

# The Effect of Corporate Governance Mechanisms on Earnings Informativeness through Earnings Persistence: Empirical Evidence from Thailand

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## ABSTRACT

This research aims to study effect of causal relationship between corporate governance mechanisms and earnings quality of listed companies in the Stock Exchange of Thailand during 2010-2012. In this study, corporate governance is measured by board characteristic, ownership structure, executive compensation, transparency and disclosure. In addition, earnings quality is measured by earnings persistence and earnings informativeness. The results show that solid corporate governance mechanisms, especially high level of transparency and disclosure score, could lead to increasing of earnings persistence and the increase of earnings persistence could significantly lead to high level of earnings informativeness.

**Keywords :** Corporate Governance Mechanism, Earnings Quality, Earnings Persistence, Earnings Informativeness

## บทคัดย่อ

งานวิจัยฉบับนี้มีวัตถุประสงค์หลักในการศึกษาความสัมพันธ์เชิงเหตุและผลระหว่างกลไกการกำกับดูแลกิจการ และคุณภาพของกำไรของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทยระหว่างปี ค.ศ. 2009-2012 ในงานวิจัยฉบับนี้ ผู้วิจัยวัดระดับของการกำกับดูแลกิจการโดยพิจารณาจากลักษณะของคณะกรรมการบริษัท โครงสร้างความเป็นเจ้าของ การจ่ายค่าตอบแทนให้แก่ผู้บริหารระดับสูง ตลอดจนระดับของความโปร่งใสและการเปิดเผยข้อมูล นอกจากนี้ผู้วิจัยได้วัดคุณภาพของกำไรโดยพิจารณาจากเสถียรภาพของกำไรและความหมายต่อการตัดสินใจของกำไร ผลการวิจัยครั้งนี้แสดงให้เห็นว่ากลไกการกำกับดูแลกิจการที่ดี โดยเฉพาะการเปิดเผยข้อมูลด้านความโปร่งใสและการเปิดเผยข้อมูลที่สูงจะส่งผลให้เสถียรภาพของกำไรเพิ่มขึ้น ซึ่งเสถียรภาพของกำไรที่เพิ่มขึ้นดังกล่าวจะส่งผลกระทบต่อความมีคุณค่ามีความหมายต่อการตัดสินใจของกำไรเพิ่มขึ้นอย่างมีนัยสำคัญ

**คำสำคัญ:** กลไกการกำกับดูแลกิจการ คุณภาพกำไร เสถียรภาพของกำไร คุณค่าของการตัดสินใจของกำไร

## Introduction

A good corporate governance is important for the listed companies because it signifies effectiveness and transparency of the executives leading more confidence to shareholders, investors and managerial stakeholders. In 2002, the Stock Exchange of Thailand (SET) began its campaign to stimulate the companies listed on the Stock Exchange of Thailand to realize importance of good corporate governance by introducing its 15 principles, and later on, in 2004, good principles of corporate governance had been improved to conform with those of OECD (Principles of Corporate Governance of OECD, 2004) Apart from these, the Stock Exchange of Thailand tried to support continuously not only for accepting and bringing corporate governance into practice effectively in the groups of listed companies but also for bringing it into improvement for the corporate governance of today. Its supporting

objectives of the Stock Exchange of Thailand were to raise the level of listed companies of Thailand able to stand rival to many international ones in increase of their competitive abilities as a growth promotion of the Stock Exchange of Thailand and in conformity to the regulations of corporate governance assessment of ASEAN (ASEAN CG) that was a tool of estimating the level of corporate governance of those companies listed in ASEAN and had been brought in use in the middle of ASEAN member countries since 2012. (<http://www.set.or.th>)

From the National Economic and Social Development Plan, 11<sup>th</sup> issue (2012–2016), the National Economic and Social Development Board aimed at adaptation importance of Thailand to multi-central global economies that Newly Industrialized Countries (NICs) in this region, such as Hong Kong, South Korea, Singapore, Taiwan and some member countries in ASEAN paid important

attention to the center of global industrial production and new economic energy. There are, for example, China, Russia and India. They opened up for foreign investors and bourgeois who have their power to buy. This grew rapid. In addition, in 2015, AEC would change ASEAN to the region having free flow of goods, capital and labor.

