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Corporate Governance and Its Impact on Bank Performance in Thailand*

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Abstract

This study empirically analyzes the impact of corporate governance factors such as board structure and ownership concentration on the performance of banks listed on the Thai Stock Exchange (SET). Empirical results show that the independence of the board of directors, the size of the board of directors, block-holders (major shareholders), bank size, bank age, leverage, and non-performing loan ratio have a significant impact on bank performance. This study on listed banks in Thailand can add diversity to the growing body of work verifying the relationship between governance structure and performance of financial institutions, especially banks.

Keywords: Board structure, Block holder, Corporate governance, Bank performance, Thailand listed bank
JEL Classification: G21, G30, G32, G38

목차

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I. Introduction

Commercial banks play a vital role as an intermediary for capital mobilization and allocation of economic resources, which supports sustainable economic development. The Bank of Thailand, established in 1942, as central bank, governs the banking sector. The central bank's supervision ensures that commercial banks are prudent and have proper risk management systems, enhances the efficiency of financial institutions, and safeguards economic and financial stabilities. Thailand initiated its financial liberalization efforts in the early 1990s (Watanagase, 2001). Beginning with the acceptance of Article VIII of the International Monetary fund's Articles of Areement, the financial authority took aggressive deregulatory measures in the financial system. Market opening of the financial system ensued with establishing the Bangkok International Banking Facilities (BIBFs) in 1993, which matched the increasing global trend in capital flows to the emerging economies.

Corporate governance refers to the structures and processes for the direction and control of banks. Good corporate governance contributes to sustainable economic development by enhancing companies' performance and increasing their outside capital access (Chancharat et al., 2019). Especially in emerging markets, corporate governance reduces vulnerability to financial crises, reinforces property rights, reduces transaction costs and capital cost, and leads to capital market development. In Thailand, corporate governance confronts problems in two areas. Firstly, overinvestment, over-borrowing, and controlling shareholders have existed at the firm level. Secondly, As the primary sources of corporate fincance, banks have endured poor governance practices. The foundations for good governance practices pre-dated the 1997 financial crisis, but significant progress was visible by late 2000. In 2001, the SET (Stock Exchange of Thailand) released a corporate governance report, which established principles, recommendations, best practice guidelines for directors, boards, shareholders, risk management and reporting, and business ethics. For the financial sector, to strengthen governance practice, the Bank of Thailand introduced rigid regulations to mandate internal auditing and financial statement disclosure standards and limit the number of directorships that bank directors may hold. Since 2012, the Principles of Corporate Governance for Thailand have launched and compatible with the Association of Southeast Asian Nations (ASEAN) Corporate Governance Scorecard criterion. Recently, Thailand has been recognized as a regional leader in corporate governance with a relatively comprehensive framework and achieved high compliance levels in several key areas.

This area of research topic is mainly carried out in developed countries where markets and governance practices are transparent and complete. Also, Fernandes et al. (2018) mentioned that most studies on this topic often excluded financial firms. Corporate governance is affected by the differences in each nation's rules, acts, and norms (Demise, 2006). In Thailand, the significant corporate governance attributes suggested by previous studies affecting corporate performance include ownership concentration, board composition, and managerial ownership and primarily focus on non-financial companies listed on the Stock Exchange of Thailand (SET). Therefore, this paper explores the impacts of corporate governance factors on bank performance. We expect that the study will provide insights into corporate governance in an emerging market and show how board structure and ownership concentration influence bank performance in Thailand, one of Southeast Asia's major emerging market countries. This study will add empirical results and knowledge about the relationship between corporate governance and performance in the banking sector.

The study is organized as follows. Section 2 reviews the literature between corporate governance and bank performance, giving the background to develop hypotheses. Section 3 discusses the data and research estimation. Next, section 4 presents the empirical results. Section 5 offers discussions and implications. Section 6 concludes the paper then indicates some suggestions for future research.

II. Literature Review and Hypotheses Development

1. Corporate governance and bank performance

Corporate governance is the supervision and management system that affects the determination and achievement of the firms' objectives in general and banks in particular. Corporate governance structures provide accountability, adequate control systems and encourage firms to create value through operations, development, and innovation (Detthamrong et al., 2017). Corporate governance offers a base for banks to develop a culture of consciousness, transparency, and accountability, which will result in long-term value creation and financial wealth.

Banks' unique nature and essential role in the economy make corporate governance problems highly specific (Do and Lee, 2020). Besides, Binh and Giang (2012) pointed out that international

competition and the need for structural changes added extra pressure to examine the determinants of bank performance from a corporate governance viewpoint. Therefore, the banks' performance is becoming a key instrument (Nguyen et al., 2016; Vo and Nguyen, 2014). It has always been of particular interest to policymakers and researchers worldwide since banks are vital for national growth and development prospects. The soundness of the financial and banking system ensures the effective and efficient allocation of resources in an economy. Previous studies consider corporate governance as a necessary determinant of performance (Diamond and Rajan, 2009; Waal et al., 2009). However, this area of research yielded different results (Connelly et al., 2017; Mak and Kusnadi, 2005; Binh and Giang, 2012).

