



รายงานวิจัยฉบับสมบูรณ์

**Corporate Governance In Small and Medium Size Enterprises (SMEs):
Empirical Evidence from Thailand**

Aim-orn Jaikengkit

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สนับสนุนโดยสำนักงานกองทุนสนับสนุนการวิจัย และจุฬาลงกรณ์มหาวิทยาลัย

กิตติกรรมประกาศ

ผู้วิจัยขอขอบคุณสำนักงานกองทุนสนับสนุนการวิจัย (สกว.) ที่ให้การสนับสนุนเงินทุนการวิจัยตลอดโครงการวิจัย ขอขอบคุณกรมพัฒนาธุรกิจการค้า กระทรวงพาณิชย์ในการให้ข้อมูลงบประมาณของวิสาหกิจขนาดกลางและขนาดย่อม

สุดท้ายนี้ ขอขอบคุณคณะพาณิชยศาสตร์และการบัญชี จุฬาลงกรณ์มหาวิทยาลัยที่สนับสนุนสถานที่และอุปกรณ์เครื่องมือในการวิจัย

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วิสาหกิจขนาดกลางและขนาดย่อมหรือผู้ประกอบการ SMEs มีความสำคัญต่อระบบเศรษฐกิจของประเทศ โดยเฉพาะอย่างยิ่งในประเทศที่กำลังพัฒนา SMEs ถือเป็นผู้สร้างงานและผลิตภัณฑ์ต่าง ๆ สำหรับประเทศไทย SMEs มีจำนวนร้อยละ 90 ของกิจการทั้งหมดในประเทศ โดยกิจการขนาดใหญ่และบริษัทจดทะเบียนในตลาดหลักทรัพย์ล้วนแล้วแต่พัฒนามาจาก SMEs อย่างไรก็ตาม อัตราร้อยละของ SMEs ที่สามารถดำรงอยู่ได้นั้นอยู่ในอัตราที่ต่ำ ดังนั้น การศึกษาวิสาหกิจขนาดกลางและขนาดย่อมสามารถทำให้เกิดประโยชน์ทั้งทางเชิงวิชาการและเชิงปฏิบัติ

วัตถุประสงค์ของการกำกับดูแลกิจการถือเป็นกลไกที่ช่วยให้กิจการประสบผลสำเร็จ โดยรวมถึงการมีโครงสร้าง กระบวนการ และการควบคุมที่มีประสิทธิภาพและเหมาะสมเพื่อประโยชน์ของผู้มีส่วนได้ส่วนเสียของกิจการ ซึ่งการกำกับดูแลกิจการนั้นมีความสัมพันธ์กับ SMEs เช่นเดียวกับที่มีกับกิจการขนาดใหญ่และบริษัทที่จดทะเบียนในตลาดหลักทรัพย์นั้นคือเพื่อส่งเสริมให้กิจการเจริญก้าวหน้า มีความสามารถในการแข่งขัน และการพัฒนาอย่างยั่งยืน อย่างไรก็ตาม การศึกษาข้อมูลเชิงประจักษ์ของการกำกับดูแลกิจการใน SMEs นั้นถูกจำกัดเนื่องจากมีอุปสรรคด้านความน่าเชื่อถือของข้อมูลและระบบการเก็บรวบรวมข้อมูลของ SMEs

เพื่อให้เกิดความรู้ความเข้าใจในการกำกับดูแลกิจการ รวมถึงปัจจัยที่กำหนดและผลลัพธ์ที่ได้จากการมีการกำกับดูแลกิจการที่ดีใน SMEs งานวิจัยนี้จึงประกอบด้วย 3 วัตถุประสงค์หลัก ได้แก่ วัตถุประสงค์แรกคือการสำรวจการกำกับดูแลกิจการของ SMEs ในประเทศไทย วัตถุประสงค์ที่สองคือการศึกษาปัจจัยที่มีผลต่อการกำกับดูแลกิจการของ SMEs ในประเทศไทย และ วัตถุประสงค์ที่สามคือการศึกษาความสัมพันธ์ระหว่างการกำกับดูแลกิจการและผลการดำเนินงานของ SMEs ในประเทศไทย

กลุ่มตัวอย่างประกอบด้วยวิสาหกิจขนาดกลางและขนาดย่อมของประเทศไทยจำนวน 200 แห่ง จากฐานข้อมูลผู้ประกอบการ SMEs ของกรมพัฒนาธุรกิจการค้า กระทรวงพาณิชย์ในปี 2555 กรอบทฤษฎีและแบบสอบถามได้รับการพัฒนาจากปัจจัยที่ได้รับเลือก ข้อมูลการกำกับดูแลกิจการเป็นข้อมูลของปี 2555 และข้อมูลทางการเงินของกลุ่มตัวอย่างเป็นข้อมูลของปี 2554 และ 2556 การทดสอบข้อมูลของงานวิจัยใช้การวิเคราะห์ตัวแปรเอகෙනาม และการวิเคราะห์ตัวแปรพหุนาม

ผลการศึกษาแสดงให้เห็นว่าผู้ประกอบการ SMEs ไทยใช้หลักการกำกับดูแลกิจการไม่เท่ากัน โดยผู้ประกอบการ SMEs ปฏิบัติตามหลักสิทธิของผู้ถือหุ้นมากกว่าหลักการกำกับดูแลกิจการอีก 5 หลัก กล่าวคือ การปฏิบัติต่อผู้ถือหุ้นอย่างเท่าเทียมกัน การคำนึงถึงบทบาทของผู้มีส่วนได้เสีย การเปิดเผยข้อมูลและความขัดแย้งทางผลประโยชน์ อำนาจของคณะกรรมการบริษัท และหลักปฏิบัติในการจัดการ ซึ่งธุรกิจแต่ละประเภทปฏิบัติตามหลักการกำกับดูแลกิจการไม่เท่ากัน กล่าวคือ ธุรกิจอุตสาหกรรมปฏิบัติตามหลักการกำกับดูแลกิจการมากกว่าธุรกิจบริการและค้าขาย

นอกจากนี้ จากการวิเคราะห์ค่าสหสัมพันธ์ พบว่า คะแนนการกำกับดูแลกิจการ SMEs ไทยมีความสัมพันธ์เชิงบวกกับ ขนาดกิจการ อายุกิจการ และคุณสมบัติของคณะกรรมการบริษัท ผลการวิเคราะห์ตัวแปรพหุนามสอดคล้องกับผลการวิจัยในอดีตที่พบว่า ผู้ประกอบการ SMEs ที่มีขนาดใหญ่จะปฏิบัติตามหลักการกำกับดูแลกิจการได้ดีกว่า นอกจากนี้ ผลการวิจัยยังพบว่า มีความสัมพันธ์เชิงบวกระหว่างการกำกับดูแลกิจการกับผลการดำเนินงานของ SMEs ไทยซึ่งใช้อัตราผลตอบแทนต่อสินทรัพย์รวมเป็นตัววัด หลักฐานงานวิจัยแสดงให้เห็นว่าขนาดของกิจการมีความสำคัญต่อการสนับสนุนการกำกับดูแลกิจการที่ดีใน SMEs และการกำกับดูแลกิจการมีความสำคัญต่อผลการดำเนินงานของ SMEs

คำหลัก : การกำกับดูแลกิจการ, แนวปฏิบัติในการกำกับดูแลกิจการที่ดี, คะแนนการกำกับดูแลกิจการ, ผลการดำเนินงาน, วิสาหกิจขนาดกลางและขนาดย่อม, ประเทศไทย

ABSTRACT

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Small and medium-sized enterprises or SMEs are important to the economies of most countries in the world, especially those of developing countries. They create jobs and products; in Thailand, they account for about 90 percent of all Thai enterprises. Another argument for their importance is that large or public companies have also grown from SMEs. However, only a small percentage of SMEs actually survive. Thus, understanding SMEs is useful for not only academics but also for practitioners.

The objectives of corporate governance are to provide mechanisms to ensure the achievement of the business goals. Corporate governance refers to the structures and processes for the efficient and proper direction and control of companies in the interest of all stakeholders. It is as relevant for SMEs as it is for larger or listed firms in order to facilitate growth, competitiveness, and sustainability. However, due to the difficulties in collecting reliable and systematic data on SMEs, empirical studies that explicitly investigate their corporate governance are limited.

In order to contribute to knowledge on SMEs and the corporate governance literature, this study is conducted to meet three main objectives: survey corporate governance practices of Thai SMEs; examine factors that determine corporate governance practices in Thai SMEs; and investigate whether corporate governance practice has a relationship with the performance of SMEs.

The sample consists of 200 Thai SMEs selected from the SMEs database of the Department of Business Development, Ministry of Commerce, Thailand, in 2012. The theoretical framework has been drawn out, and questionnaires were designed based on the factors chosen. Corporate governance data were collected for 2012 and financial statements

were collected for 2011 and 2013. Univariate and multivariate analyses, including a lag model, were employed to investigate the data.

The survey showed that Thai SMEs applied corporate governance principles unequally. They applied the right of shareholder principle more than they applied five other principles of corporate governance, namely: equitability of the shareholders; roles of stakeholders; disclosure and conflict of interest; board authority; and principle of conduct for management. Each type of business also applied corporate governance principles unequally. Manufacturing SMEs applied corporate governance principles more than did service and trading SMEs.

In addition, correlation analysis revealed that Thai SMEs' corporate governance scores have positive correlation with firm size, firm age, and board characteristics. The multivariate analysis results are in line with previous studies' findings that the bigger the SME, the better the corporate governance it has. The results also indicate that there is a positive relationship between corporate governance and performance of Thai SMEs measured by return on assets. The evidence suggests the significance of firm size in promoting good corporate governance in Thai SMEs and confirmed the importance of corporate governance on their performance.

Keywords: Corporate Governance, Corporate Governance Practices, Corporate Governance Score, Performance, SMEs, Thailand

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CHAPTER 1

INTRODUCTION

1.1 Overview and Significance of the Study

Based on information from the Office of Small and Medium Enterprises Promotion (OSMEP), there are around 2.5 million businesses in Thailand, of which 90% are small or medium-sized enterprises (SMEs). For the manufacturing sector, Thai SMEs account for 72% of the sector. SMEs drive the economy; they have generated some 63% of total employment (Wali-ul-Marooof, 2011). Many successful companies, both in developed countries such as the United States and Japan, and in developing countries such as Thailand, started from family-owned businesses or SMEs. In Thailand, some examples include Saha Pathanapibul PLC, Charoen Pokphand Foods PLC, and Central Group. Thus, the survival and growth of SMEs contributes significantly to the sustainability of the country and the economy as a whole.

To be able to survive, SMEs have to be competitive and grow. In large firms, lessons from the past have emphasised the importance and recognition of corporate governance for the sustainability of firms internationally. Following the introduction of the Cadbury Committee on the Financial Aspects of Corporate Governance in 1992, corporate governance codes have been established for large companies listed on stock exchanges over the world.

Although there are many definitions of corporate governance, the core meaning is the system by which companies are directed and controlled (Cadbury, 1992, p. 15). It involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders to enable the competitive advantage for value creation and sustainable development of the organization for the best benefit of the stakeholders.

Corporate governance is typically issue in widely dispersed shareholder business such as listed company. Relating corporate governance principles to SMEs is not common. However, corporate governance is as relevant for SMEs as it is for large companies, in order to facilitate growth and sustainability. Although legal requirements for smaller companies are different from the requirements for large corporations, the basic principles associated with conducting business in a transparent, accountable, and responsible manner, with integrity and fairness, in order to attract capital, is the same whether it is a large or small company. Transparency, accountability, responsibility, integrity,

and fairness are also important aspects of an SME's operation as they are for large firms in order to attract customers and capital providers such as banks and other financiers.

A study shows that SMEs consistently have limited resources. Very often smaller companies do not have professional management (USITC, 2010). Because of family ownership, the leaders of SMEs do not have proficient skills to run the business when their business environment changes. The mortality rate of SMEs is typically high. About 80% of SMEs are forced to close, and only 20% of them can survive. Thailand, in particular, has a survival rate of SMEs in the first three years of operation that is less than 50% (Bangkok Post, 2010). Thus, for SMEs, professional management, which is not explicitly mentioned as one of the principles needed for large firms, is critical to their success.

The principles for good corporate governance are also in line with the royal guidance of H. M. K. Bhumibol Adulyadej on the "Sufficiency Economy" for sustainable development, which is a guidance for national development and administration to modernize in response to the forces of globalization. Basically, "Sufficiency Economy" means that businesses are able to support themselves—to exist and survive. These match with corporate governance in the sense that objectives of corporate governance are to provide mechanisms to ensure the achievement of business goals which will, similarly, result in the survival of the business and sustainability. In addition, Sufficient Economy does not mean only self-reliance and non-involvement with others. It also covers the concern about other people and organizations helping each other to achieve common business goals by creating benefit for the whole group rather than dominance of some companies over others. This corresponds to the principle of corporate governance, which focuses on the interests of all stakeholders (Thaipat Institute, 2011).