And inevitably, this impact would happen to the direction of economic and social developments of Thailand in the future. So, it is necessary for human resources preparation of the country and for upgrading many business mechanisms for upcoming co-operation and competition. (NESDB, 2012)

These present developments aim at playing significant roles on corporate governance and increasing interests in the researcher groups in accounting and business managerial fields. Nowadays, numerous researches deal with the corporate governance adopted for several companies around the world, mostly in the United States of America (Jun-Koo Hong, Anil Shivdasani (1995), Flora, F. Nui (2006), Oaeollah Dadgar, Rouhollah Nazari (2012). Their findings indicated positive relationship between corporate governance adoption and earnings of net earnings of important financial figures which play significant role on setting the share prices of the firms from Richard G. Sloan (1993). It is positive to increasing share prices of the company that the financial community has its high confidence that the future earnings of the company will continuously grow. Fan and Wong (2002) examined the structure of shareholding related to earnings and compensation

of all 977 companies in Eastern ASIA and found the conflict between agent and control of financial report. The accounting data on shareholding that on the contrary affect strategic report on earnings management in a long term (meaning making-up of accounting figures), reflected the increasing earnings quality effective to total corporate return.

### **The purposes of this research are:-**

1. To examine the direct effect of corporate governance mechanisms influential in earnings persistence of the firm.
2. To examine the direct effects of corporate governance mechanisms influential in accounting data measured by the total return of the firm.
3. To examine earnings persistence influential in accounting data directly measured by the total return of the firm to check whether corporate governance mechanisms get directly influential in earnings persistence indirectly effective to accounting data measured by the total return of the firm.

### **Motivation**

The objectives of this study are to check the corporate governance influential in earnings levels and total return of the company given accounting informativeness of turnover declaration in Thai Capital Market, referring to the system of corporate governance mechanisms based on the conflict of agent interests in 2010–2012. This study used the earnings persistence system as proxy of corporate earnings level. Eugene F. Fama (1970) stated that market efficiency influenced future earnings. Apart

from academic benefits, this study could also provide a warning to corporate stakeholders to become watchful and to inspect the investment behavior of the manager and/or executive. This is because they could influence corporate values and stakeholder status.

Flora F. Niu (2006), reported the impact of corporate governance qualitative to earnings as financial report. The study signified the relationship between corporate governance and accounting earnings quality, focusing on importance of proper results in performance. And due to the accounting earnings quality as a measure of performance frequently mentioned in a research literature, empirical test results indicated that overall governance quality was negatively related to the criterion level abnormally accrued and to positive influence over earnings return relation. Apart from these, importance of criterion abnormally accrued has also a negative relation with the independence level of board measured by marketing and accounting basics:

1. An accounting-based measure of earnings persistence
2. A market-based measure of earnings informativeness (the return-earnings association)

### Scope of this Research

The variables used in this Study comprised independent variables and dependent variables, as follows:

#### Data and Samples

Two types of variables are used in this study, the independent and dependent variables.

1. Independent Variables are the variables of interest which include:

- 1.1 **Board of Structure:** Board Size, Board Meetings, CEO Duality, Audit Committee
- 1.2 **Ownership Structure and Shareholding:** Block Holding 5%, Institutional Ownership, Foreign Ownership, Family Ownership (25%)
- 1.3 **Executive Compensation:** Compensation for Board of Directors
- 1.4 **Transparency and Disclosure:** Sum of Transparency and Disclosure.

2. Dependent Variables which include:

- 2.1 Earnings Persistence
- 2.2 Earnings Informativeness

### Research Methodology

**Population** and study period: Companies listed on the Stock Exchange of Thailand, a total of 534 firms, operating in the past year (2010–2012). Duration of study taken is 3 years.

Sampling is the companies listed on the Stock Exchange of Thailand, operating in the past year (2010–2012). They must submit financial statement to the Stock Exchange of Thailand the ones listed there, Thailand, for the accounting period of 1 January – 31 December of yearly data collection in SET Index, except companies with following characteristics that will not be included in the study; that is to say, such companies provide financial services for finance and securities groups, banking and insurance because these industrial groups have distinctive asset and liability that differ from other industries, revoked companies or companies of similar status. And there are

also companies under constructing process and companies with incomplete information in the database (Anya Khanthavit, Sillapaporn Srijunpetch and Duanpen Chansirisri (2009: page 498). In this study, the researcher aims at corporate governance mechanisms relating to organization governance as follow.

1. Internal Governance Mechanisms that includes

- 1.1 Board Structure
- 1.2 Executive Compensation

1.3 Ownership Structure

1.4 Transparency and Disclosure

## Theoretical concept and Research related

### Agency theory

This has been introduced by Jensen and Mekling (1976) by Alchian and Demseta (1972) and brought in use to emphasize that the companies' activities were supervised according to the agreement to willingly make exchange more convenient. It explained the best method of

