, and independence of boards, or other factors related to a board's characteristic variables.

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