Because of the importance of corporate governance on the survival of business, good corporate governance has been largely supported and promoted by the government sector. The plan to promote good corporate governance has been included in the National Economic and Development Plan no. 10 (2007–2011), which aims to promote good corporate governance practice to the private sector, including SMEs, in order to strengthen corporate governance as well as increase the transparency and integrity of business in Thailand.

Moreover, the coming of the ASIAN Economic Community (AEC) also stimulates the important ability of SMEs to compete not only in their local countries' markets, but also in the intra-ASIAN market. A low quality of corporate governance would reduce investor confidence. When combined with the ease of transferring capital from one country to other countries in the AEC, investors will have more opportunities to invest in many businesses in many countries that they believe are good. This makes it harder for SMEs to compete without good corporate governance.

The Organization for Economic Co-operation and Development (OECD) issues principles of good corporate governance, which since 1999 have become important sets of corporate governance standards and guidelines. Many stock exchanges require corporate governance practice standards based on the OECD or similar principles for their listed companies. Previous research has documented the success of effective principles and their application. The results show that corporate governance plays a significant role in the success of business. And almost all of these studies find that corporate governance is helpful for firms (Ashbaugh-Skaife et al., 2006; Black, Jang, & Kim, 2006; Donker & Zair, 2008; Durnev & Kim, 2005; Klapper & Love, 2004; La Porta, Lopez-De-Silanes, & Shleifer, 1999; Mitton, 2002; Rocca, 2007; Rubach & Picou, 2005).

Even though guidelines for good corporate governance apply to the regulation of all Thai companies of a large size listed on the Stock Exchange of Thailand (SET), there is no such regulation for SMEs. However, because of the emerging recognition of the importance of corporate governance of SMEs around the world, guidelines and best practices of corporate governance for SMEs have been promoted based on OECD's principle of corporate governance.

Based on prior studies of the relationships between corporate governance and the value of firms, it has been found that good corporate governance will lead to benefits to the shareholders in terms of return on investments and company value (Brown & Caylor, 2004; Chahine, 2004; Chanisa, 2003; Drobetz, Schillhofer, & Zimmermann, 2003; Gompers et al., 2003; Klapper & Love, 2004; Raja & Kumar, 2007). While a number of studies have been done in developed countries, only a few have been made in developing countries. Moreover, the results of such research in developing countries are mixed. In Thailand, for example, while most studies have found an association between a

governance measure and valuation of the firm (e.g., Cheung et al., 2014; Ficici & Aybar, 2012; Kouwenberg, 2010; Prugsamatz, 2010), some have found no association (e.g., Connelly, Limpaphayom, & Nagarajan, 2008).

Good corporate governance is directly beneficial to the company. It will help to push companies to be transparent and professionally managed, which in the end will result in efficiency, effectiveness, and competitiveness for those organizations that have applied such principles. Thus, theoretically, if the owner of an SME applies the concept of corporate governance for conducting the business, it will help to control and manage the business operation with efficiency and effectiveness, which will lead to sustainable development and added value. More than that, good corporate governance will also help SMEs to easier access sources of funds in the capital market.

Although successful implementation of corporate governance principles has been found in research on public companies, questions have been raised on the application of this mechanism in SMEs, as in contrast to public companies they have fewer resources to implement such mechanisms. Due to difficulties in collecting data, studies on SMEs' corporate governance are rare, and especially corporate governance in SMEs in developing countries.

While there are studies on corporate governance practices of SMEs in some countries, such as Japan, New Zealand, and the EU, there are few studies on corporate governance practices of SMEs in Thailand. Thailand is similar to many Asian countries in that the majority of businesses are family-owned firms. Thailand will also come to be one of the AEC countries, which will lead Thai firms, especially SMEs, to face challenges to be able to compete and survive. Studying the way that SME businesses are directed and controlled, or the corporate governance of them, would help in understanding Thai SMEs and in developing them.

To fill the research gap, this study aims to add knowledge on SMEs' corporate governance by attempting to identify SMEs' corporate governance practices, factors affecting corporate governance practices, and the relation between corporate governance practices and performance in Thai SMEs that have some common characteristics with SMEs in other countries. Although this research is in the preliminary stage, the questions raised in this research are expected to help in decision making

among policy makers and stakeholders in order to make SME corporate governance policies more effective and responsive to the needs of these firms. It would also provide a useful basis for the further development of theoretical knowledge on corporate governance in SMEs.

Moreover, as suggested by previous studies, effective governance in the business sector improves the investment climate by raising the confidence of investors, which in the end will help in attracting capital, improve the efficiency of the capital and financial markets, and achieve sustainable economic growth. Thus, the result of this systematic, detailed study on the state of corporate governance in SMEs in Thailand and the relationship of the corporate governance practices on SMEs' operations will be that it can be used as a tool to customize the code of corporate governance for SMEs—fixing the problems faced by the sector and improving the overall standards of governance in the country.

1.2 Objectives of the Study

This study aims to study corporate governance characteristics of Thai SMEs in order to fulfil the following objectives:

- 1 Review the theories, framework, determinants, and consequences of corporate governance in SMEs.
- 2 Assess the existence of corporate governance in Thai SMEs.
- 3 Identify the extent to which SMEs comply with the Code on Corporate Governance Practices for SMEs.
- 4 Identify the main aspects of corporate governance practices to which the most obvious improvements were made.
- 5 Identify the problematic aspects of corporate governance practice that requires greater attention from shareholders, management, prospective investors, regulators, and other stakeholders.
- 6 Compare the corporate governance levels in the sample as a whole, and in the individual companies that make up the different groups within the sample (manufacturing versus non-manufacturing companies).
- 7 Assess the impact of the business sectors on corporate governance characteristics in SMEs.
- 8 Identify the determinants of corporate governance in SMEs.

- 9 Examine the relationships of corporate governance and firm performance in SMEs.

1.3 Research Questions

The study aims to answer the following questions:

- 1 What is the level of corporate governance in SMEs?
- 2 What is the impact of the business sectors on corporate governance in SMEs?
- 3 What are the determinants of corporate governance in SMEs?
- 4 What are the relationships between corporate governance and firm performance in SMEs?

1.4 Scope of the Study

This study aims to examine corporate governance characteristics, their determinants, and their consequences among SMEs in Thailand. The sample of 400 companies, from a total population of 2,913,167 Thai SMEs in 2012 listed in a database of the Department of Business Development, Ministry of Commerce, Thailand, were selected for the purpose of sending questionnaires to collect corporate governance information. About 50% of the selected sample (200 companies) responded. They included all three sectors of trade and maintenance, services, and manufacturing. The sample firms' financial statement information was then collected for 2011 and 2013.

1.5 Research Study Contributions

This study provides a better understanding of the corporate governance framework for SMEs. The study offers information about the existence and the average level of corporate governance, as well as the most and the least compliant aspects of corporate governance practices in Thai SMEs. It also provides evidence on the effects of ownership structure, firm characteristics, and board characteristics on corporate governance practices of Thai SMEs. In addition, this study reveals the relationship between corporate governance practices and performance of Thai SMEs. By employing Thai SMEs' information during 2011–2013, the results should be of interest to various parties, including shareholders, management, prospective investors and creditors, other stakeholders, regulators, standard setters, policy makers, and academics.

The findings of this study are important because no prior research about the determinants and consequences of corporate governance practices in Thai SMEs has been undertaken. In addition,

using a dataset of Thai SMEs, this study distinguishes them from other SMEs, especially those in developed countries, because of the different environment. However, the characteristics of Thai SMEs are similar to other developing countries. The results of the study might be compatible with other similar SME environments. Thus, the findings of this study are of interest and usefulness for various parties outside Thailand as well.

The study is organized as follows. Chapter 2 provides theory and a literature review. Chapter 3 discusses data and methodology. Chapter 4 provides empirical results, and Chapter 5 concludes.

CHAPTER 2

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter discusses the concepts, theories, and research findings related to the research topic to draw the conceptual framework to guide the independent and dependent variables, as well as the hypotheses tested.

2.1 SMEs

2.1.1. The Definition of SMEs

Based on the definition of small and medium-sized enterprises (SMEs) from the Office of Small and Medium Enterprise Promotion (OSMEP)¹, the classification as a small or medium-sized enterprise is based on the number of employees and the total assets of the company. According to OSMEP, small and medium-sized enterprises in Thailand have been categorized into three broad sectors: 1. production, consisting of agricultural processing, manufacturing, and mining businesses; 2. trading, consisting of wholesale and retail business; and 3. service, which means those businesses that are service providers. To be classified as small enterprises, manufacturing and services businesses must have no more than 50 employees or fixed assets not greater than 50 million baht. Small wholesale enterprises have no more than 25 employees and fixed assets not greater than 50 million baht. For retail business, small enterprises have no more than 15 employees and fixed assets not greater than 30 million baht. To be classified as medium-sized enterprises, manufacturing and services firms must have more than 50 but not more than 200 employees or have fixed assets greater than 50 but not greater than 200 million baht. Medium wholesale enterprises should have more than 25 but not more than 50 employees and fixed assets greater than 50 but not greater than

¹ The Office of Small and Medium Enterprise Promotion (OSMEP) is established under the Small and Medium Enterprises Promotion Act 2000 as a juristic entity and a government office. OSMEP is supervised by the Board of Small and Medium Enterprises Promotion chaired by the permanent secretary of industry. OSMEP acts as the country's central organization in formulating SMEs promotional policies and strategies as well as coordinating governmental and private working systems in achieving strong and sustainable growth of SMEs as the main driving force of the country's economy.

100 million baht. For retail business, medium-sized enterprises have more than 15 but not more than 30 employees and fixed assets greater than 30 but not greater than 60 million baht.

The classification of SMEs by the Office of Small and Medium Enterprise Promotion (OSMEP) is shown in Table 2.1.

Table 2.1 Classification of Thai SMEs by Office of Small and Medium Enterprise Promotion (OSMEP)

Type of Business	Small		Medium	
	Number of Employee	Fixed Assets (Million Baht)	Number of Employee	Fixed Assets (Million Baht)
Manufacturing	50 or less	50 or less	51 - 200	more than 50 to 200
Services	50 or less	50 or less	51 - 200	more than 50 to 200
Wholesales	25 or less	50 or less	26 - 50	more than 50 to 100
Retail	15 or less	30 or less	16 - 30	more than 30 to 60

Source: Office of Small and Medium Enterprise Promotion (OSMEP)

Other international organisations such as the European Commission (EC)², the International Finance Corporation (IFC)³, and Asia Pacific Economic Cooperation (APEC)⁴ also have based their SME classifications on both the number of employees and asset values. SME classifications of other international organisations are presented in Table 2.2.

Table 2.2: Summary of the SME classifications of some international organisations

Enterprise Category	European Commission (EU)		International Finance Corporation (IFC)		Asia Pacific Economic Cooperation (APEC)
	Number of Employee	Total Assets	Number of Employee	Total Assets	Number of Employee
Small	50 or less	\$13 million or less	50 or less	\$3 million or less	5 to 19
Medium	250 or less	\$56 million or less	300 or less	\$15 million or less	20 to 99

Source: European Commission (EC), International Finance Corporation (IFC), and Asia Pacific Economic Cooperation (APEC)

Based on the definition of SMEs from various sources, although the quantifiable numbers or measurements are not exactly the same based on the specific characteristics of each region, they are similar in nature. SMEs are classified mostly by the number of employees and the value of business assets. Their sizes in terms of both employees and assets are relatively smaller than listed firms, which implies limited resources of SMEs.

2.1.2. The Roles of SMEs

An overview descriptive statistical analysis of data on micro, small, and medium-sized enterprises (MSMEs), using country indicators for 132 economies, shows that formal MSMEs are more common in high-income economies, but that in low- and middle-income economies, MSMEs' density (number of formally registered MSMEs per 1,000 people) is increasing at a faster pace. Formal MSMEs employ more than one-third of the world's labour force (Kushnir et al., 2010). In developing countries in Africa, Asia, and Latin America, SMEs provide two-thirds of all formal jobs, and small firms tend to grow faster than large ones (Kok et al., 2013).

The total number of SMEs in Thailand, in 2012, was 2,739,142, which accounted for 98.5% of the total number of enterprises in Thailand. In the same year, the number of SMEs by size was 14,240 medium enterprises (MEs) and 2,724,902 small enterprises (SEs), or 0.5% and 97.9% of the total number of enterprises in Thailand, respectively. Most SMEs operate in the trade and repair sector; these 1,193,038 enterprises comprise 99.8% of total trade and repair enterprises in Thailand. The service sector was the second largest group, totalling 1,035,189 (9.8% of total service enterprises in Thailand). The production/manufacturing sector was the third largest group, comprising 511,015 firms (99.4% of production or manufacturing enterprises in Thailand).

It has been documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation (Yeboah, 2015; European Commission, 2013). In Thailand, SMEs account for a large proportion of the total establishments in the various sectors; for example, 99% of all manufacturing establishments are SMEs, employing some 868,000 workers or 38.9% of the total (Green World, 2014).

Thai SMEs have been regarded as having the strengths of high flexibility, adaptability, and utilization of local/domestic resources and knowledge. They perform well in skill-based sectors including foods, fashion products, tourism, and related products and services. They are also easy business access and quick consumer approach, which are eligible in producing products which are various in design and quality. However, because of scarce resources, their weaknesses include limitations in applying good governance, accounting systems, and professional management, which leads to limitations in access to appropriate funding and lack of integrating networking systems (OSMEP, 2014).