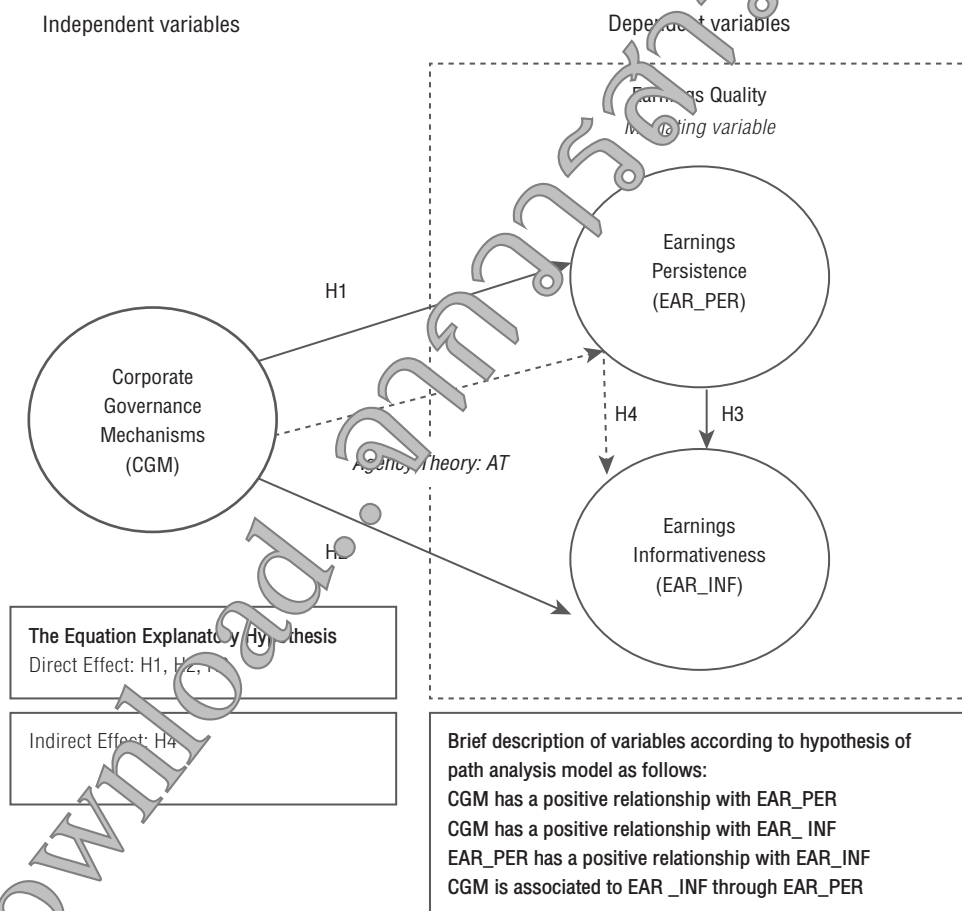


Figure 1 Conceptual Framework Overview

systemizing relationship that one side (principals) assigns work and the other side (agent) performs it. And a problem of agent happens when a shareholder (principals) employs a manager (agent). So, relationship between an operator or agent causes a problem; and an executive may not create highest interest for shareholders or operator. And, moreover, the agent takes informativeness of the operator to be used for his own sake; and it will cause transaction costs of operation called agency costs.

Next theoretical concept on efficient market hypothesis or EMH: It means that the market of which stock prices reflect overall information and data occurring in the market concerning stock/property, including response to relevant information and data. Such a viewpoint is based on belief that investors can get informed about overall information and data in a form of the Stock Exchange prices, which decision is made on the Stock Exchange turnover. In this respect, Fama (1970) provided efficient market hypothesis

that the present prices of the Stock Exchange would reflect the capital market research based on hypothesis which efficient capital market was in lines of information and data available for the investors.

### Data Analysis

Summary of descriptive statistics consists of mean, median and standard deviation of variables interested in the study that can be presented as follows:-

### Descriptive Statistics

Table 1 presented descriptive statistics of overall observation consisting of mean, median and standard deviation of all variables. Mean, median and standard deviation of earnings persistence (EAR\_PER) equal to 0.1023, 0.0616 and 0.7409 respectively. And for mean of ( $R_t$ ), earnings informativeness equals to 0.4001; and median and standard deviation do to 0.2091, 0.9903 respectively.

**Table 1** Descriptive Statistic  
For the periods 2010–2012 (n = 1082)

Variables	Mean	Median	Std. Deviation
<sup>1</sup> EAR_PER	0.1023	0.0616	0.7409
<sup>2</sup> Rt	0.4001	0.2091	0.9903

*Tables Some of the explanatory variables.*

<sup>1</sup>EAR\_PER = “Earnings” is defined as operating income scaled by total assets.

<sup>2</sup>Rt = the stock return of Firm i for the 12 months period from nine months before to three months after the fiscal year-end, calculated as  $(P_{it} - P_{it-1} + D_{it}) / P_{it-1}$

Presentation given in the issues of transparency and disclosure score is a topic that attention is much paid in both domestic and foreign areas. And it is one governance portion on ASEAN to international level that analysts, investors, organizers realize importance of disclosure score with 3 dimensions divided as industrial groups under production and service in descriptive presentation.