The conceptual framework of financial institutions' corporate governance is mainly based on agency theory, stakeholder theory, and transaction cost economics. Divergence of interests is the primary factor for the costs arising via agency contracting and the cost of transaction in an organization. Shareholders' preferences and management's behavior can be expected to be inconsistent, with maximization of the firm's equity market value presumed to be the former's goal. In contrast, management is anticipated to pursue self-beneficial priorities. This study tests the effect of board independence, board size, gender diversity, ownership concentration, bank size, bank age, leverage, and non-performing loan on bank performance.

2. Board independence

An independent director, also known as an outside director, plays an essential role in monitoring the firm's management team (Zabri et al., 2016). Generally, independent directors are not significant shareholders or groups of shareholders and executives of the company. They must have an appropriate qualification, as required by the board of directors, for the unique nature of the company's operations (Detthamrong et al., 2017). In Thailand's context, the board of directors should have independent directors who can freely express their opinion about the corporation's management. Besides, the independent directors' term should not be longer than nine years, starting from the first appointment to the director position.

Independent directors' appearance on the board of directors helps attract investors (Muniandy and Hillier, 2015). In the same vein, Chancharat et al. (2019) note that the board of directors plays a vital role in corporate governance, solving agency problems inherent in an organization. An independent board balances administration, controls decisions, and performs its duties more

efficiently than dependent boards.

The previous research on the relationship between board independence and bank performance shows mixed results. On the one hand, an adverse effect was found in the studies of Agrawal and Knoeber (1996) and Fernandes et al. (2017). On the other hand, Muniandy and Hillier (2015) find that board independence positively impacts firm performance. Likewise, independent directors with their skills and expertise will protect all shareholders' interests and improve earnings quality (Brogi and Lagasio, 2018; Vo and Nguyen, 2014; Adusei, 2011). This view is supported by Hu et al. (2010), who stated that independent directors give their best counsel and advice for the development of a firm because they must retain their reputations. In line with the literature, we argue that board independence's effect on performance to be positive. Therefore, we propose the following hypothesis.

Hypothesis 1: Board independence is positively associated with bank performance.

3. Board size

The board of directors in general and board size are essential factors of corporate governance mechanism, which affects the effectiveness of operations and management in a firm. Board size varies from board to board, depending on the type of firm, firm size, organizational complexity, and board culture (Chancharat et al., 2019). In other words, there seems to be no optimal size for a board (Uchida, 2011; Fauzi and Locke, 2012).

The empirical findings on the relationship between board size and bank performance are mixed (Detthamrong et al., 2017). According to Jensen and Meckling (1998), there is a positive relationship between board size and performance. Likewise, Connelly and Limphayom (2004) indicate that board composition positively relates to overall profitability. This relationship can be explained through the notion that a giant board of directors might access better external financing, which reduces the cost of equity financing. An extensive board of directors with diverse experience and knowledge would probably have more prudent learning and decision-making processes, resulting in better corporation performance.

From an agency perspective, it can be argued that a larger board is more likely to be vigilant in terms of agency problems thoroughly because a greater number of people will be reviewing management actions. From a resource dependence theory perspective, it can be argued that a larger board brings more significant opportunities for more links and, hence, access to resources.

From a stewardship theory perspective, larger boards are likely to have more knowledge and skills at their disposal, and the abundance of views that they assemble are likely to enhance healthy conflict. A larger board might increase communication and coordination costs from transaction cost economics. Thus, if a bank's organizational structure is deficient, this might be echoed in the ineffectiveness of a large board.

An adverse effect between board size and bank performance has been found by Berger et al. (1995) and Yermack (1996). Similarly, several empirical tests indicate a significant negative correlation between board size and profitability (Eisenberg et al., 1998). From the literature perspective, two primary sources of the board size can affect performance, including increased communication and coordination problems when board size increases and the board's decreased ability to control management (Yermack, 1996). The larger board size can make coordination, communication, and decision-making more cumbersome. One plausible interpretation is that large boards result in less contact between board members, poorer decisions, and ineffective coordination. In addition, the increases in board size are not generally value-enhancing as firm complexity increases. As board size increases, boards become less effective at monitoring management because of free-riding problems amongst directors, increased decision-making time and limited time available at board meetings. Thus, the costs of larger boards out-weigh the benefit.

In Thailand, the board of directors is unitary and must meet at least four times per year (Connelly, 2014). A series of regulations put forth by the Bank of Thailand in 2001 spotlighted the board's role at commercial banks. The new and revised rules established guidelines and boundaries for directors, explicitly covering related-party transactions, multiple directorships, conflicts of interest, auditing requirements, and disclosure. In summary, we expect the effect of board size on bank performance in an emerging market like Thailand tends to be negative. Therefore, we hypothesize that:

Hypothesis 2: Board size negatively affects bank performance.