Recently, the Thai government, in the National and Economic Development Plan No. 10 (BE 2550-2554), focused its attention on promoting good corporate governance in SMEs in order to build efficiency and transparency required for expansion and sustainable growth. However, understanding of the way SMEs operate, especially in developing countries, is limited. It is clear that good direction and control should support growth of all kinds of corporations—large, medium, and small. However, it is also clear that SMEs have specific problems, which differ significantly from large or listed firms, such as difficulty in accessing external financing and not having access to all needed skills to manage and maximize their operation, performance, and returns.

As SMEs are key engines of the national and world economy, and the basis for the establishment of larger enterprises, proven guidelines for direction and control of SMEs would create tremendous value to the economy. The environment is changing rapidly, and the ability to cope with this change is significant for the success and survival of SMEs.

2.2 Corporate Governance

2.2.1. Concept of Corporate Governance

The importance of corporate governance is now of increasing interest by many groups of people, as good corporate governance, theoretically, will help enhance the performance of the organisation. The definition of corporate governance from the World Bank Institute (2006) states that it constitutes a set of relationships among a company's management, its board, its shareholders, and other stakeholders. Corporate governance also sets the structure through which a firm sets its

objectives, as well as determining the means of attaining those objectives and monitoring performance.

Corporate governance has received a variety of definitions from various interest groups. The Organization for Economic Cooperation and Development (OECD) defines corporate governance as:

“affected by the relationship among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, block alliances, or other corporations, acting through a holding corporation or cross shareholdings can significantly influence corporate governance. Corporate governance is only part of the larger economic context in which firms operate, which includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the reputation and long-term success of a corporation” (OECD, 1999)

While conventional meanings associated with the issues of representation or separation of ownership and management control (Berle & Means, 1932) result in focusing on protecting the interests of shareholders (Tirole, 2001), recognition of the existence and importance of other stakeholders has been widely accepted. Recently, the scope of corporate governance has been extended. In line with Kawakami et al. (1994), Monks and Minow (1995) emphasise the meaning of corporate governance as the association among various parties in setting the ways and operations of businesses. The widely used definition of corporate governance is Cadbury's definition. Corporate governance means a supervision and control system which is set to achieve a balance between the interests of all stakeholder groups. In the close view, the IFC also specifies that corporate governance is the relationship among management, the executive committee, controlling shareholders, minority shareholders, and all other stakeholders.

Although there are many definitions of governance, there are certain common elements present in most of them. Principles of good governance are corporate management systems which

emphasise the supervision of the board of directors under basic principles of transparency, responsibility, accountability, and fairness to achieve a balance among stakeholder interests for sustainable benefits. Corporate governance refers to the system by which corporations are directed and controlled. Studying corporate governance focuses on 1) searching for principles, rules, and good practices that will help the corporation to work efficiently; 2) designing instruments to ensure effective representation, rules, procedures, accountability, control, incentives, and standards of performance applicable to corporations; and 3) seeking efficient ways to accomplish the objectives and mission of the corporation (Aprea, 2003). Needless to say, all issues are relevant to all kinds of corporations, no matter the corporations' size, ownership structure, characteristics, or environment. Corporate governance has been expanding its focus beyond large corporations to other kinds of corporation, especially small and medium-sized corporations, because of the important roles of such corporations on the economy at large.

2.2.2. Corporate Governance Best Practices

The Organization for Economic Co-operation and Development (OECD), the World Bank, the European Commission, various stock markets, and regulatory agencies play important roles in guiding and advising on corporate governance by issuing practice advisories. Although there are many frameworks from various organisations, there are several frameworks recognized globally by investors, shareholders, management, and regulators. There are no substantive differences between these frameworks. They guide the ways to have effective corporate governance via 1) transparency (the disclosure of financial and operating information under the control and supervision of management) to protect and defend the rights of all stakeholders; and 2) high-quality directors to execute the company's strategy, create a business plan, and make important decisions when necessary to achieve efficiency. Weil, Gotshal & Manges (2014) offers the best source of detailed comparison among each framework and guideline.

While called by different terms among the frameworks, the components of best practices are basically the same and can be employed using the OECD terms for each component. They are: 1)

rights of shareholders; 2) equitable treatment of shareholders; 3) roles of stakeholders; 4) disclosure and transparency; and 5) board responsibilities (OECD, 1999, revised 2004)

2.3 SMEs and Corporate Governance

Despite the publicity that a wider meaning of corporate governance has received in recent years, most corporate governance guidelines and codes of best practices have been developed with the intention of being applied to public companies. Only some sets of guidelines are for other types of businesses, such as the OECD guidelines on corporate governance for state-owned enterprises. Among sets of guidelines for businesses other than public companies, because of SMEs' significance, guidelines on corporate governance for SMEs have gained more attention in recent years.

Effective governance is not a new concept. The underlying premises of each organisation, no matter its size, are the same. All organisations exist to pursue their objectives, such as maximizing return to shareholders or owners. Nevertheless, compared with large enterprises, SMEs have some dominant disadvantageous features. They have limited resources—material, financial, and human. Because of their size, their bargaining power with customers, suppliers, and creditors is low. They may not have access to all needed skills to manage their corporation because of deficiencies among qualified management and all other employees; this may result in running the corporation traditionally, short of strategic vision, long-term planning, and training directions.

From the fact that there are differences between public, large, or private companies and SMEs in many areas, conceptual frameworks developed for improving corporate governance in large or public companies have to be modified when applied to SMEs. However, both require ways to ensure achievement of their companies' objectives, and both require ways to direct and control their operations to be efficient and effective.

Frameworks of corporate governance for SMEs have been developed by various organisations in response for that need and to ensure the sustainability of SMEs. Among these developed frameworks, those from the Institute of Directors (IOD) and the European Private Equity and Venture Capital Association (EVCA) are well known as guidelines for the management of SMEs.

In its awareness of the importance of SMEs, the Thailand Institute of Small and Medium-sized Enterprises (ISMED) also has developed issues in management practices for SMEs, which could be classified into six subgroups of principles: 1) the right of shareholders; 2) the equitable treatment of shareholders; 3) the treatment of stakeholders; 4) disclosure and conflicts of interest; 5) the responsibility of the board; and 6) the principle of conduct for management.

Figure 2.1 Corporate Governance for SMEs framework



The right of shareholders

Shareholders have legal rights. The entity should respect and help them to exercise those rights by openly and effectively communicating information and encouraging shareholders to attend meetings.

The equitable treatment of shareholders

All kinds of shareholders, no matter their size and characteristics, are owners of the entity. They are all financiers of the entity. The entity should treat them fairly and honestly.

The treatment of stakeholders

There are stakeholders who are not shareholders, such as employees, creditors, suppliers, customers, and competitors, which have their legal, contractual, social, or even market-driven

obligation with firms. They are all important to the sustainability of the entity. Hence, the entity should treat them well and implement the basic social responsibility of the business.

Disclosure and Conflict of Interest

The entity should provide disclosures about the business appropriately, in order to ensure that stakeholders have access to the facts and confidence in the monitoring of information.

The responsibilities of the board

The board of directors shall have the relevant skills, understanding, independence, and commitment of adequate management controls.

The principle of conduct for management

The entity should implement proper and effective management to gain effectiveness in its operations.

2.4 Survey on Corporate Governance Practices

Survey results from a study by Jongsureyapart (2006), composed of 101 responses from companies listed on the Stock Exchange of Thailand, found that corporate governance in Thailand has been improved after the Asian financial crisis period. Internal governance mechanisms, accounting standards, information disclosure, and auditing standards have been enhanced.

In order to attract financing from banks and other lenders, SMEs also have to be open and transparent, must share adequate financial information, and must have professional management. They also are required to provide balance sheets and profit and loss statements or more sophisticated documents such as annual budgets, risk assessments, or financial plans in order to receive capital funding from supporters. Although the legal requirements for smaller companies differ greatly from those of larger companies, the principles related to running a business in an open and transparent manner in order to attract financing are the same for most companies.

Because no study on the level of corporate governance in Thai SMEs has been found, the first hypothesis is proposed to study this issue. It is expected that SMEs in Thailand, which were

also affected by the Asian Financial Crisis, possess good corporate governance. Thus, the proposed hypothesis is as follows:

H1: Thai SMEs have good corporate governance.

Thai SMEs, like most SMEs in other countries, have been regarded as having the strengths of high flexibility, adaptability, and utilization of local//domestic resources and knowledge. They perform well in skill-based sectors including foods, fashion products, tourism, and related products and services. They are also easy business access and quick consumer approach, which are eligible in producing products which are various in design and quality. However, because of scarce resources, their weaknesses include limitations in applying good governance, accounting systems, and professional management, which leads to limitations in access to appropriate funding and lack of integrating networking systems (Antony, Kumar, & Labib, 2008; OECD, 2000; OSMEP, 2007).

Therefore, among six dimensions of principles of good corporate governance in SMEs (right of shareholders; equitable treatment of shareholders; treatment of stakeholders; disclosure and conflict of interest; responsibilities of the board; the principle of conduct for management), it is expected that SMEs' compliance with good corporate governance principles in all dimensions are not equal. Thus:

H2: Thai SMEs' compliance with good corporate governance principles in all dimensions are not equal.

One of the prominent characteristics of SMEs is that they have a very closed ownership structure. They typically are family-owned businesses. Therefore, it is expected that among each

dimension of good corporate governance principles, their practice complies with the right of shareholder dimension to the highest degree. Thus:

H2a: Among good corporate governance principles for SMEs, Thai SMEs comply the most with the right of shareholders dimension of good corporate governance principles.

A study shows that SMEs consistently have limited resources. Very often smaller companies do not have professional management. Because of family ownership, the leaders of SMEs do not have proficient skills to run the business when their business environment changes. The mortality rate of SMEs is typically high. About 80% of SMEs are forced to leave their business, with only 20% surviving. Thailand, in particular, has a survival rate for SMEs in the first three years of operation less than 50% (OSMEP, 2010). Thus, for SMEs, professional management—which is not explicitly mentioned as one of the principles needed for large firms—is critical to their success. However, because of their limited resources, it is expected that SMEs would be less likely to comply with the principle of conduct for management principle in corporate governance best practice guidelines. Thus:

H2b: Among good corporate governance principles for SMEs, Thai SMEs comply less with the principle of conduct for management dimensions of good corporate governance principles.

Manufacturing businesses differ from non-manufacturing businesses in some characteristics. Because of its nature—producing products that sometimes have to meet standards—it is important to manufacturing firms to have concrete or well-structured organisation and management. Manufacturing businesses are also capital intensive, while non-manufacturing companies are not. Hence, manufacturing firms need to have more good corporate governance practices in order to

attract more capital than other non-manufacturing firms. Findings from Gillan, Hartzell, and Starks (2003), that firms' factors contribute little compared to industry in explaining firms' level of corporate governance practices which measure using governance index, also partially support the importance of the type of business on corporate governance practices.

Therefore, it is expected that SMEs are not equal in each category of compliance with good corporate governance principles. Thus:

H3: Thai SMEs are not equal in each category of compliance with good corporate governance principles.

and

H3a: Thai SMEs in the manufacturing sector comply the most with good corporate governance.

2.5 Determinant Factors of Corporate Governance Practices

Corporate governance practices vary among companies. Factors affecting corporate governance practices have been studied theoretically and empirically.

Theoretically, according to agency theory, firms with different ownership structures and characteristics have different agency problems and consequently need different methods of governance to cope with them. Uhlaner, Wright, and Huse (2007) also propose the framework of corporate governance on privately held firm that quality of corporate governance in privately held firm determined by three major components, ownership characteristics, board characteristics, and other governance mechanism such as auditors and regulators.

According to the framework, ownership characteristics affect corporate governance of SMEs in both monitoring (disclosure and conflict of interest and the responsibilities of the board dimensions)

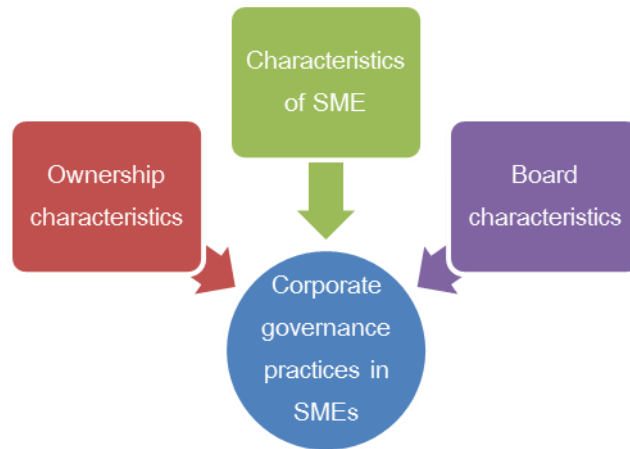
and operating (the principle of conduct for management dimensions) functions by influencing board characteristics and enterprising tasks. Board characteristics have direct influence on the quality of their responsibility and on business operations. Other governance mechanisms, such as auditors and regulators, also affect the quality of corporate governance of firms (Waweru, 2014).