From the questions considered by the board have already been checked; and the rest of them making disclosure score of the companies have their 81 items separated from total consequence of all the Stock Exchange of Thailand.

**Notice:** Disclosure score and transparency are one part of good governance based on the S&P data (Standards & Poor) with the following significant issues:-

Structure of shareholding and the rights of investors, transparency and disclosure score, board structure and movement.

From overview on the Stock Exchange of Thailand, the researcher divided industries into service and production. From figure 2, percentage component of S&P Transparency and Disclosure Score is divided from the ownership of shareholders' rights and ownership structure inclining a high level of disclosure score because such a structure is important to be disclosed at 94.09 percent in the industrial group. Service industry equals to 92.15%. And in next step pertaining to Board structure, industrial overview equals to 80.18% and service industry does to 77.30%. In final dimension of financial transparency, industrial sector equals to 64.68% and co-service industry does to 63.21%. In

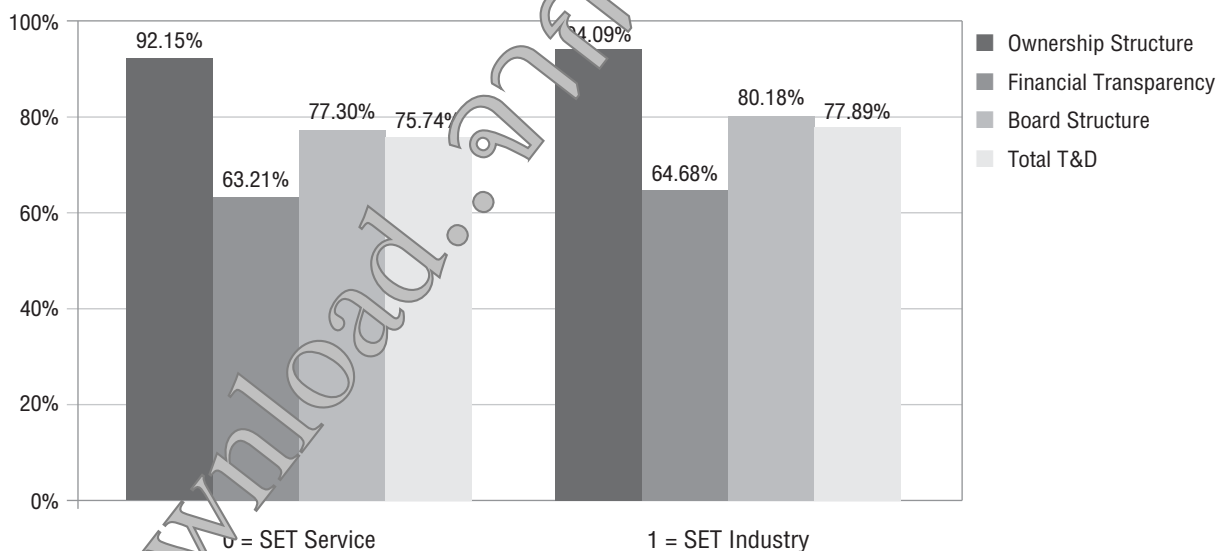


Figure 2 Graphic bars overview of transparency and disclosure score from industries



overall summary of the Stock Exchange of Thailand, disclosure score is important and in accordance with the research Al-Refaee, Zakaria Siam and Al Khatib (2012). They mentioned importance of accounting disclosure score regarded as significant data sources of decision and intention made by the experts of accounting standard development according to an international standard in order to increase responsibility of executives. Ashig Alia, Tai Yuan Chen, Suresh Radhakrishnan (2007) studied to check disclosure score of the family in S&P 500, considering disclosure score of the company, earnings quality reported. And in disclosure score willingly made for corporate governance practice, the study signified that the family company had faced the crucial agent problem in separation from share ownership and execution less than non-family one.

From variables regulating mean of the natural logarithm log of the firm's market value of equity ( $SIZE_{MVE}$ ), the company variable equal to 8.0855 and median of standard deviation does to 7.9808, 1.5903 respectively on basis of the Stock Market price getting optional stock explanatory to performance/operation.

### Multiple Regression Results

#### The association between corporate governance and earnings persistence

Table 2 signified that model 1 with equation consisting of corporate governance mechanisms variable and control one is able to forecast/estimate earnings persistence (EAR\_PER) with significance on confidence level of 95% ( $\alpha = 0.05$ )\*\* (F = Sig t

= 0.015) which such as independent variable is explanatory to (EAR\_PER) significantly on 2.9% level (R Square = 0.029). And upon consideration, it was found that 2 variables out of them all influential in (EAR\_PER) with statistical significance are that of compensation paid to executives. H1e: one having negative correlation that is significant at the levels between compensation for executives and earnings quality measured by earnings persistence in calculation of  $\beta = -0.85$  coefficient having a negative relationship with consequence while  $\beta$  value reduces, causing earnings persistence (EAR\_PER) to increase; or it means that its compensation paid to executives/CEOs is motivation for them to create tactics of making additional value for the business connecting to earnings; and otherwise, it is compensation paid reducing, making earnings persistence increase.