4. Board gender diversity

Diversity in the board of directors leads to innovation and creativity. Historically, most boards of directors are mainly comprised of male directors. The theoretical literature supports the concept of gender diversity. From an agency theory perspective, an increase in variety will provide a balanced board that ensures no individual can dominate the decision-making. From a resource

dependency viewpoint, the increase in board diversity may provide linkages to additional resources. Moreover, from stakeholder perspective, diversity provides representation for different stakeholders (Chancharat and Chancharat, 2019). Female directors are considered hardworking and have better communication skills, which contributes to the entire board's improved problem-solving and decision-making ability and then reduces internal transaction costs. Women are also believed to have higher expectations regarding their responsibilities as directors and generally come better prepared for board meetings and improve board effectiveness in decision-making and information flow.

There has been a strong argument for having more female directors to enhance bank performance in recent years. The effect of women's directorship has been empirically investigated in many studies (Erhardt et al., 2003). Moreover, a study that tested the relationship between board gender diversity in bank performance in several developed countries by García-Meca et al. (2015) confirms a positive correlation. As a result, there is an increasing persuasion that female directors would be able to improve the board of directors' effectiveness (Detthamrong et al., 2017). More female leaders in financial institutions should create a win-win situation and assist the corporation's performance.

Female directors have skills and knowledge on legal, human resource management, communication, and public relations that strongly support the corporation's management, compared to their male counterparts (Zelechowski and Bilimoria, 2004). This view is endorsed by Phondej (2010), who develops a conceptual model linking the conditions and factors associated with female leadership in Thailand in three-level, including macro-level, industry-level, and individual level. In fact, females hold significant leadership positions in national and local governments, universities, business corporations, and family business enterprises in Thailand (Picavet, 2005). However, females continue to be underrepresented at higher organizational levels, and only a small proportion of females make it to the top of Thai organizations (Yukongdi, 2005).

Like many other emerging countries, Thailand's understanding of women's rights, roles, and status is less than progressive. However, there have been changes in corporate governance principles for firms listed on the SET, which focused on the board's structure. Based on the principles, boards should consist of equitable committees with diverse qualifications in terms of skills, experience, and specific abilities and a focus on gender equity. These guidelines suggest including at least one woman on the board. Thus, gender diversity is essential and engenders trust in women to manage large national companies, though there is still insufficient academic

research that concerns female leadership, especially in Thailand. In this study, we propose that:

Hypothesis 3: Board gender diversity is positively associated with bank performance.

5. Block holders

It is generally accepted that ownership structure is a crucial component of corporate governance (Shleifer and Vishny, 1986). The separation of ownership and control allows managers to make decisions that may harm bank performance. Due to this agency problem, controlling shareholders face strong incentives to monitor managers. Ownership concentration control can help reduce the agency problem and agency costs between owners and managers and increase managerial monitoring (Agrawal and Knoeber, 1996). Also, Detthamrong et al. (2017) suggest that concentrated ownership in a corporation's capital structure will result in more effective monitoring. Because ownership concentration helps ease conflicts of interest between managers and owners.

Nevertheless, banks with high ownership concentration face another type of agency problem, such as a conflict of interest between majority shareholders and minority shareholders named principal-principal conflicts. The presence of block holders can mitigate agency, reduce information asymmetry, and improve long-term performance. Large shareholders supervise the management effectively. Block holders often agree on hiring managers, influencing vote initiatives, obtaining higher returns for shareholders, and aligning shareholders' and managers' interests.

To some extent, the presence of block holders may not be detrimental to bank performance. Some studies found that block holders are likely to reduce agency costs (Shleifer and Vishny, 1986). Previous studies also indicate that ownership concentration increases bank performance (Wiwattanakantang (2001); Hartzell and Starks (2000). Larger shareholders might have more substantial incentives to monitor, and therefore, they should oblige managers to be aligned with their objective of increasing their share value. In some cases, Mak and Kusnadi (2005) find no relation between ownership concentration and bank performance. Therefore, it needs to clarify that ownership concentration above a certain level will allow managers to become entrenched and expropriate minority shareholders (Alimehmeti and Paletta, 2009). In other words, bank performance has a positive relationship with ownership concentration, which increases with ownership concentration at low levels thanks to the monitoring effect. Nevertheless, it decreases with ownership concentration at high levels due to the expropriation effect. In the Thailand context, corporate law states that controlling shareholders, or block holders, own at least 25%

of their shares. At this level of ownership, a shareholder has a legal right to nullify any corporate decision. In sum, we propose the following hypothesis.

Hypothesis 4: A block holder is positively associated with bank performance.

6. Bank-specific variables

Based on previous studies, a set of variables related to bank-specific that might influence bank performance (García-Meca et al., 2015), including bank size, bank age, leverage, and non-performing loan. These variables help mitigate our concern that other changes within banks may affect performance.