Consistent with the theoretical framework, empirical studies have found that ownership characteristics, top management teams, or board characteristics are associated with corporate governance systems (Segaro, 2010). The results of these studies for SMEs show a relationship between the presence of powerful external stakeholders and board composition (Clarysse et al., 2007); the proportion of ownership and the quality of corporate governance measured using financial reporting (Beuselinck & Manigart, 2007); the spread of ownership and board characteristics and enterprise tasks (Brunninge et al., 2007; Zahra et al., 2007); and ownership characteristics and monitoring practices (Scholes et al., 2007).

In addition, studies in the Thai setting have found that firms' characteristics have strong influence on the quality of firms' corporate governance. They found associations between the level of corporate governance and firm size (Kruapong, 2011; Yodbute, 2010), business sector (Krupong, 2011), business life cycle (age) (Kruapong, 2011), and financial characteristics such as leverage (Yodbutr, 2010).

Based on a theoretical framework and the findings of earlier research, the factors affecting corporate governance practices in SMEs are classified into three categories: (1) ownership characteristics, (2) characteristics of SMEs, and (3) board characteristics. The framework is presented in Figure 2.2.

Figure 2.2 Determinacy of Corporate Governance for SMEs



Ownership characteristics

Different ownership structures induce different agency problems, thereby different ways to cope with these problems. Ownership structures have been found to have a relationship with the quality of corporate governance in both developed countries (Chung & Zhang, 2011), and developing countries (Lee & Park, 2008; Zheka, 2005). Particularly in Thailand, researchers have found a positive correlation between foreign shareholders and the quality of corporate governance.

In addition, upon a closer look to only studies of SMEs, similar results are also found across countries. Ownership characteristics have an impact on corporate governance practices of SME firms. The results of the studies on SMEs show a relationship between the presence of powerful external stakeholders and board composition (Clarysse et al., 2007); the proportion of ownership and the quality of corporate governance measured using financial reporting (Beuselinck & Manigart, 2007); the spread of ownership and board characteristics and enterprise tasks (Brunninge et al., 2007; Zahra et al., 2007); and ownership characteristics and monitoring practices (Scholes et al., 2007).

One of the unique characteristics of SMEs is that they have a very closed ownership structure. They typically are family-owned businesses. Therefore, their ownership structure is normally concentrated. Previous research has found a significant effect of ownership concentration on

governance quality in SMEs. Arosa, Iturralde, and Maseda (2009) found a positive relationship between ownership concentration and corporate governance in privately held firms in Spain. Khanchel (2007) also found that ownership structures have significant effects on governance quality. In addition, ownership concentration has been found to have a non-monotonic (inverse U shape) relationship with voluntary adoption of corporate governance reform (Tuschke & Sanders, 2003).

Therefore:

H4: There is a relationship between ownership concentration and the quality of corporate governance in Thai SMEs.

Characteristics of SMEs

Different characteristics induce different corporate problems, thereby different ways to cope with them. Previous studies have investigated the relationship between companies' size, age, and risk characteristics with the existence of corporate governance practices. Cheune et al. (2008), using a sample of 337 Thai firms and 168 Hong Kong firms listed on the stock exchanges of these countries in 2002, found a strong association between firm characteristics and the quality of corporate governance measures using the degree of disclosure.

Thus:

H5: There is a relationship between Thai SME characteristics and their quality of corporate governance.

In empirical results from a study commissioned by Institutional Shareholder Services (ISS), Brown and Caylor (2004) found a relationship between size and corporate governance. Similar results also were found in a study by Khanchel (2007), who studied the determinants of good governance in US firms. The results showed a significant and positive relation between good governance and firm size. Kouwenberg (2010) conducted a study to investigate corporate governance of listed firms in Thailand in the period 2000–2008. This research found that large companies tend to better follow the principles of corporate governance than smaller companies. There are differences between large and small companies. Large companies have larger boards, more independent directors, more subcommittees, and written corporate governance policies.

Additionally, in a study sample of the top 100 Malaysian listed companies in 2003, Ariff, Ibrahim, and Othman (2007) found that among firms' characteristics studied (profitability, leverage, growth, market valuation, size, age, ownership structure, and countries of operation), only firm size had a strong and positive relation to corporate governance practices. Similarly, a study of companies listed on the Alternative Exchange (AltX) in South Africa also found that larger companies were more likely to conform to corporate governance guidelines, hence, to increase the quality level of their corporate governance (Scholtz & Smit, 2015)

Furthermore, Cunha and Mendes (2017) studied the financial determinants of the level of corporate governance measured using an index of corporate governance disclosures across a large sample of Portuguese firms in the period 2005–2011 and found that firm size had a significant and positive influence on the corporate governance disclosure index.

Therefore:

H5a: There is a relationship between Thai SMEs' size and their quality of corporate governance.

When firms get older, they face contracting problems. They do not have the ability or are unwilling to design contracts that bind employees and their ideas. It is hard for them to retain good employees and to build on their success, resulting in deterioration in the quality of corporate governance. Consistent with that, a study by Loderer and Waelchli (2011) on a sample of 9,947 listed firms between 1976 and 2009 found that common metrics of good governance, such as the governance index of Gompers, Ishii, and Metrick (2003), worsen over time.

Therefore:

H5b: There is a relationship between Thai SMEs' age and their quality of corporate governance.

The relationship between a firm's leverage and its corporate governance have long been investigated. Highly leveraged firms might enhance their corporate governance to gain a greater reputation. They would adopt corporate governance reform to reduce their debt ratio, to enhance their competitiveness, or to show their restructuring efforts to shareholders and stakeholders (Chung, 2000). They also could be pressured by their creditors to enhance their corporate governance (Cho & Kim, 2003). Empirical results from Gillan et al. (2003), Brown and Caylor (2004), Black et al. (2006a), and Lee and Park (2008) support a positive association between leverage and corporate governance.

However, there are studies that support a negative association between firms' leverage and their corporate governance quality level. In the US market, Friedman et al. (2003) and Gillan et al. (2003) found that debt ratio is negatively associated with corporate governance. Similarly, in the Asian market (Korea), Lee and Park (2008) found that the debt ratio is also negatively associated with the corporate governance score, and Faccio et al. (2001) documented that higher level of debts is associated with lower corporate governance.

Thus, a relationship between firm leverage and corporate governance is expected. Therefore:

H5c: There is a relationship between Thai SMEs' leverage and their quality of corporate governance.

Board characteristics

Previous research indicates that theoretically, board characteristics is one of the significant factors that determines the degree of corporate governance (Apadore & Zainol, 2014). Empirically, there are studies supporting this relation. Measuring corporate governance using the degree of corporate disclosure and transparency in two emerging markets, Hong Kong and Thailand, and analysing corporate disclosure practices as a function of specific firm characteristics, the levels of corporate disclosures in Thailand have been found to be higher than in Hong Kong. The empirical results also show that the financial characteristics of firms tend to exhibit a significant association with the degree of disclosure in Hong Kong but not in Thailand. On the other hand, corporate governance characteristics tend to exhibit strong associations with the degrees of disclosure among Thai firms. Specifically, Thai companies with high proportions of outside directors and large boards tend to have high degrees of disclosure (Cheung et al., 2008).

Therefore:

H6: There is a relationship between Thai SMEs' board characteristics and their quality of corporate governance.

And

H6a: There is a relationship between Thai SMEs' board size and their quality of corporate governance.

2.6 Corporate Governance and Firm Performance

The principles of corporate governance will enable organisations to compete both nationally and globally, which will provide opportunities for such organisations in the global capital markets. Past studies demonstrate the importance of good corporate governance for business operations and performance. These studies indicate that corporate governance: 1) allows for the monitoring of the behaviour of management efficiency and also helps support company operations (Bowen et al., 2008); 2) produces good performance measured by return on equity and profit margin (Brown & Caylor, 2004; Drobetz et al., 2003; Gompers et al., 2003; Klapper & Love, 2004), and return on assets (Abor & Biekpe, 2007); 3) allows for the measurement of firm value by using Tobin's Q (Brown & Caylor, 2004; Denkirati, C. (2003); Gompers et al., 2003; Klapper & Love, 2004); 4) assists with shareholder payout measured by dividend yield and stock repurchases (Brown & Caylor, 2004); 5) is associated with accrual and correlated with accounting restatements (Larcker et al., 2007; Puksamatanan & Nittayagasetwat, 2012); and 6) has the ability to explain the results of future operations and future excess stock returns (Larcker et al., 2007). Additionally, some studies have found a positive relationship between growing corporate governance implementation and the firm's performance (Aren et al., 2014).

However, there are some research results that have shown no association between corporate governance and performance variables. Some have found a negative relationship between corporate governance and firm performance measured by net profit margin (Bauer et al., 2004), return on assets (Bhagat & Black, 2002), return on equity (Bauer et al., 2003), and Tobin's Q (Bhagat & Black, 2002).

Although some studies did not find any positive correlation between corporate governance and business performance, studies conducted using SMEs, in particular, have found the tendency of such relationships. They found that corporate governance has: 1) a statistically positive effect on

profitability of SMEs (Abor & Biekpe, 2007; Raja & Kumar, 2007); 2) a huge impact (higher abnormal returns) in small Thai listed companies (Puksamatanan & Nittayagasetwat, 2012); and 3) a positive impact on internationalization of SMEs while stewardship orientation and strategic participative process in SMES stringent the relationship (Segaro, 2010). Moreover, they found that the characteristics of boards of directors have an effect on the stock price of SMEs that have made an initial public offering (Chahine, 2004).

Based on the results of prior studies, therefore, the relationship between corporate governance and SMEs' performance in Thailand has become a very interesting topic for research. For analysis, corporate governance will be measured by using the corporate governance checklist (questionnaire), which is the application from the checklists for good corporate governance of listed firms and SMEs in Thailand.

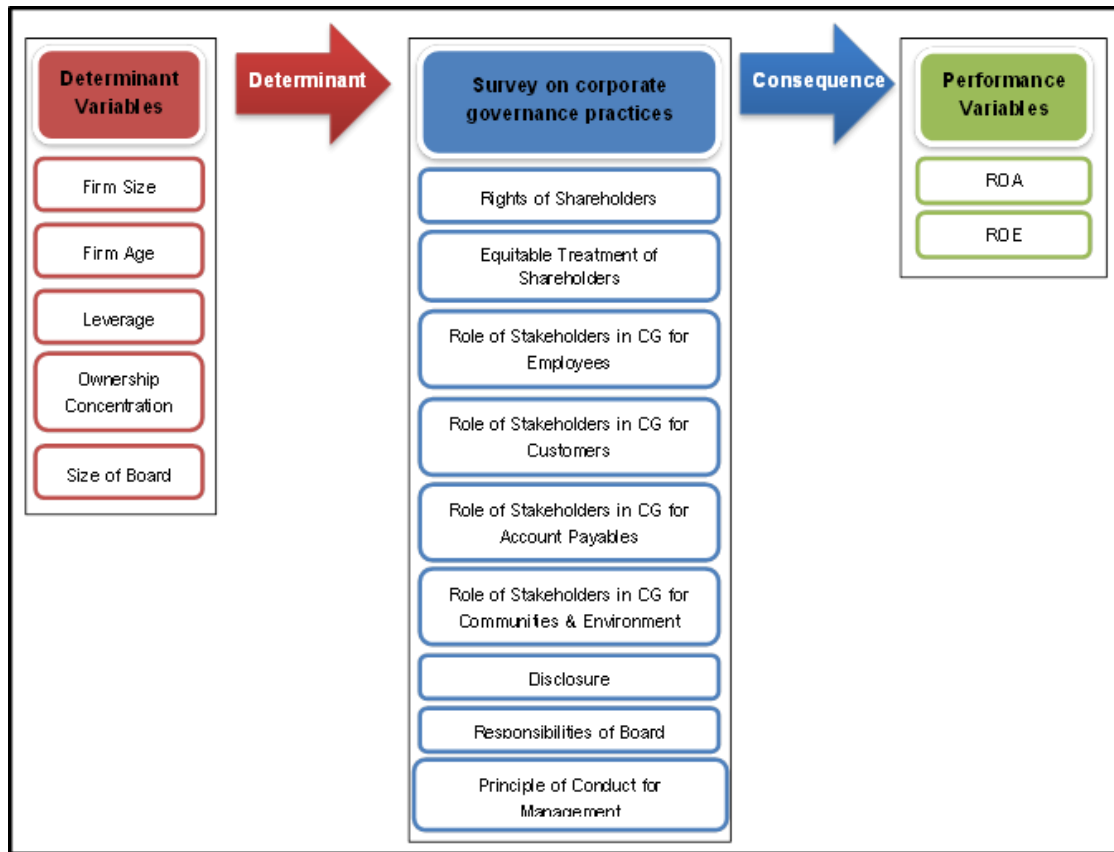
Based on previous literature, it is hypothesized that:

H7: There is a relationship between the quality of Thai SMEs' corporate governance and their performance.

2.7 Proposed Conceptual Framework and Hypotheses

With the synthesis of the review of the theoretical concepts and related research, the research framework for studying corporate governance in SMEs can be drawn as in Figure 2.3, and a summary of hypotheses is presented below.