This research lay emphasis on quantitative informativeness analysis as that of company financial budget regarded as an important component in fundamental analysis of stock. This study covered the present financial budgets and the past of the company under consideration of another issue of qualitative data analysis, reflecting abilities of company execution and competition in the present or in the future. And from such data, decision on investment can be made.

From model 1; H1e: outcome has positive relationship significantly between compensation of executives and earnings quality measured by earnings persistence in calculation of  $\beta$  coefficient  $-0.85$  which is negatively connected with consequence obtained when  $\beta$  value reduces,



causing earnings persistence (FAR\_PER) to increase or to imply compensation paid to business CEOs which is motivation for them who organize and create tactics in order to make additional value for the business relating to earnings in otherwise direction—compensation payment reduces, making earnings persistence increase. This can be found that compensation paid in cash figure reduces but compensation paid to executives in otherwise form—that of rights of stock options turnover instead; or the rights of owning stock options which evolve possibly in line of benefits as motivation for executives in the research of Jensen and Murphy (1990), Bryan Nash Patel (2002). Such a research aims at importance of compensation paid to executives in foreign countries who have bought stock options, and the company perspective that gets a high chance to enlarge itself uses a portion of stock options as compensation for executive which will not affect earnings directly.

Table 2: Significant level of 1%. Model 1 has its control variable in calculation of  $\beta$  coefficient of the company size variable:  $SIZE_{MVE}$  which measures market value of equity—one that shows value of business in that moment. Table 3 shows multiple regression results, indicating that standardized coefficient variable or beta value  $\delta_1 \left( \frac{E_{it}}{P_{it-1}} \right)$  has its relationship in the same direction with accounting data estimating stock returns: R on basis of  $\beta$  coefficient equal to 0.208; and it is at statistical significance on confidence level of 99% ( $\alpha = 0.01$ ). Sig value equals to 0.000 which can explain all variables on basis of  $R^2$  0.108;

but variable of total compensation multiplied by earnings persistence has its relationship in the otherwise direction negatively with stock returns on basis of  $\beta$  coefficient equal to -0.043 and it has no statistical significance.  $Y_{10,t}, Y_{11,t}$  One if firm I is in year 2010, 2011, and Zero otherwise. Significant level of 1%.

Table 3 Multiple Regression results:

It was found that variable of standardized coefficients or beta value  $\delta_1 \left( \frac{E_{it}}{P_{it-1}} \right)$  is related in the same direction with accounting informativeness estimating stock returns of the firms (stock return: R) which  $\beta$  coefficient equals to 0.208 and is at statistical significance on confidence level of 99% ( $\alpha = 0.01$ ) Sig value of 0.000\*\*\* that can explain all variables on basis of  $R^2$  0.108 But, variable of total returns multiplied by earnings persistence is related in otherwise direction of stock returns on basis of  $\beta$  coefficient equal to -0.043 and has no statistical significance.

Table 3 The results for the linear regression analysis showed that variables or the Standardized Coefficients Beta  $\delta_1 \left( \frac{E_{it}}{P_{it-1}} \right)$  a relationship in line with the company's stock compensation accounting information measure (Stock returns: R) by a coefficient  $\beta$  equal to 0.208 is significant statistically at confidence level of 99% ( $\alpha = 0.01$ ), which could explain the Sig 0.000\*\*\* all variables with the outcome variable, the  $R^2$  0.108 (Earnings Persistence) correlated negatively in the opposite direction (Stock returns) with  $\beta$  coefficient equal to -0.043 and is not significant statistically.

**Table 2** Multiple Regression of Persistence on Corporate Governance Mechanisms for the periods 2010–2012 (n = 1082)**Model 1**

$$\begin{aligned} \text{EAR}_{\text{PER}} = & \beta_0 + \beta_1 \text{BORDSIZE} + \beta_2 \text{BRDMEET} + \beta_3 \text{AUDIT}_{\text{COM}} + \beta_4 \text{CEO}_{\text{DU}} + \beta_5 \text{BLOCK}_{\text{HD}} + \beta_6 \text{CBOD} \\ & + \beta_7 \text{INS}_{\text{OWN}} + \beta_8 \text{FOREIGN}_{\text{OWN}} + \beta_9 \text{FAMILY}_{\text{OWN}} + \beta_{10} \text{TTD} + \beta_{11} \text{SIZE}_{\text{MVE}} + \beta_{12} \text{LE} + \beta_{13} \text{AGE} \\ & + \beta_{14} \text{BIG4} + \beta_{15} \text{INDUSTDM} + \beta_{16} \text{Y10}_{i,t} + \beta_{17} \text{Y11}_{i,t} + e_{t+1} \end{aligned}$$