Bank size identifies the bank structure's difference and is measured by its total assets' natural logarithm. Large banks can take advantage of opportunities to have different income sources (Mamatzakis et al., 2017; Miller and Noulas, 1996; Bonin, Hasan, and Wachtel, 2005). Bank size is associated with variation in physical infrastructure, contractual and informational frameworks, ownership structure, degree of competitiveness, openness, and bank transparency. Typically, bank size positively affects allocative and cost efficiency, implying large banks earn better profits than smaller banks, thanks to economies of scale and larger market share possessed by the larger banks. Increasing size allows banks to spread fixed costs over a greater asset base, reducing their average costs. Growing banks' asset sizes can also minimize the risk by diversifying operations across product lines, sectors, and regions. For an emerging economy like Thailand, we expect the below hypothesis:

Hypothesis 5: Bank size is positively associated with bank performance

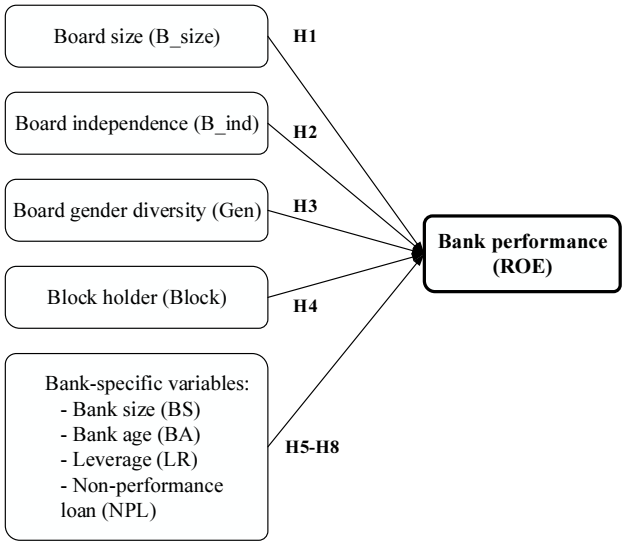
Bank age is represented by the natural logarithm of the year since establishment. This variable is used as a proxy of banks' experience in their businesses. The impact of the age factor on bank performance presents mixed results. On the one hand, with more experience, older banks have more operational advantages. As banks grow older, they get to know their customers better, manage their operations better, and become more capable (Isik and Hassan, 2003). Compared to other nations in Southeast Asia, Thailand's banking system was established earlier and had more extended development. Therefore, it is expected that listed banks in Thailand know how to operate efficiently to reduce operating costs, avoid risks and losses when they get older.

Hypothesis 6: Bank age is positively associated with bank performance

Leverage is the ratio of total debt over equity. A survey of the empirical literature on the relationship between leverage and bank performance shows a lack of consensus. According to Modigliani - Miller theorem, there are three significant ways to finance a company: borrowing, spending profits, and issuing shares (Modigliani and Miller, 1963). A balanced combination between equity and debt plays an essential role in good corporate governance (Grossman and Hart, 1982). In detail, the effect of financial leverage on bank performance has been found to be negative, positive, and even insignificant (Detthamrong et al., 2017; Oganda et al., 2018). This is due to the differences in performance measures and the influence of each nation's institutional framework. Some analysts, e.g., Mitton (2002) and Friedman, Johnson and Mitton (2000), have attempted to indicate that higher debt naturally leads to lower stock returns because weak corporate governance could have correlated with higher debt levels. On the contrary, Ross et al. (2007) foster that debt is a credible signal of firms' quality, particularly the more profitable firms, the more acquired debt. Furthermore, debt increases the incentives to keep performance healthy. Especially in emerging markets, where capital costs are higher than other markets, using debt properly can enhance financial performance.

Hypothesis 7: Leverage is positively associated with bank performance

A non-performing loan (NPL) is the ratio of non-performing loans to gross loans to capture risk and growth opportunities. A loan is non-performing when payments of interest and principal are past due by 90 days or more; interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement; or payments are less than 90 days overdue. However, there are other good reasons, such as a debtor filing for bankruptcy to doubt that payments will be made in full. Generally, NPLs are outstanding loans in their principal and interest for an extended period, contrary to the terms and conditions under the loan contract. Any loan facility which is not up to date in terms of principal and interest payment contrary to the loan agreement terms is NPLs. A high rate means that the bank is at a greater risk of loss if it does not recover the owed loan amounts, whereas a small ratio indicates that the outstanding loans present a low risk to the bank. In essence, a high non-performing ratio means banks engage in higher-risk lending.



〈Figure 1〉 Proposed research model

The surge of non-performing loans increases the major cost of a bank's lending activities. Additionally, information asymmetry refers to loan policy that may create a conflict of interests among stakeholders. This means that banks should have a combination of administration of loans and a transparent loan policy. The effect of non-performing loans on bank performance can be identified with a possible bank failure, a barrier to further lending, reduction in profit level, and even negative economic growth in society. The above discussion leads to the hypothesis as follow:

Hypothesis 8: Non-performing loan is negatively associated with bank performance

III. Data and Estimation

1. Data

This study collected all public banks registering in the Stock of Exchange of Thailand (SET) from 2007 to 2019. Since 2007, there have been eleven listed banks in Thailand, giving a maximum of 143 bank-year observations. After adjusting for incomplete data, the dataset includes 131 observations. Financial data, including financial ratios, the board of directors, ownership statistics, are extracted from annual reports, financial statements, and banks' websites. We use return on equity (ROE) to measure a bank's overall profitability.