Figure 2.3 Proposed Conceptual Framework



As shown in Figure 2.3, this study could divide into three parts. The first part is the survey of Thai SMEs' corporate governance practices. The second part covers factors affecting Thai corporate governance practices. The third part is corporate governance and SMEs' performance. The hypotheses and expectations are summarized in Table 2.2.

Table 2.2 Summary of Hypotheses

No.	Hypothesis	Expectations	References
1. Survey of Thai SMEs' corporate governance practices			
H1	Small and medium-sized enterprises have good corporate governance.	Accept	Jongsureyapart (2006)
H2	Thai SMEs' compliance with good corporate governance principles in all dimensions are not equal.	Accept	-
H2a	Among good corporate governance principles for SMEs, Thai SMEs comply the most with the right of shareholders dimension of good corporate governance principles.	Accept	-
H2b	Among good corporate governance principles for SMEs, Thai SMEs comply less with the principle of conduct for management dimensions of good corporate governance principles.	Accept	-
H3	Thai SMEs are not equal in each category of compliance with good corporate governance principles.	Accept	Gillan et al. (2003)
H3a	Thai SMEs in the manufacturing sector comply the most with good corporate governance.	Accept	Gillan et al. (2003)
2. Factors affecting Thai SMEs' corporate governance practices			
2.1 Ownership Structure			
H4	There is a relationship between ownership concentration and the quality of corporate governance in Thai SMEs.	Accept	Arosa et al. (2009), Khanchel (2007), Tuschke & Sanders (2003)

Table 2.2 Summary of Hypotheses (Cont'd)

No.	Hypothesis	Expectations	References
2.2 Firm Characteristics			
H5	There is a relationship between Thai SME characteristics and their quality of corporate governance.	Accept	Cheune et al. (2008)
H5a	There is a relationship between Thai SMEs' size and their quality of corporate governance.	Accept	Brown & Caylor (2004), Khanchel (2007), Kouwenberg (2010), Ariff et al. (2007), Cunha & Mendes (2017)
H5b	There is a relationship between Thai SMEs' age and their quality of corporate governance.	Accept	Loderer & Waelchli (2011), Gompers et al. (2003)
H5c	There is a relationship between Thai SMEs' leverage and their quality of corporate governance.	Accept	Chung (2000), Cho & Kim (2003), Gillan et al. (2003), Brown & Caylor (2004), Black et al. (2006a), Lee & Park (2008), Friedman et al. (2003), Faccio et al. (2001)
2.3 Board Characteristics			
H6	There is a relationship between Thai SMEs' board characteristics and their quality of corporate governance.	Accept	Cheung et al. (2008)
H6a	There is a relationship between Thai SMEs' board size and their quality of corporate governance.	Accept	Cheung et al. (2008)

Table 2.2 Summary of Hypotheses (Cont'd)

No.	Hypothesis	Expectations	References
3. Corporate governance and SMEs' performance			
H7	There is a relationship between the quality of Thai SMEs' corporate governance and their performance.	Accept	Larcker et al. (2007), Bowen et al. (2008), Puksamatanan & Nittayagasetwat (2012), Abor & Biekpe (2007), Brunninge et al. (2007), Segaro (2010), Aren et al. (2014)

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Design

There are three parts of analysis in this study. The first part is the survey of SMEs' corporate governance practices. The second part is factors affecting SMEs' corporate governance practices, and the third part is the association between SMEs' corporate governance practices and performance.

The corporate governance index was determined after the SMEs answered all the survey questions in the first part of the study. The corporate governance index was used as the dependent variables for the second part of the analysis (factors affecting SMEs' corporate governance practices) and the independent variables for the third part of the study (the association between SMEs' corporate governance practices and performance).

3.2 Research Tools

The tool used in this study is the mail-questionnaire based on the corporate governance checklist for SMEs constructed by the researcher. The questionnaire is presented in Appendix A.

The contents of the questionnaire are divided into two sections.

Section 1 contains general information on small and medium-sized enterprises in Thailand, including business type, business model, and the duration of the operation.

Section 2 contains corporate governance information or the corporate governance checklist which has been developed based on the framework for good corporate governance for the listed firms in the Stock Exchange of Thailand (2012) and the corporate governance assessment for SMEs of Institution for Small and Medium Enterprises Development (ISMED, 2007), as well as the corporate governance checklist for unlisted firms in the UK of the European Confederation of Directors' Associations (ecoDA) and the Institute of Directors (IOD), published in 2010. The corporate

governance checklist comprises six main topics related to best practices for good corporate governance:

- ☐ The rights of shareholders and key ownership functions. Items in this part covered two issues in the right about shareholder principle: 1) awareness of the importance of exercising their voting right in a fair manner, and 2) disclosure of corporate information to shareholders clearly, accurately, completely, and transparently.
- ☐ Equitable treatment of shareholders. Items in this part covered two issues in the equitable treatment of shareholders: 1) treat all shareholders fairly and equally, and 2) regulates on disclosure of confidential corporate information with shareholders acknowledge and strict compliance.
- ☐ Roles of stakeholders in corporate governance. This part is partitioned into four kinds of stakeholders: employees, customers, accounts payable, and communities and the environment.
 - Items in the employee part covered 10 issues in the role of the employee: 1) recognizes the importance of staff by providing efficient work systems including training to develop employee skills, 2) establishes part or designated person responsible for employee benefits to protect the rights, safety, and welfare of employees, 3) promotes and develops employees' knowledge, integrity, and ethics, 4) creates a good working environment and provides basic facilities such as well-lit offices, clean drinking water, bathroom hygiene etc. , 5) provides benefits for employees, such as social security, life and accident insurance, and provident fund, 6) evaluates the performance of employees at least once a year, 7) considers performance competence, responsibilities, behaviour, and work experience when evaluating employees, 8) penalties clearly employee offender case with equitable process, 9) provides opportunity for all employees to contribute their comments freely by having channels that allow employees to comment, and 10) provides encouragement to employees, such as rewarding outstanding employees, annual banquet, etc.

- For subgroup customers, nine items asked about practices concerning the customer:
 - 1) focuses on having standard quality of production, distribution, logistics, and service;
 - 2) provides quality and standardized products and services at the same time taking into account the needs of customers;
 - 3) aims at improving quality of production and service continuously by encouraging employees to receive training to enhance their skills and expertise;
 - 4) complies with the terms and conditions agreed upon with the client;
 - 5) establishes an effective customer complaint management system;
 - 6) having a strict confidential client information policy;
 - 7) provides service to all customers with courtesy, honesty, and sincerity to impress the customer;
 - 8) complies with strict consumer protection regulations announced by regulator offices such as the Office of the Consumer Protection Board (OCPB) and Thai Industrial Standard Institute (TISI);
 - and 9) guarantees the quality of products and provides after-sales service.
- For subgroup suppliers, creditors, and competitors, five items asked for the practice of the firm concerning their suppliers, creditors, and competitors:
 - 1) behaves with integrity and fairness toward suppliers, creditors, and competitors;
 - 2) complies strictly with the agreed terms and conditions with suppliers, creditors, and competitors;
 - 3) enforces strict information confidentiality of suppliers, creditors, and competitors;
 - 4) performs trade practices with competitors with honesty;
 - 5) exhibits morality in business competition with competitors, such as not discrediting competitors.
- For the subgroup environment and social responsibility, eight items asked about the firm's practices:
 - 1) follows the rules and regulations strictly in the field of safety, health, and environment;
 - 2) discloses and keeps all related parties' informed information that could affect safety, and occupational and environmental health;
 - 3) takes responsibility to resolve issues that may affect the community and the environment, such as having effective treatment of waste;
 - 4) performs activities that are beneficial to society, such as donations to charity organisations;
 - 5) encourages employees to participate in activities that benefit the community and build relationships in the community, such as community forestry, cleaning, and so on;
 - 6) creates awareness among all employees of the importance of safety, health and environment, and social responsibility;
 - 7) consumes energy and natural resources of

the organisation effectively; and 8) making regular revisions in the development and improvement of environmental management.

- All items in this section have been modified from items suggested by OMSEP to evaluate the quality of corporate governance practices for Thai SMEs.

- ☐ Disclosure and transparency. This section contained seven items about firm practices concerning disclosure and conflict of interest: 1) manages corporation with transparency without hidden agenda; 2) presents position and financial information of organisation completely and accurately; 3) prepares accounting information in accordance with generally accepted accounting principles; 4) explains policy, purpose, guidelines, monitoring, and evolution of operations to all related parties; 5) establishes clear policy on conflict of interest issues between organisation and employee or employee family's member; 6) sets policy that prohibits employee from claims or receiving the benefits of doing business with people outside the organisation; and 7) sets policy that prohibits employees from claims or provides benefits to government officials or any other person. All items in this section have been modified from items suggested by OMSEP to evaluate the quality of corporate governance practices for Thai SMEs.

- ☐ Responsibilities of the board. This section contained five items about the practices of firms concerning responsibility of their board: 1) performs duties with honesty, diligence, and transparency; 2) have knowledge and ability to manage business effectively; 3) treats all shareholders equally; 4) remunerates corporate executives appropriately and transparently with approval from shareholders; 5) provides a good internal control system and independent monitoring agencies. All items in this section have been modified from items suggested by OMSEP to evaluate the quality of corporate governance practices for Thai SMEs.

- ☐ The principle of conduct for management. The last section contained 10 items about the practices of firms concerning their management of businesses: 1) have a good internal control system with a clear separation of duties; 2) monitors and evaluates internal and external risk factors that affect the organisation regularly; 3) have management systems and mechanisms to prevent the risk of internal and external inefficiency; 4) specifies clearly the appropriate personal qualifications of key positions of the organisation; 5)

employs fixed asset register; 6) sets goals and business direction clearly; 7) operates with quality and is customer-oriented; 8) monitors and evaluates performance based on target set; 9) regulates organisation with transparency and legitimacy; and 10) encourages employees to operate with honesty and ethics. All items in this section have been modified from items suggested by OMSEP to evaluate the quality of corporate governance practices for Thai SMEs.

These questions are adapted from corporate governance practices suggested for SMEs by selected regulators including the IOD, OECD, and OMSEP.

3.3 Operational Definitions and Measurement

3.3.1. Corporate Governance Practice Variables (Corporate Governance Index or Score and Corporate Governance Rating)

The Corporate Governance Index (CGI) was determined after the SMEs answered all the questions in the mail-questionnaires. The CGI was used as one of the dependent variable of this study.

As shown in Table 3.1, the CGI is calculated from a total of 58 separate criteria to quantify the overall corporate governance practices. The checklist criteria span five sections of OECD corporate governance principles and then are adjusted to take into account the specific characteristics of SMEs suggested by related organisations, including ecoDa, IOD, and ISMED, principles of conduct for management. Finally, there are six parts of principles: the right to shareholders (RIGHT), equitable treatment of shareholders (EQUIT), roles of stakeholders in corporate governance (ROLESTAKE), disclosure and transparency (DISC), the responsibility of the board (RESB), and principles of conduct for management (MGMT)

Table 3.1 Operational Definitions and Measurement of Corporate Governance Practice Variables

Code	Name of Variable	Operational Definition
-------------	-------------------------	-------------------------------

1	CGI	Corporate Governance Quality	Corporate Governance Index, based on binary questions and scaled 0–58
2	RIGHT	Rights of Shareholders	Sub-index of CGI containing two questions relating to the rights of shareholders and key ownership functions. Range 0–2.
3	EQUIT	Equitable Treatment of Shareholders	Sub-index of CGI containing two questions relating to the equitable treatment of shareholders. Range 0–2.
4	ROLEEMP	Role of Stakeholders in Corporate Governance for Employees	Sub-index of CGI containing 10 questions relating to the role of stakeholders in corporate governance for employees. Range 0–10.
5	ROLECUS	Role of Stakeholders in Corporate Governance for Customers	Sub-index of CGI containing nine questions relating to the role of stakeholders in corporate governance for customers. Range 0–9.
6	ROLEAP	Role of Stakeholders in Corporate Governance for Accounts Payable	Sub-index of CGI containing five questions relating to the role of stakeholders in corporate governance for accounts payable. Range 0–5.

Table 3.1 Operational Definitions and Measurement of Corporate Governance Practice Variables (Cont'd)

	Code	Name of Variable	Operational Definition
7	ROLECOM	Role of Stakeholders in Corporate Governance	Sub-index of CGI containing eight questions relating to the role of

		for Communities and the Environment.	stakeholders in corporate governance for communities and the environment. Range 0–8.
8	DISC	Disclosure	Sub-index of CGI containing seven questions relating to disclosure and transparency in corporate governance. Range 0–7.
9	RESB	Responsibilities of Board	Sub-index of CGI containing five questions relating to the responsibilities of the board in corporate governance. Range 0–5.
10	MGMT	Principles of Conduct for Management	Sub-index of CGI containing 10 questions relating to ensuring the basis for effective management. Range 0–10.

3.3.2. Determinant Variables

3.3.2.1 Ownership Structure

Ownership Concentration (OWN)

Based on the studies of Arosa et al. (2009), Khanchel (2007), and Tuschke and Sanders (2003), a positive relationship between ownership concentration and corporate governance has been found. Therefore, ownership concentration was included as one of the determinant variables.