Variables	Expected Sign	Coefficients (Standardized Coefficients)	t-statistic P-value
Intercept	None	0.106	0.354
			0.723
CBOD	(+)	-0.067 (-0.085)	-2.530 0.012**
TTD	(+)	-0.008 (-0.057)	-1.659 0.097*
SIZE <sub>MVE</sub>	(+)	0.066 (0.142)	3.385 0.001***
Y10 <sub>i,t</sub>	None	0.147 (0.093)	2.644 0.008***
F-Value	1.90		
P-Value	0.015**		
R <sup>2</sup>	0.029		
Adjust R <sup>2</sup>	0.024		

Tables Some in the explanatory variables.

\* Correlation is significant at the 0.10 level (2-tailed).

\*\* Correlation is significant at the 0.05 level (2-tailed).

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

Model 2 signifies mediating variables measuring variable of earnings that reflects accounting principle overview which measures earnings change of viewpoint based on equation of Richard G. Sloan (1996). Ahmed Riahi- Belkaoui (2004) found that level on positive relationship between social

responsibility of stake organization of returns companies and motivation which executives on criterion adaptation accrued, income and decision scale, outcome are associated with income earned and explanation of total compensation in performance/operation.

**Table 3** Multiple Regression of Earnings Informativeness on Earnings Persistence for the periods 2010–2012 (n = 1082)

**Model 2**

$$R_{it} = \delta_0 + \delta_1 \left( \frac{E_{it}}{P_{it-1}} \right) + \delta_2 \left( \frac{E_{it}}{P_{it-1}} \right) * EAR\_PER + \delta_3 Y10_{i,t} + \delta_4 Y11_{i,t} + e_{it}$$

Variables	Expected Sign	Coefficients (Standardized Coefficients)	t-statistic P-value
Intercept	None	0.600 (0.208)	12.516 0.000***
$E_{it}/P_{it-1}$	(+)	0.397 (0.208)	6.324 0.000***
$E_{it}/P_{it-1} * EAR\_PER$	(-)	-0.041 (-0.043)	-1.298 0.194
$Y10_{i,t}$	None	-0.120 (-0.057)	-1.717 0.086*
$Y11_{i,t}$	None	-0.607 (0.093)	-8.695 0.000***
F-Value	32.624		
P-Value	0.000***		
R <sup>2</sup>	0.108		

Tables Some in the explanatory variables.

\* Correlation is significant at the 0.10 level (2-tailed).

\*\* Correlation is significant at the 0.05 level (2-tailed).

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 4: Model 3 is applied to equations of Warfield, Wild and wilf (1995). For Multiple Regression Results, it could be explained that it was the variable of same company chairman and CEO. ( $E_{it}/P_{it-1} * CEO_{DU}$ ). Jensen (1993) found that CEO who acted as a chairman influential in the company board has tendency towards lack of freedom between execution and management. The research studied also signified that in case CEO and chairman are same, corporate governance mechanisms will be under power of CEO which impairs a checking system affecting the role of corporate governance in conformity to the agency theory of Jensen and Mekling (1976). And there is also a research backing up viewpoint of corporate agency problem highly, causing a negative effect to companies. Such research studies belonged to Rechner and Dalton (1991). Hermalin and Weisbach, Yermack (1996) Brown and Caylor (2004). Their studies found a problem of agency theory. Afterwards, it could be found that variable of shareholding of the institute ( $E_{it}/P_{it-1} * INS_{OWN}$ ), shareholding of the family (25%)

( $E_{it}/P_{it-1} * FAMILY_{OWN}$ ), transparency and disclosure score ( $E_{it}/P_{it-1} * TTD$ ), the company size ( $E_{it}/P_{it-1} * SIZE$ ) have not relative values in the same direction with variable of earnings informativeness. Beta coefficient  $\gamma$  equals to 0.735, 0.337, 2.150, 0.082 respectively; and it is at statistical significance on confidence level of 99% ( $\alpha = 0.01$ )\*\*\* that can explain and forecast the variables. From table 4, the analytical results can also forecast the variables; and it is found that earnings price per share ( $E_{it}/P_{it-1}$ ), board size ( $E_{it}/P_{it-1} * BRDSIZE$ ), board meeting ( $E_{it}/P_{it-1} * BDMEET$ ), compensation paid to executives ( $E_{it}/P_{it-1} * CBOD$ ), share ownership of foreigners ( $E_{it}/P_{it-1} * FOREIGN_{OWN}$ ), Dummy variables Year 2010 and 2011; ( $Y10_{i,t}$ ), ( $Y11_{i,t}$ ) are of relative values in otherwise direction with variable of earnings informativeness. Beta coefficient equals to -1.600, -0.368, -0.591, -0.246, -0.377, -0.65, -0.259 respectively that are at statistical significance on confidence level of 99% ( $\alpha = 0.01$ )\*\*\*. This is summarized that model 3 can explain all variables on basis of  $R^2$  0.266 or 26.6%. And Sig value equals to 0.000\*\*\*.