〈Table 1〉 Definitions and measurement of variables

Variable	Acronym	Definition
Bank performance		
Return on equity	ROE	The ratio between net income and total equity
Independent variables		
Board size	B_Size	Natural logarithm of the total number of board of directors
Board Independence	B_Ind	The ratio of directors who are independent over the total members of the board
Board gender diversity	Gen	Number of women present on the board
Block holder	Block	Code "1" if the fraction of total outstanding shares held by the block holders is greater than 25% and "0" otherwise
Bank size	BS	Natural logarithm of total assets.
Bank age	BA	Natural logarithm of the year since establishment
Leverage	LR	The ratio of total debt over equity
Non-performing loan	NPL	The ratio of non-performing loans over gross loans

2. Regression models

To test the effect of corporate governance on bank performance, we use corporate governance measures in line with prior studies. Board size (B_size) is measured as the natural logarithm of the total number of board of directors; board independence (B_ind) is measured as the ratio of the number of independent directors to the number of board of directors; board gender diversity (Gen) is calculated as the number of women present on the board of directors; Block holders (Block) is a dummy variable, which takes a value of one when the fraction of total outstanding shares held by the block holders is greater than 25% and "zero" otherwise. Bank performance reflects the resources that each bank used to achieve its objectives. In this study, we use return on equity (ROE) as the measurement of a bank's overall profitability.

Given that our approach to testing the hypothesis relies upon a set of underlying assumptions, we try to mitigate our concern that other changes occurring within the bank may affect the results by adding a set of variables to manage bank-specific characteristics. Bank size (BS) is calculated by the natural logarithm of total assets. Bank age (BA) is computed by the number of years' natural logarithm since it was established. To indicate the influence of debt on bank performance, we use leverage ratio (LR), which is the ratio of total debt over equity. Lastly, the non-performing loan ratio (NPL) - the ratio of non-performing loans over gross loans- is used to assess the bank's effectiveness in receiving repayments on its loans.

To test hypotheses in this study, the pooled OLS, the fixed effects, and random effects panel regressions analysis are performed using the following two equations: one for OLS and the other is for FEM and REM.

$$ROE_{it} = \beta_0 + \beta_1 B\_Exe_{it} + \beta_2 B\_Size_{it} + \beta_3 B\_Ind_{it} + \beta_4 Gen_{it} + \beta_5 Block_{it} + \beta_6 BS_{it} + \beta_7 BA_{it} + \beta_8 LR_{it} + \beta_9 NPL_{it} + u_{it} (1) \text{for OLS model}$$

$$ROE_{it} = \beta_0 + \beta_1 B\_Exe_{it} + \beta_2 B\_Size_{it} + \beta_3 B\_Ind_{it} + \beta_4 Gen_{it} + \beta_5 Block_{it} + \beta_6 BS_{it} + \beta_7 BA_{it} + \beta_8 LR_{it} + \beta_9 NPL_{it} + \epsilon_{it} (2) \text{ for FE and RE models}$$

with $\varepsilon_{it} = a_i + u_{it}$

Where ROE_{it} is the bank performance measured by ROE for bank i at time t, B_Size is the board size, B_Ind is the measure of board independence, Gen represents board gender diversity, Block is the presence of block holder, BS is bank size, BA is bank age, LR is leverage, NPL is a non-performing loan. a_i is the cross-section error component, u_{it} is the combined time series and cross-section error component, and ε_{it} is the composite error term. In fixed effect, estimation a_i becomes a parameter to estimate, and in random effect estimation, it is a random term representing individual cross-section effects.

IV. Results

1. Descriptive statistics

Table 2 presents the descriptive statistics of the variables used in this article for the final sample of 131 bank-year observations. The mean value of ROE is 10.81, suggesting that most of the listed banks in Thailand have a positive profit. Board size shows a mean value of 12 members. The minimum board size is eight, while the maximum one is 19, indicating that the board of directors is quite large. Independent directors exist in all boards of directors and have a 0.41 mean value. On average, there are two female members on each board of directors. Besides, the mean of bank size is 11.88, and bank age is 3.62, equivalent to 1,220 trillion Thai baths and 49 years old, respectively. The mean of leverage and the non-performing loan is 8.65 and 1.63, respectively.