The method to measure ownership concentration can be classified into two groups: 1) percentage of shares held by blockholders owning 5% or more of the firm's shares (e.g., Baek, Kang, & Park, 2004; Bushman et al., 2004; Cho & Kim, 2003; Joh, 2003; and Tuschke & Sanders, 2003); and 2) percentage ownership of top large shareholders, which is defined differently in prior research. Black et al. (2006a) use the percentage ownership of the largest shareholder. Wiwattanakantang (1999) uses the percentage of shares held by the largest shareholder, the three

largest shareholders, and the five largest shareholders. Demsetz and Lehn (1985) and Cheung et al. (2008) use percentage of shares held by the five largest shareholders.

Consistent with prior studies, this study uses the percentage of ownership in the hands of the largest shareholder as a measure of ownership concentration.

3.3.2.2 Firm Characteristics

Following prior studies on the determinants of corporate governance practices, this study uses three firm characteristics that would affect the firm's corporate governance practices: firm size, firm age, and firm leverage.

Firm Size (SIZE)

In order to examine the effect of the difference in the size of each firm on SMEs' corporate governance practices, the Firm Size (SIZE) is added as one of the determinant variables and measured by using the natural logarithm of the company's total assets. Based on prior studies of Ariff, Ibrahim, and Othman (2007); Khanchel (2007); and Kouwenberg (2010), the size of the firm was also found to have a positive relationship with corporate governance.

There are several measures of firm size such as the natural logarithm of the firm's total assets (Black et al., 2006b; Connelly et al., 2008; Khanchel, 2007; Larcker et al., 2007; Lee & Park, 2008; Sharma, 2004; Zheka, 2006), natural logarithm of firm's sales (Ariff et al., 2007; Klapper & Love, 2004; Lei & Teen, 2005), and market capitalization of firms (Denkirati, 2003; Gompers et al., 2003).

Following previous research, this study uses the natural logarithm of the company's total assets as a measure of firm size because a firm's total assets are the total resources that can be used in all activities for running the business. Therefore, the firm's total assets represent the total wealth of the firm at the point of time better than other measures. Besides that, taking the natural logarithm of the firm's total assets will help reduce the heteroscedasticity problems of the data.

Firm Age (AGE)

Based on the study of Loderer and Waelchli (2011) on corporate governance and firm age, the research result suggests that corporate governance may also be influenced by firm age; thus it was included as one of the determinant variables and measured in terms of the natural logarithm of the number of years the firm has existed.

Leverage (LEVERAGE)

Financial constraints have been suggested to be one of the most important pressures on good corporate governance. It has also been suggested that small firms face special difficulties in obtaining outside funding. Gillan et al. (2003), Brown and Caylor (2004), Black et al. (2006a), and Lee Park (2008) find a significant positive association between leverage and corporate governance. Following the previous literature, the measure for the financial structure in this study is the firms' debt-to-assets ratio (total debt divided by total assets)

3.3.2.3 Board Characteristics

Size of Board (BOARD)

Size of board is measured in terms of the total number of directors on the board. A prior study of Cheung et al. (2008) found a positive significant relationship between the size of the board and high degrees of disclosure. Thus, this study includes the size of the board, measured using total board members as one of the independent variable.

Table 3. 2 Variables for the Second Part Analysis

Variables		Measurement	Prior Study
<u>Dependent Variables</u>			
1	Corporate Governance Index (CGI)	Corporate Governance Index from the CG Checklist (questionnaire)	Bauer et al. (2004); Denkirati. (2003).
<u>Independent Variables</u>			
1	Firm Size (SIZE)	Natural logarithm of total assets	Abor & Biekpe (2007); Lappalainen & Niskanen (2009); Rashid & Lodh (2009)
2	Firm Age (AGE)	Natural logarithm of the number of years the firm has existed	Rashid & Lodh (2009)
3	Leverage (LEVERAGE)	Total debt divided by total assets	Storey (1994); Lappalainen & Niskanen (2009)
4	Ownership Concentration (OWN)	Percentage of ownership in hands of the largest shareholder	Arosa, Iturralde, & Maseda (2009)
5	Size of Board (BOARD)	Number of directors on the board	Abor & Biekpe (2007); Cowling (2001)

3.3.3 Consequence/Performance Variables

Return on Assets (ROA)

Based on the literature review, return on assets (ROA) has been largely used as a mechanism for measuring the firm's performance (Abor & Biekpe, 2007; Arosa et al., 2009; Lappalainen & Niskanen, 2009), in which those studies suggested that ROA has a positive relationship with the corporate governance of the firm. Therefore, we have included ROA measured in terms of earnings before interest and tax divided by total assets as one of the dependent variables.

Return on Equity (ROE)

As return on equity can be another measurement to determine the performance of the firm, therefore we include ROE, measured by earnings before interest and tax divided by total equity. In addition, based on the literature review on the prior study of Hamad and Karoui (2011) on corporate governance and SMEs' firm performance in Bangladesh, ROE has been used as one of the measurements toward the performance of the firm, and the result suggests that a significant relationship has been found between the corporate governance variable and the performance of the firm measuring by ROE.

Table 3.3 Variables for the Third Part Analysis

Variables	Measurement	Prior Study
<u>Dependent Variables</u>		
1 Return on Asset (ROA)	Earnings before interest and tax divided by total assets	Lappalainen & Niskanen (2009); Arosa et al. (2009); Abor & Biekpe (2007);
2 Return on Equity (ROE)	Earnings before interest and tax divided by total equity	Hamad & Karoui (2011)
<u>Independent Variables</u>		
1 Corporate Governance Index (CGI)	Corporate Governance Score from CG Checklist (questionnaire)	Bauer et al. (2004); Denkirati. (2003).
2 Size of Board (BOARD)	Number of directors	Abor & Biekpe (2007); Cowling (2001)
3 Ownership Concentration (OWN)	Percentage ownership in hands of the largest shareholder	Arosa, Iturralde, & Maseda (2009)

Table 3.3 Variables for the Third Part Analysis (Cont'd)

Variables	Measurement	Prior Study
<u>Control Variables</u>		
1 Firm Size (SIZE)	Natural logarithm of total assets	Abor & Biekpe (2007); Lappalainen & Niskanen (2009); Rashid & Lodh (2009)
2 Firm Age (AGE)	Natural logarithm of the number of years firm has existed	Rashid & Lodh (2009)
3 Leverage (LEVERAGE)	Total debts divided by total assets	Storey (1994); Lappalainen & Niskanen (2009)

3.4 Data Collection

Table 3.4 presents the data sources. The data for this study came from both primary data using the questionnaires and secondary data collected from the Business Data Warehouse by Department of Business Development, Ministry of Commerce, Thailand.

Table 3.4 Data Sources

Type of Data	Data	Source
Primary Data	Answered questionnaires	Managing director of the selected companies
Secondary Data	Ownership structure Firm characteristics (including firm size, age, and leverage) Board characteristics	BOL (Business Online) database

Primary data: Corporate governance questionnaires were mailed directly to the managing directors of the companies. Over the next two weeks, the researcher made follow-up calls to these companies and their management team.

Secondary data: Ownership structure, firm characteristics, including firm size, age, and leverage, and board characteristics were taken from BOL (Business Online) database.

3.5 Sample and Population

The population in this research is 2,646,549 small and medium-sized enterprises in Thailand, divided into three sectors: manufacturing, services, and trade (retail/delivery).

The examples used in this research were selected using a formula of Taro Yamane discrepancy with 5% (Yamane, 1973) of the total population of 2,646,549 (OSMEP, 2011), which is calculated from the formula.

$$n = \frac{N}{1 + Ne^2}$$

When n = sample

N = Population

e = error

$$n = \frac{2,646,549}{1 + 2,646,549(0.05)^2}$$

$$n = 399.94 \approx 400$$

Therefore, small and medium-sized enterprises in the country to be selected as samples are 400 companies, taken from the BOL (Business Online) database.

The selected samples are stratified by type of business. Questionnaires were returned by 200 (about 50% of the total). Manufacturing accounted for 11.5% (23), services accounted for 45% (90), and trade accounted for 43.5% (87).

3.6 Data Analysis Methodology

To answer all research questions and hypotheses, the analysis was done in three parts: corporate governance practices in Thai SMEs, determinants of corporate governance in Thai SMEs, and corporate governance and performance of Thai SMEs.

3.6.1 Corporate Governance Practices in Thai SMEs

In this part, a one-way analysis of variance and Scheffe statistical difference was conducted to examine whether SMEs comply with each dimension of good corporate governance equally and whether SMEs in each sector comply with good corporate governance equally.

3.6.2 Determinants of Corporate Governance in Thai SMEs

In this part, Pearson's correlation analysis was applied to test the primary correlations between two variables. A lag regression analysis method was then operated to estimate the pattern of the relationship.

3.6.3 Corporate Governance and Performance of Thai SMEs

In this part, similar to the determinants of corporate governance in Thai SMEs part, a Pearson's correlation analysis was applied to test the primary correlations between two variables. A lag regression analysis method was then operated to estimate the pattern of the relationship.

Correlation analysis is the basis to measure the strength of the linear dependence between two variables. The familiar technique is called Pearson's correlation. It is obtained by dividing the covariance of the two variables by the product of their standard deviations, giving a value between +1 and -1 inclusive (Cohen et al., 2003). The coefficient values between independent variables should be smaller than 0.80 (Berry & Feldman, 1985).

Regression analysis, the ordinary least squared regression (OLS), is used to test all postulated hypotheses. OLS is appropriated to examine the relationship between dependent variables and independent variables which all variables are categorical and interval data. As a result, all proposed hypotheses in this study were transformed to two statistical equations.

Equation 1:

$$CGI_t = \beta_0 + \beta_1 SIZE_{t-1} + \beta_2 AGE_{t-1} + \beta_3 LAVERAGE_{t-1} + \beta_4 OWN_{t-1} + \beta_5 BOARD_{t-1} + E$$

Equation 2:

$$PERF_t = \beta_0 + \beta_1 CGI_{t-1} + \beta_2 SIZE_{t-1} + \beta_3 AGE_{t-1} + \beta_4 LAVERAGE_{t-1} + \beta_5 OWN_{t-1} + \beta_6 BOARD_{t-1} + E$$

Equation 1 was used for testing in the Part II analysis, the determinant factor affecting corporate governance quality or practices. Equation 2 was used for testing in the Part III analysis, and shows the relation between corporate governance quality and SME performance of SME.

CHAPTER 4

RESULTS

4.1 Corporate Governance Practices in Thai SMEs

This section responds to research questions 1 and 2: what are the corporate governance characteristics in SMEs? And what is the impact of the business sectors on corporate governance in SMEs? These are investigated under the following hypotheses.

H1: Thai SMEs have good corporate governance.

H2: Thai SMEs' compliance with good corporate governance principles in all dimensions are not equal.

H2a: Among good corporate governance principles for SMEs, Thai SMEs comply the most with the right of shareholders dimension of good corporate governance principles.

H2b: Among good corporate governance principles for SMEs, Thai SMEs comply less with the principle of conduct for management dimensions of good corporate governance principles.

H3: Thai SMEs are not equal in each category of compliance with good corporate governance principles.

H3a: Thai SMEs in the manufacturing sector comply the most with good corporate governance.

The researcher presented the results of data analysis in four parts as follows.

Part 1: An analysis of general data of small and medium-sized enterprises in Thailand.

Part 2: An analysis of the governance of the enterprise, which is divided into six categories: rights of shareholders, equitable treatment of shareholders, treatment of stakeholders, disclosure and conflicts of interests, powers and duties of directors, and principles of conduct for management. The corporate governance score for each category and in total was tested for being more than 50% in order to examine Hypothesis 1.

Part 3: An analysis of each dimension of corporate governance of enterprises. Scores of each dimension of corporate governance were compared using one-way analysis of variance and Scheffe statistical difference to examine Hypothesis 2.

Part 4: An analysis of corporate governance of small and medium-sized enterprises within each business sector. Scores of corporate governance of each business sector were compared using one-way analysis of variance and Scheffe statistical difference to examine Hypothesis 3.

4.1.1 General Data Analysis

The mailed questionnaire was designed as the data collection instrument of primary data, consisting of two parts. In particular, the items in part one were required for demographic information of sample firms, such as business type, business model, and business age. Part two contained the questions asked for the corporate governance practice information, in six sections: 1) rights of shareholders in corporate governance, 2) equitable treatment of shareholders, 3) roles of stakeholders in corporate governance, 4) disclosure and transparency, 5) responsibility of the board, and 6) principles of conduct for management.

These questions are adapted from corporate governance practices suggested for SMEs by selected regulators including ISMED, ecoDa, and IOD.