**Table 4** Multiple Regression of Earnings Informativeness on Corporate Governance Mechanisms for the period 2010–2012 (n = 1082)**Model 3**

$$\begin{aligned}
R_{it} = & \gamma_0 + \gamma_1 \left( \frac{E_{it}}{P_{it-1}} \right) + \gamma_2 \left( \frac{E_{it}}{P_{it-1}} \right) * BORDSIZE + \gamma_3 \left( \frac{E_{it}}{P_{it-1}} \right) * BRDMEET + \gamma_4 \left( \frac{E_{it}}{P_{it-1}} \right) * AUDIT_{COM} \\
& + \gamma_5 \left( \frac{E_{it}}{P_{it-1}} \right) * CEO_{DU} + \gamma_6 \left( \frac{E_{it}}{P_{it-1}} \right) * BLOCK_{HD} + \gamma_7 \left( \frac{E_{it}}{P_{it-1}} \right) * CBOD \\
& + \gamma_8 \left( \frac{E_{it}}{P_{it-1}} \right) * INS_{OWN} + \gamma_9 \left( \frac{E_{it}}{P_{it-1}} \right) * FOREIGN_{OWN} + \gamma_{10} \left( \frac{E_{it}}{P_{it-1}} \right) * FAMILY_{OWN} \\
& + \gamma_{11} \left( \frac{E_{it}}{P_{it-1}} \right) * TTD + \gamma_{12} SIZE_{MVE} + \gamma_{13} LE + \gamma_{14} AGE + \gamma_{15} BLDG \\
& + \gamma_{16} INDUST_{DM} + \gamma_{17} Y10_{i,t} + \gamma_{18} Y11_{i,t} + e_{it}
\end{aligned}$$

Variables	Expected Sign	Coefficients (Standardized Coefficients)	t-statistic P-value
Intercept	None	0.145 (0.359)	0.918 0.359
$E_{it}/P_{it-1}$	(+)	-3.053 (-1.600)	-3.299 0.001***
$E_{it}/P_{it-1} * BORDSIZE$	(+)	-0.082 (-0.368)	-2.125 0.034**
$E_{it}/P_{it-1} * BRDMEET$	(+)	-0.150 (-0.591)	-5.782 0.000***
$E_{it}/P_{it-1} * AUDIT_{COM}$	(+)	0.021 (0.061)	0.446 0.656
$E_{it}/P_{it-1} * CEO_{DU}$	(-)	0.636 (0.322)	2.583 0.010***
$E_{it}/P_{it-1} * BLOCK_{HD}$	(-)	-0.007 (-0.144)	-1.383 0.167
$E_{it}/P_{it-1} * CBOD$	(+)	-0.293 (-0.246)	-3.498 0.000***

**Table 4** Multiple Regression of Earnings Informativeness on Corporate Governance Mechanisms for the period 2010–2012 (n = 1082) (Cont.)

Variables	Expected Sign	Coefficients (Standardized Coefficients)	Statistic P-value
$E_{it}/P_{it-1} * INS_{OWN}$	(+)	0.049 (0.735)	9.298 0.000***
$E_{it}/P_{it-1} * FOREIGN_{OWN}$	(+)	-0.035 (-0.377)	-5.258 0.000***
$E_{it}/P_{it-1} * ^1FAMILY_{OWN}$	(+)	1.167 (0.337)	4.314 0.000***
$E_{it}/P_{it-1} * TTD$	(+)	0.080 (2.150)	5.857 0.000***
$SIZE_{MVE}$	(+)	0.051 (0.002)	2.700 0.007***
LE	(-)	0.009 (0.038)	1.439 0.151
AGE	(-)	-0.002 (-0.035)	-0.754 0.451
BIG4	(-)	-0.070 (-0.035)	-1.211 0.226
$INDUST_{DM}$	(-)	-0.008 (-0.004)	-0.137 0.891
$Y10_{i,t}$	None	-0.145 (-0.069)	-2.237 0.026**
$Y11_{i,t}$	None	-0.546 (-0.259)	-8.472 0.000***

<sup>1</sup> According to the Securities and Exchange Act of B.E. 2551, it determines that shareholders who own stock over 25% can propose the conference vote for the important issue. According to the definition of “family company”, family is able to control the corporate operational policy. So, the researcher has determined that family has to directly and indirectly hold at least 25% of the corporate stock.