〈Table 2〉 Descriptive statistics on keys variables

Variables	Mean	S.D	Minimum	Maximum
ROE	10.81	4.66	-2.36	22.63
B_Size	12.32	2.88	8	19
B_Ind	0.41	0.12	0	0.75
Gen	2.09	1.38	0	6
Block	0.31	0.47	0	1
BS	11.88	0.48	10.79	12.52
BA	3.62	0.92	0	4.73
LR	8.65	2.37	1.17	16.67
NPL	1.63	1.73	0.25	12.7

Independent variables of the regression model have low correlations concerning the correlation coefficients. As a general rule, strong multicollinearity exists when VIF values exceed ten or tolerance coefficient (1/VIF) is less than 0.1. The correlation results show that all VIF values are less than ten. The tolerance coefficients are greater than 0.1, suggesting that multicollinearity is not likely to be an influential factor driving the results.

〈Table 3〉 Multicollinearity diagnostics results

Variables	VIF	SQRT VIF	Tolerance	R-Squared
B_Size	3.04	1.74	0.32	0.67
B_Ind	1.34	1.16	0.74	0.25
Gen	1.22	1.10	0.82	0.17
Block	1.59	1.26	0.62	0.37
BS	2.41	1.55	0.41	0.58
BA	3.32	1.82	0.30	0.69
LR	1.24	1.11	0.80	0.19
NPL	1.31	1.15	0.76	0.23

Mean VIF: 1.93

2. Estimation results

This study firstly runs pooled OLS, then the fixed-effect model (FEM), and the random effect model (REM) to analyze corporate governance factors affecting the performance of listed banks in Thailand from 2007 to 2019. Hausman test (χ^2 = 5.54; Prob>chi2 = 0.6986 > 0.05) found that the random effect model is more appropriate than the fixed-effect model for

explaining the data in this study. The empirical results are displayed in Table 4.

〈Table 4〉 Multiple regression results

ROE	OLS			FEM			REM		
	Coefficient estimates	t-statistic	P > | t |	Coefficient estimates	t-statistic	P > | t |	Coefficient estimates	z-statistic	P > | z |
Constant	47.95	10.98	4.36	111.71	5.88	0.000	101.66	3.30	0.001
B_Size	-13.49	2.73	-4.93	-7.68	-2.58	0.011	-7.42	-3.60	0.000
B_Ind	9.56	3.52	2.71	-11.78	-3.28	0.001	-10.13	-2.31	0.021
Gen	0.01	0.27	0.04	0.17	0.60	0.547	0.15	0.35	0.730
Block	-1.01	0.95	-1.07	3.57	2.77	0.007	2.92	2.95	0.003
BS	-12.48	3.57	-3.49	-8.34	-4.75	0.000	-7.64	-2.62	0.009
BA	3.55	0.62	5.74	5.17	4.42	0.000	5.33	6.02	0.000
LR	0.39	0.15	2.54	0.44	3.40	0.001	0.45	2.92	0.004
NPL	-0.64	0.23	-2.83	-1.13	-5.35	0.000	-1.12	-5.70	0.000
R-Squared	0.4198			0.4004			0.3978		

In the next step, we conduct the Wald test to check heteroskedasticity. The result indicates that REM violates heteroskedasticity. Therefore, we use robust standard error estimation to fix heteroskedasticity. After all, the adjusted REM model can explain 39.78% of bank performance variation by eight corporate governance factors. In general, except for board gender diversity, seven independent variables have a statistically significant correlation with ROE, including board size, board independence, block holder, bank size, bank age, leverage, and non-performing loan.

V. Discussions and Implications

Some studies have explored the impact of board composition and ownership structures on non-financial firms' and insurance companies' performance in Thailand, but not in banks. The results were inconclusive. This study tried to fill the gap in this field by investigating corporate governance's effects on bank performance.

First of all, board size concerns the board of directors members. The Thailand Public Company Act (PCA) stipulates that a public company can have as many directors as stated in the association's article but must not be less than five persons. The minimum requirements to become a board member, the law stipulates that the person: must be at least 18 years old; must not

be a bankrupt individual; must not have been imprisoned for fraud or embezzlement; must not have been removed from the government office for fraud.

In this study, the results show that board size has a negative impact on bank performance, which is consistent with the proposed hypothesis 1. This finding was also reported by (Eisenberg et al., 1998; Yermack, 1996; Connelly and Limphayom, 2004). Several interpretations of this result are related to the communication and coordination among directors (Lipton and Lorsch, 1992), the firm's evolving nature, and the adjustment in response to the performance. Even in emerging countries, a smaller board, having proven itself to be suboptimal, is enlarged. Such behavior would lead to a negative correlation between board size and profitability. Similarly, Jensen (1999) advocates that smaller boards enhance communication, cohesiveness, and coordination, making monitoring more effective. This result suggests that smaller boards are more effective in monitoring bank managers because larger boards are susceptible to increased agency problems and ‘free-riding’ problems.

It is necessary to consider board size from the agency perspective Chancharat et al. (2019). A larger board is more likely to be vigilant in terms of agency problems thoroughly because many people will be reviewing management actions. However, there is no performance evaluation system; the selection and reappointment of directors are often automatic. In very few cases where a nomination or a remuneration committee exists, the directors' reappointment relies on the committee's assessment. Therefore, a larger board could not access a wide range of resources to enhance bank performance.