Table 4.1 General Information on Respondents

	Number	Percentage
Position		
Managing Director	111	55.5
Manager	44	22.0
Department Manager	21	10.5
Others	24	12.0

Table 4.1 General Information on Respondents (Cont'd)

	Number	Percentage
Location		
Bangkok Metropolitan Region	118	59.0
Central Provinces	4	2.0
Eastern Provinces	10	5.0
Northeastern Provinces	23	11.5
Northern Provinces	18	9.0
Western Provinces	5	2.5
Southern Provinces	22	11.0
Business Sector		
Manufacturing	23	11.5
Service	90	45.0
Trading (Retail/Wholesale)	87	43.5
Business Type		
Limited Partnership	0	0
Company	200	100.0
Others	0	0
Firm Age		
1-10 Years	107	53.5
11-20 Years	51	25.5
More than 21 Years	35	17.5
Missing	7	3.5
Number of Employees		
1-10 Persons	72	36.0
11-40 Persons	70	35.0
More than 41 Persons	49	24.5
Missing	9	4.5

Table 4.1 shows that from the 200 sample firms, the person who responded to the questions was mostly holding the managing director position (55.5% of the sample), followed by managers (22.0%) and department managers (10.5%). The remainder (12.0%) held other positions.

When classified using location, most of respondents were located in the Bangkok Metropolitan Area (59% of all respondents), followed by the Northeastern Provinces (11.5%). The third, fourth, and fifth highest proportions of respondent companies were located in the Southern Provinces (11%), Northern Provinces (9%), and Eastern Provinces (5%), respectively. The lowest proportion (2.0%) were located in the Central Provinces.

As can be seen in Table 4.1, among the business sectors, the highest response rate came from the group of service companies (45% of total respondents), followed by trading (retail/wholesale) companies (43.5%) and manufacturing companies (11.5%).

Regarding the length of operation of respondent companies, most (53.5%) were 1–10 years of age. Some respondent companies were 11–20 years of age (25.5%), while some (17.5%) were older (More than 21 years). Seven companies (3.5%) did not indicate their age.

With regard to the number of employees, most respondent companies (36%) had fewer than 10 employees, followed by 11–40 employees (35%) and more than 41 employees (24.5%). Nine companies (4.5%) did not indicate their number of employees.

Figure 4.1 Position of Respondents



Figure 4.2 Location of Respondents

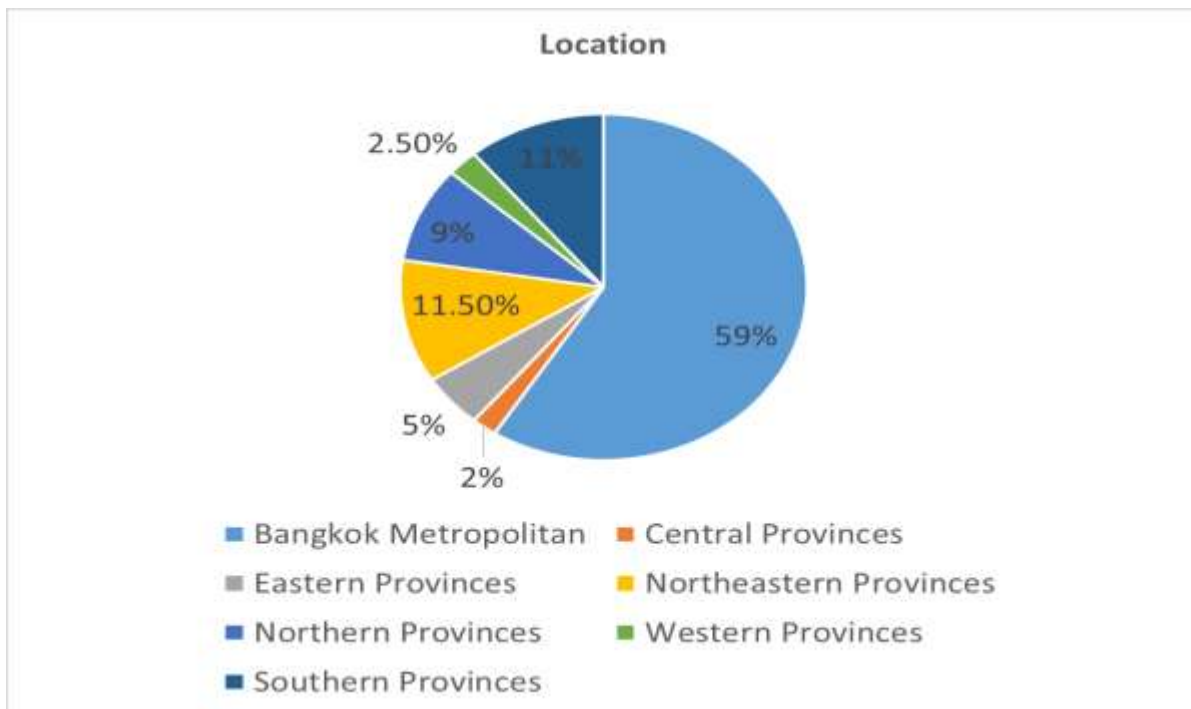


Figure 4.3 Business Sector of Respondents

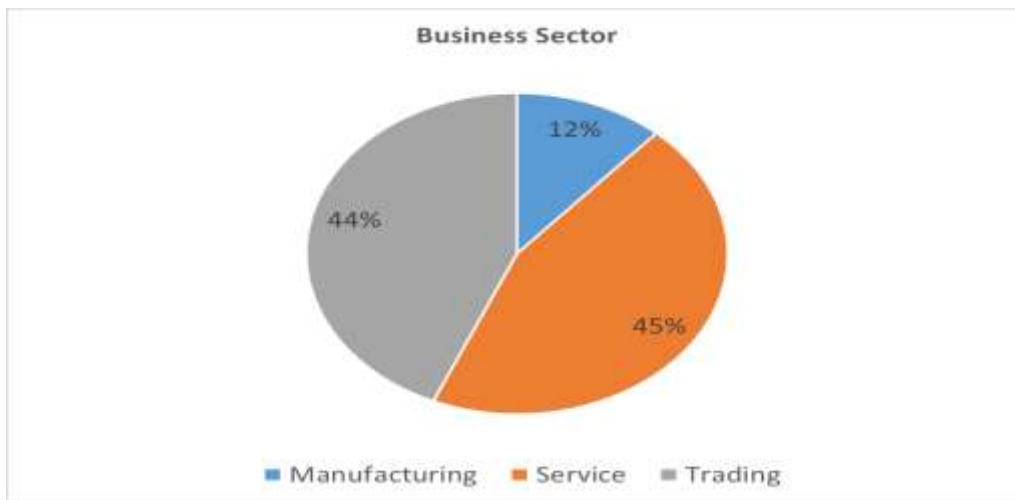


Figure 4.4 Firm Age of Respondents

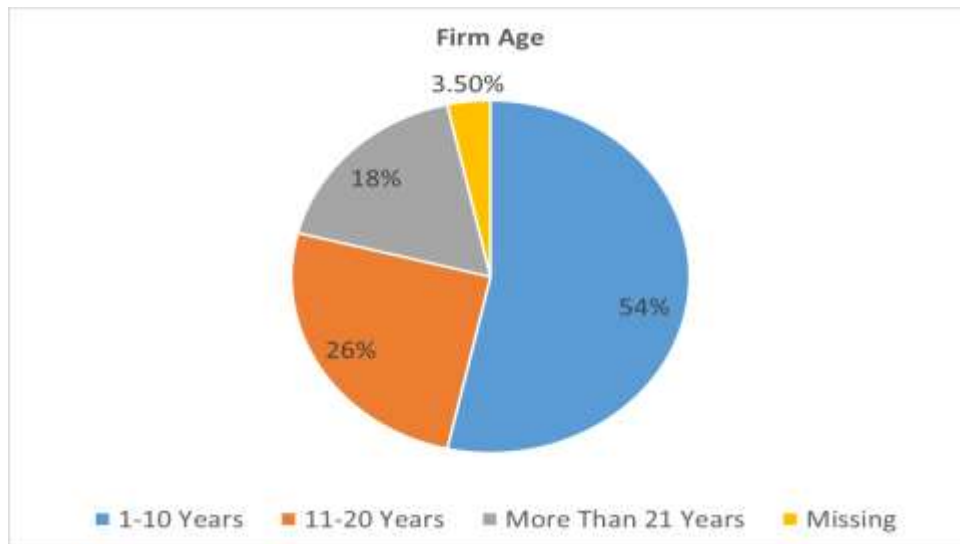
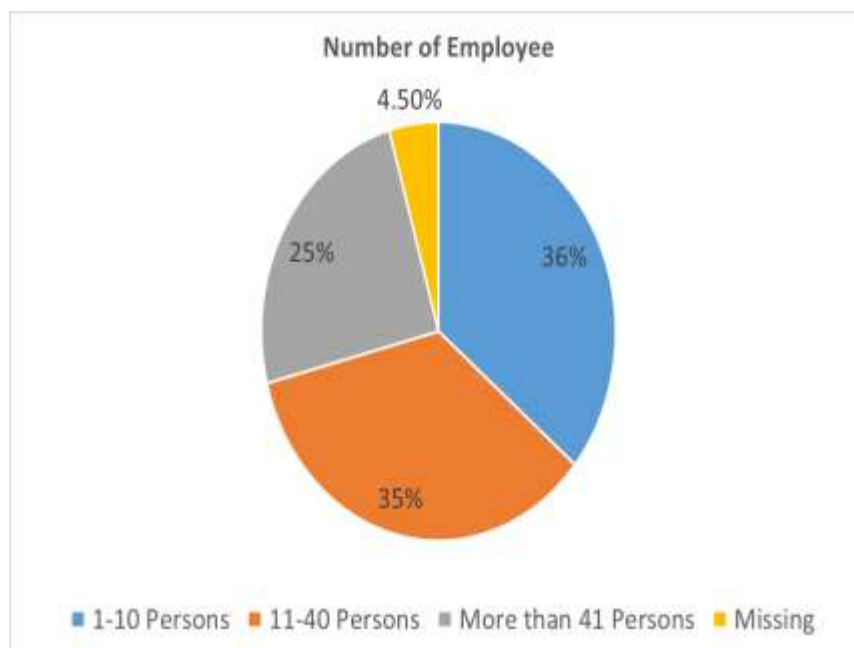


Figure 4.5 Number of Employees



4.1.2 Corporate Governance Analysis

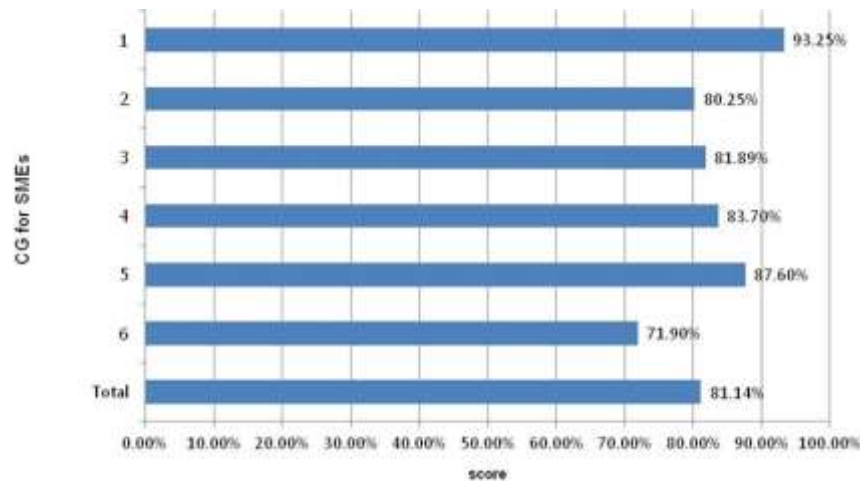
An analysis of the governance of the enterprise was divided into six categories: rights of shareholders, equitable treatment of shareholders, treatment of stakeholders, disclosure and conflicts of interests, powers and duties of directors, and the principle of conduct for management. The numbers of corporate governance questions in each dimension or category are shown in Table 4.2. There are two questions each to measure the rights of shareholders and equitable treatment of shareholders. For the role of stakeholders, 32 questions measured all aspects of stakeholders, which include employees (10 questions); customers (9); suppliers, creditors, and competitors (5); and environment and social responsibility (8). The disclosure and conflict of interest dimension was measured using seven questions. The numbers of questions measuring board responsibility and the principle of conduct for management was five and 10 questions, respectively.

Table 4.2 Number of Corporate Governance Questions in Each Dimension or Subgroup

Dimension/ Subgroup	Title	Number of Questions
1	Rights of Shareholders	2
2	Equitable Treatment of Shareholders	2
3	Role of Stakeholders	32
4	Disclosure and Conflict of Interest	7
5	Board Responsibilities	5
6	Business operation	10
Total		58

Comparisons among each corporate governance category are presented in Figure 4.6

Figure 4.6 Corporate Governance Principle Checklist Respondents

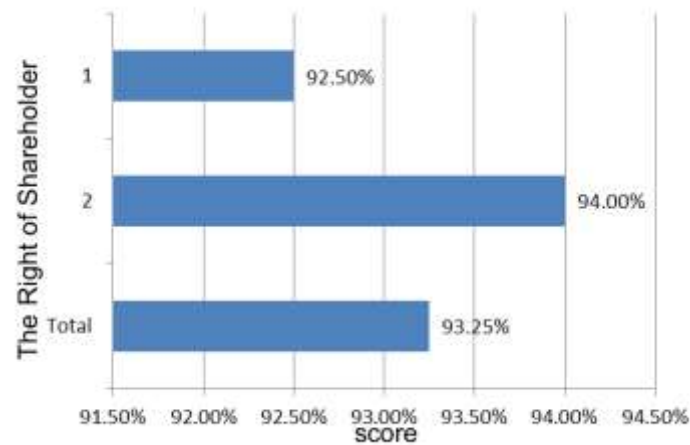


As can be seen in Figure 4.6, when determining the overall corporate governance content in general, subgroup/category no. 1 of the corporate governance principles, the rights of shareholders principle was the one most performed by SMEs (93.25% of the sample). The second most performed part was subgroup/category no. 5 or board responsibilities (87.60%), followed by disclosure and conflict of interest (83.7%).