**Table 4** Multiple Regression of Earnings Informativeness on Corporate Governance Mechanisms for the period 2010–2012 (n = 1082) (Cont.)

Variables	Expected Sign	Coefficients (Standardized Coefficients)	t-statistic P-value
F-Value	21.417		
P-Value	0.000***		
R <sup>2</sup>	0.266		
Adjust R <sup>2</sup>	0.254		

Tables Some in the explanatory variables.

\* Correlation is significant at the 0.10 level (2-tailed).

\*\* Correlation is significant at the 0.05 level (2-tailed).

\*\*\* Correlation is significant at the 0.01 level (2-tailed).

### Contribution

Accounting earnings informativeness is important for the investors to use in making decision on investment. Thanks to the accounting earnings being the figures that reflect operational outcome, earnings persistence depends on the earnings factor in the present year because earnings thereof consists of some parts of remaining items and cash flow from performance/operation. As a result, the objective of this research is to study relationship between corporate governance mechanisms on earnings informativeness through median variable, earnings persistence and its checking whether it reduces or not because the earnings calculated on earnings criterion give chance to executives able to deliberate in setting up recognition of various items to study whether or not the investors on the Stock Exchange of Thailand see importance of the present year earnings ready to make up

their mind to invest. And, if they consider the earnings persistence additional, proficiency in using assets to operate in all reflects the marketing basis of earnings informativeness variable more increasingly according to operational outcome. Overall, in hypothesis 2f results showed the corporate governance mechanisms variable relating to compensation paid to executives (CBOD). This means that the company governing the compensation paid to executives reduces; and such compensation has its effect connected with operational outcome, reflecting qualitative earnings more highly than this finding which was accorded with the results of Murphy (1999) and Conyon and Sadler (2001). They mentioned sensitiveness of association with the compensation for executives in the United States of America in operational outcome of the company connecting with 3 factors as specified. In this respect, the researcher



gave the hypothesis that might be connected with equity ownership and stock options, resulting in a rapid growth in the United States of America. Such a finding able to measure the compensation for executives differs in each foreign country. In Board structure, the results obtained are Board Size (BRDSIZE), Board Meeting (BRDMEET). And there is relationship in otherwise direction with total return on basis of  $\beta$  coefficient equal to  $-0.368$ ,  $-0.591$  and it is at statistical significance of 1% and 5% respectively. So, from the viewpoint that can be summarized by small Board size and their abilities of decision made results in increasing total returns in the same as Board Meeting (BRDMEET) which is related in otherwise direction to earnings persistence on basis of  $\beta$  negative coefficient, making earnings informativeness ( $R_t$ ) increase. So, if there are numbers of Board meeting, operational outcome of the company become better; and on the contrary, if operational outcome is not good, the meeting frequency will reduce. According to the Agency Theory on concentrated ownership structure, it is under influence of shareholders getting their power to supervise business and becomes effective both positively and negatively. In this research on relationship between shareholding of shareholders with their power to control or supervise business and its earnings, Ding Zhang and Zhang (2007) found that the shareholders in their proportion of share holding on a high scale were connected in otherwise direction with earnings because major shareholders owned business. So, investment of the institution or family shareholders

has/have its/their concentrated proportion which is empowered to control/supervise; but foreign investors from the country using Anglo-American governance systems own shares accounted by shareholding of institutional investors.

### Suggestions

Operational outcome of the public company limited on the Stock Exchange of Thailand is measured by corporate governance mechanisms variable. As a result, it is the matter interested by the group of ASEAN countries; and Thailand as a committee followed by putting them into development based on regulation of international governance. For this reason, the researcher studied the internal impact of governance mechanisms regarded as a supervisor/controller of business in Thai Stock Market; and it will reflect the concept of development expected that investors and companies will bring this equation into practice of analyzing accounting data role on operational outcome. Such data indicated the financial status of operation effective to economy through various variables considered such as accounting data on seeking a chance to invest, reduction of information asymmetry of investors, use of corporate governance mechanisms as information for making decision on investment. And all the researcher mentioned are guided to investors for their consideration in parallel with investment in order to prevent risk from investment and also to prevent external factors of corporate governance that maybe occurs to be taken into account.

## Future Researches

1. The future study of bringing equation into application of financial group effective to movement operation pertaining to total compensation which will be useful to financial analysts.

2. The measurement study of operational outcome relating to corporate governance mechanisms on earnings quality effect measured by another way to reflect qualitative earnings and decision made to use suitable information.

3. Next study should be considered on a risky scale from important investment effective to decision on investment and assessment of the company operational outcome.

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