Regarding board independence, we expect that board independence positively affects bank performance. Nevertheless, it turns out to have a negative impact on bank performance in Thailand. This study supports evidence from previous works (Pathan and Skully, 2010; Adusei, 2011; Rosenstein and Wyatt, 1990; Pathan and Faff, 2013; Chancharat et al., 2019). Generally, bank boards have more independent directors than non-financial firms, providing a superior source of technical and environmental information for decision-making. Independent directors are a relatively new phenomenon in Thailand since the SEC mandated that every listed company must have two independent directors on their boards of directors.

The definition of independence according to the SEC is as follows (1) not an employee of the company, its subsidiaries, or part of the same conglomerate; (2) do not own more than 0.5% of equity share and (3) not a relative to have unique relations with insiders that may obstruct impartiality in forming duty. Indeed, it is tough to define independence, as one can

never exclude all types of personal ties, especially in an environment where patronage still exists. Therefore, outside directors sometimes cannot complete their role as offering impartial and independent views and oversight that can be valuable to the bank's management. Thus, attention should be focused instead on ensuring that the environment is conducive to these independent directors in contributing to the banks' access to accurate, timely, and sufficient information. Most outside directors are prominent persons and are well recognized by the public. However, these people are already heavily over-committed with both private and public tasks, so it is hard for them to dedicate themselves to the banks' operations. Besides, there is a severe shortage of qualified directors in emerging economics.

With independent directors' presence, boards of directors expect to recognize an active role in overseeing the management in the banking sector. However, some potential drawbacks of having outside directors in Thailand include the less informed of bank activities than insiders, which refer to an information gap, limiting their effectiveness. In some cases, independent directors are not genuinely independent. Actually, they might be co-opted by management, leading to their limited contribution to bank performance. They might not have a chance to behave with absolute independence or are not always adequately qualified.

Concerning board gender diversity, the literature shows an insignificant amount of empirical research into female leadership in Thailand. From the agency perspective, women contribute to board effectiveness through better monitoring and information processing. This study confirms that female directors in the board of directors have a positive but no significant impact on listed bank performance in Thailand, which is in the same line as Eisenberg et al. (1998) and Paweenawat (2019). This result explains that female leaders still face a specific practice in Thailand that is distinct from developed countries. Many problems that female leaders face in these conditions. Though Thai women are increasingly equal to men, the Thai people have preserved their fundamental cultural values. The stereotyping of gender roles appears to be accepted by society.

Based on a survey by Grant Thornton International (2017), the ratio of women working at a senior level in Thailand ranked third in the Asia Pacific region, with 31%, right after Indonesia and the Philippines (Paweenawat, 2019). There have been improvements in education and women's roles in the labor market; they are still under-represented in decision-making. In 2017, the latest revised version of the Corporate Governance Code for Thai listed companies suggests and encourages considering board diversity issues in terms of gender, educational

background, and relevant experiences (Chotiyaputta and Yoon, 2018). Nevertheless, it does not set any minimum requirements on the number or ratio of women directors. In short, this empirical result reflects the level of acceptance and the perception of female leadership roles in the Thai banking sector.

It is generally accepted that block holders' ownership structure is an essential component of corporate governance. Earlier research has given contrasting shreds of evidence on the relationship between ownership concentration and firm performance (Chang, 2003; Fama and Jensen, 1983). This study shows a significant positive relationship between bank performance and block holders in Thailand, which is supported by Alimehmeti and Paletta (2009), Ibrahimy and Ahmad (2020), and Mokhtar et al. (2019). The results confirm the agency perspective that higher concentration increases shareholder power and control, aligns managers' and shareholders' interests, and improves performance.

It is also interesting to investigate how ownership structure affected bank performance, especially in an emerging environment with highly concentrated ownership and information asymmetry. Block holder ownership is used as a monitoring device to verify the significant role in managerial decisions in accordance with maximizing shareholders' wealth (Ibrahimy and Ahmad, 2020). Consequently, block holders may have a personal incentive to expropriate minority shareholders' wealth by exercising corporate control. The majority of the developed markets are characterized by agency conflicts between managers and shareholders. Unlike developed markets, emerging markets are prone to have agency conflicts between majority and minority shareholders. In Thailand, block holders are partly institutions, not just large family owners. The positive relationship indicates the block holders as a monitoring device with modest power by reducing the agency costs.

However, policymakers should reconsider this matter carefully because banks with a high concentration of ownership are more prone to financial distress and crisis. Large shareholders with increased authority to make decisions and control the management create moral hazard behavior. A fair and balanced percentage of controlling shareholders helps prevent them from abusing control power and reduces conflicts between majority and minority shareholders.

Another impressive result is the negative and significant coefficient for bank size. As with the board composition result's interpretation, the bank size's coefficient implies that their profitability decreases when banks become bigger. As commercial banks grow, they benefit from cost efficiencies but gradually lose returns to scale gains. Banks seem to exploit increasing returns to scale until they become too large; however, they continue to enjoy their cost-efficiency.

This result indicates that large banks in Thailand cannot take advantage of opportunities to access different income sources. The average bank size in Thailand is 1,220 trillion Thai baht (equivalent to 40,232 trillion USD), which is relatively larger than banks in other Southeast Asia countries. Large banks commonly have diversified geographically, setting up many branches and with many different sources of income. Large and complex banks with multiple and overlapping layers of hierarchy may suffer from complex agency problems and high agency costs. Bank profitability increases with bank size but at a decreasing rate. An important caveat is that our results are not causal: higher returns are associated with larger banks, but size increases do not necessarily cause increases in returns. Finally, when commercial banks become too large, profits will fall because of bureaucratic reasons, increasing the interest conflict between shareholders and managers because the managers can increase the bank size to gain more power and earn higher salaries.

It should note that profitability depends on both individual banks' characteristics and the markets in which they operate. Banking organizations differ across many features, such as the assets they hold or their services. Larger banks tend to be involved in more business lines and store less capital, whereas smaller banks tend to focus on making loans, taking deposits, and holding more capital. Therefore, policymakers generally agree that banking regulations should be tailored to account for such differences.

The impact of bank age on bank performance presents a positive result. Older banks in Thailand with more business experience will manage operations better. The leverage ratio positively influences bank performance, which means that most of the listed commercial banks in Thailand can control debt and equity levels to enhance performance and increase competitiveness. Lastly, the non-performing ratio shows a negative relationship with bank performance. This result supports the idea that having more non-performing loans - loans that are not earning income and complete payment of principal and interest- negatively impact listed bank performance in Thailand.

Good corporate governance is necessary to enable corporations to operate more efficiently, improve access to capital, mitigate risk, and safeguard stakeholders. In Thailand, good corporate governance principles were published in 2006, and the latest update was in 2017. The principles and the recommended best corporate governance practices are presented in five categories: rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure, transparency, and the responsibilities of the board. Good corporate governance is a crucial feature of listed banks and listed companies in Thailand. The bank or company has efficient and

transparent management systems to prevent conflicts between controlling and minor shareholders, among stakeholders and relevant parties. The concentration ownership in the form of controlling shareholders commonly occurs in banks in Thailand, which helps increase performance. In other words, the controlling shareholders currently seem to be self-constrained and do not extract private benefits for themselves. The results reveal that instead of diverting corporate assets, the controlling shareholders seem to act as monitors who increase the firm's value for other stakeholders. Besides, Thailand's corporate governance principles should raise the requirements and continued evolution of corporate governance codes about independent directors' presence on the boards.

To sum up, improving corporate governance in emerging economies like Thailand should carefully consider increasing diversity, selecting competent board members, ensuring timely information, prioritizing risk management, and evaluating board performance. Also, there is an emphasis on board independence in the corporate governance of commercial banks. Prudential regulation in the banking sector safeguards the financial system's stability and protects deposits, so banks in emerging markets should have higher capital requirements though raising capital is costly. The quality of financial reporting systems should be enhanced. Regulators should focus on improving investor protection laws, increasing financial disclosure, and imposing fiduciary duties upon bank directors so that banks can raise the equity capital required for regulatory purposes.

VI. Conclusion

Like other Asian countries, Thailand faces corporate governance problems, including poor governance practices at the firm level and capital markets are often incapable of effective monitoring. As the leading suppliers of corporation finance, banks should serve a vital monitoring role with their borrowers. Banks themselves were suffering from poor governance practices in many cases to compound the governance difficulties at individual firms (Do, 2021).

The multiple regression analysis revealed that board independence, the board size, block holders, bank size, bank age, leverage, and non-performing loan ratio significantly affect bank performance. The results add insight into corporate governance practices and the connections to the performance of the banking sector. This paper also seeks to contribute to female leadership development's academic literature and lead to practical implications for banks in Thailand to

diversify their boards of directors to improve corporate governance. This study's findings have several significant consequences, such as facilitating the regulatory bodies and firm managers in promoting better and effective corporate governance in Thailand. Investors may benefit from our findings in understanding listed banks' corporate governance and, consequently, diversify their investment portfolios.

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태국 은행의 기업지배구조가 경영성과에 미치는 영향에 관한 연구

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요약

이 연구는 태국증권거래소(SET)에 상장된 은행을 대상으로 이사회 구조와 소유 집중도 등 기업 지배구조 요인이 은행의 성과에 미치는 영향을 분석한다. 실증분석 결과에 의하면 이사회 독립성, 이사회 규모, 블록홀더(대주주), 은행 규모, 은행 연령, 레버리지, 부실채권비율 등이 은행 성과에 큰 영향을 미치는 것으로 나타났다. 태국의 은행을 대상으로 금융기관 특히 은행의 지배구조와 성과 사이의 관계를 검증한 이번 연구는 최근 증가하고 있는 이 분야의 실증 분석에 새로운 결과를 제시한다.

핵심주제어: 이사회구조, (블록주주) 대주주, 기업지배구조, 은행 성과, 태국 상장 은행