When considering practice in each category, the results revealed the pattern as presented in Figure 4.7 to Figure 4.12.

Section 1: Rights of Shareholder

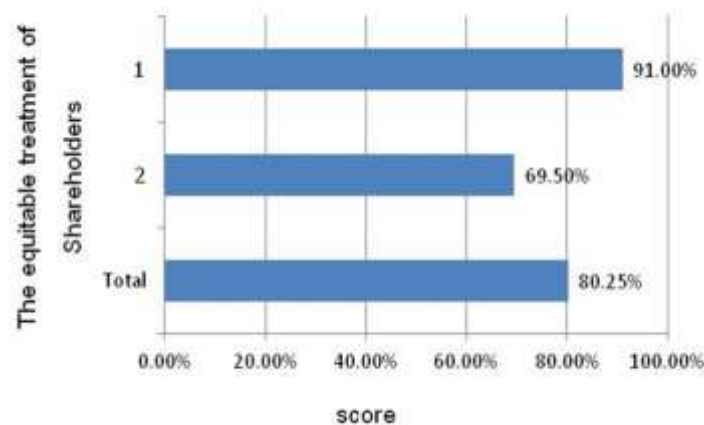
Figure 4.7 Corporate Governance Principles: Right of Shareholder Section



According to Figure 4.7, between two issues concerning the rights of shareholders—awareness of the importance of voting in a fair manner and disclosure of corporate information to shareholders that is clear, accurate, complete, and transparent—the second issue was applied more than the first. However, the difference is minimal (94% of respondents versus 92%).

Section 2: Equitable Treatment of Shareholders

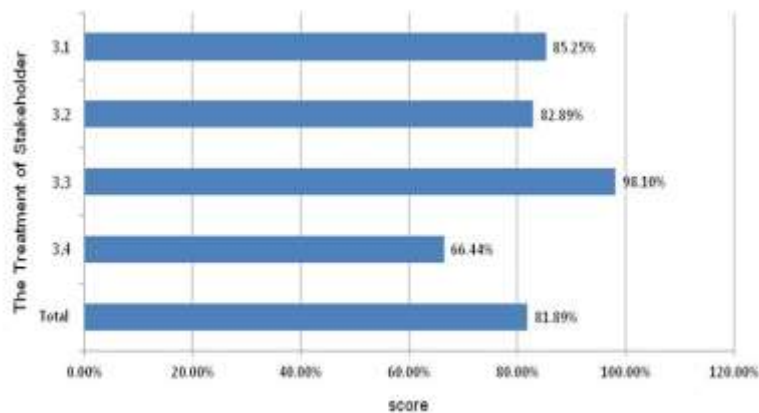
Figure 4.8 Equitable Treatment of Shareholder Section



According to Figure 4.8, between the two issues in the equitable treatment of shareholders—1) treat all shareholders fairly and equally; and 2) regulates on disclosure of confidential corporate information with shareholders acknowledge and strict compliance—the first issue is more favourable in application (91% of respondent companies) than the second issue (69.5% of companies).

Section 3: Role of Stakeholders

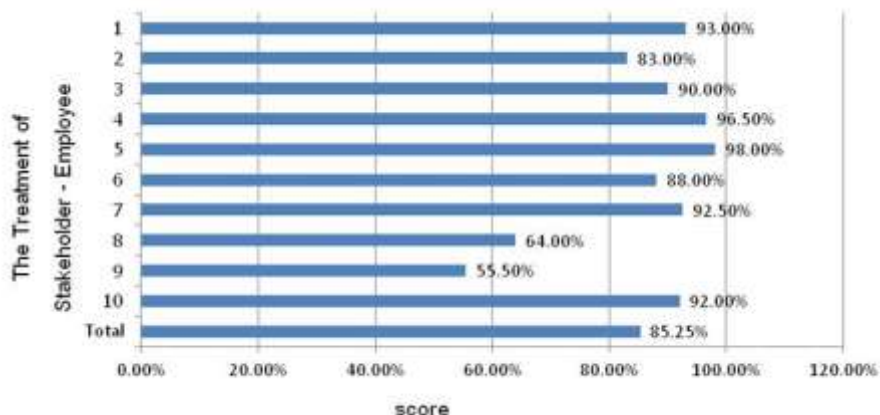
Figure 4.9 Corporate Governance Principles: Role of Stakeholders section



According to Figure 4.9, among the four issues in the role of stakeholder principle—role of employees, customers, accounts payable, and communities and the environment—the most applicable issue was the third one (accounts payable, 98.1% of respondents). The least applicable issue was communities and the environment (66.44% of respondents).

When considering each issue in detail, the results reveal information as shown in Figure 4.11-4.14.

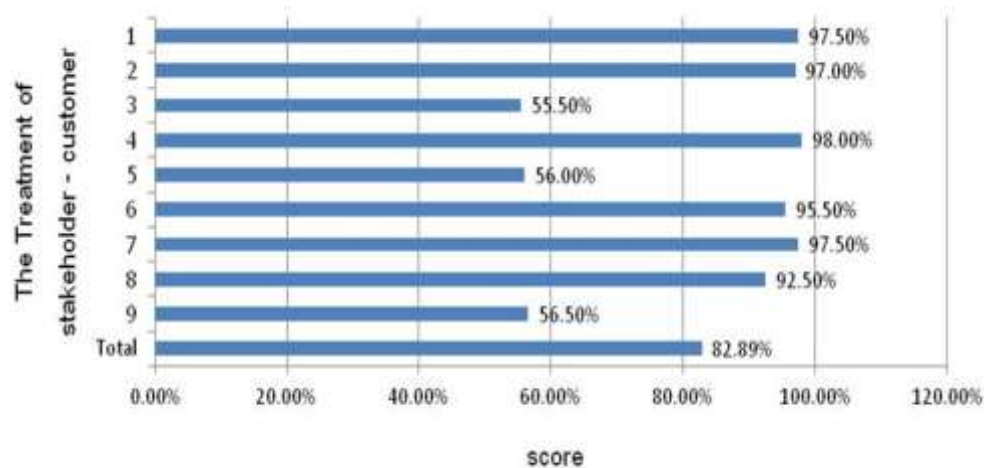
Figure 4.10 Corporate Governance Principles: Role of Stakeholders—Employees



There are 10 issues in the role of employees: 1) recognizes the importance of staff by providing efficient work systems including training to develop employee skills; 2) establishes part or designated person responsible for employee benefits to protect the rights, safety, and welfare of employees; 3) promotes and develops employees' knowledge, integrity, and ethics; 4) creates a good working environment and provides basic facilities such as well-lit offices, clean drinking water, bathroom hygiene, etc.; 5) provides benefits for employees, such as social security, life and accident insurance, and provident fund; 6) evaluates the performance of employees at least once a year; 7) considers performance competence, responsibility, behaviour, and work experience when evaluating employees; 8) penalties clearly employee offender case with equitable process; 9) provides opportunity for all employees to contribute their comments freely by having channels that allow employees to comment; and 10) provides encouragement to employees, such as rewarding outstanding employees, annual banquet, etc. According to Figure 4.11, among all issues in the role of employee, the most applicable issues (98%) was the fifth issue—provides benefits for employees, such as social security, life and accident insurance, and provident fund. The second most applicable issue (96.5%) was the fourth issue—creates a good working environment and provides basic facilities. The third most applicable issue (93%) was the first issue—recognizes the importance of staff by providing efficient work systems. The least applicable issue (55.5%) was the issue of providing opportunity for all employees to contribute their comments freely by having channels that

allow employees to comment. The difference between the most and the least applicable issues is about 42.5%, which is considered high when compared to the difference among other issues.

Figure 4.11 Corporate Governance Principles: Role of Stakeholders—Customers

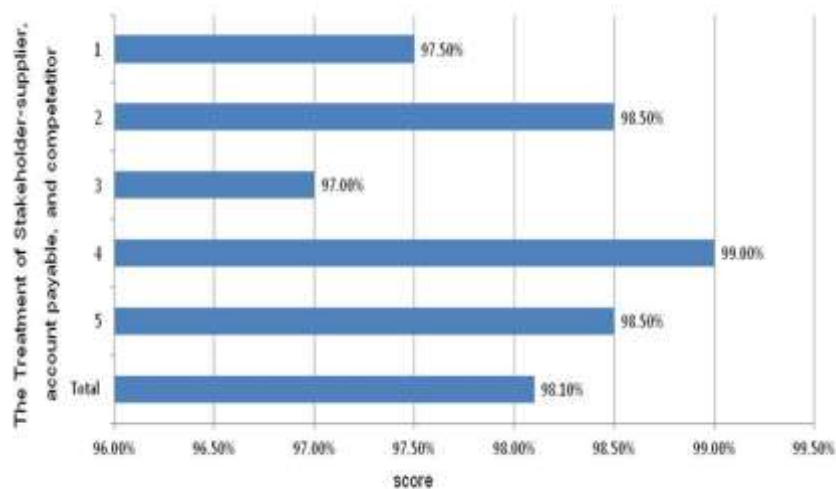


Nine issues address the role of customers: 1) focuses on having standard quality of production, distribution, logistics, and service; 2) provides quality and standardized products and services at the same time taking into account the needs of customers; 3) aims at improving quality of production and service continuously by encouraging employees to receive training to enhance their skills and expertise; 4) complies with the terms and conditions agreed upon with the client; 5) establishes an effective customer complaint management system; 6) having a strict confidential client information policy; 7) provides service to all customers with courtesy, honesty, and sincerity to impress the customer; 8) complies with strict consumer protection regulations announced by regulator offices such as the OCPB and TISI; and 9) guarantees the quality of products and provides after-sales service. According to Figure 4.12, among all issues in the role of customer, the most applicable issues (98%) was the fourth issue—complies with the terms and conditions agreed upon with the client. About 97.5% of respondents selected both the first issue (focuses on having standards quality of production, distribution, logistics, and service) and the seventh issue (provides service to all customers with courtesy, honesty, and sincerity to impress the customer). While seven of nine issues in this section were applied by more than 90% of correspondents, there are three issues applicable to only about 50% of correspondents: aims at improving quality of production and service

continuously by encouraging employees to receive training to enhance their skills and expertise; establishes an effective customer complaint management system; and guarantees the quality of products and provides after-sales service. The correspondents that applied these issues accounted for about 55.5%, 56%, and 56.5% respectively.

Figure 4.12 Corporate Governance Principles:

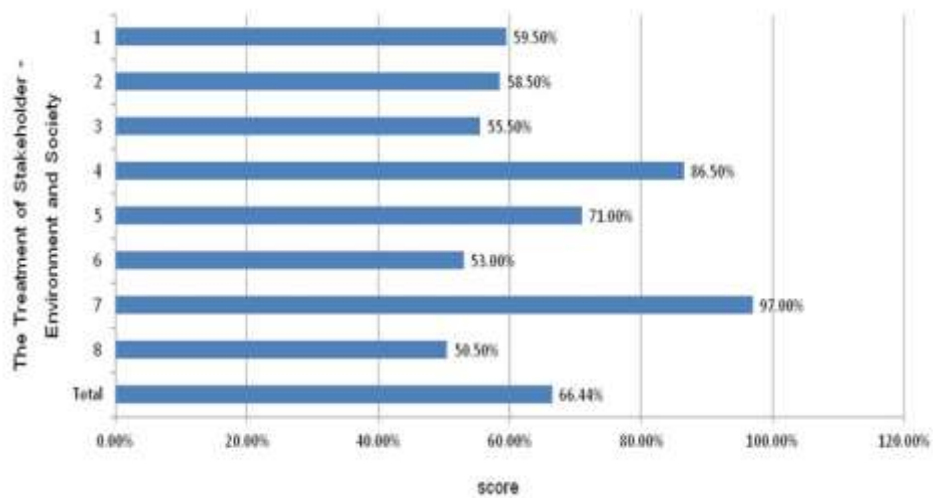
Role of Stakeholders—Suppliers, Creditors, and Competitors



According to Figure 4.12, among the five issues in the role of suppliers, creditors, and competitors—1) behaves with integrity and fairness toward suppliers, creditors, and competitors; 2) complies strictly with the agreed terms and conditions with suppliers, creditors, and competitors; 3) enforces strict information confidentiality of suppliers, creditors, and competitors; 4) performs trade practices with competitors with honesty; and 5) exhibits morality in business competition with competitors such as not discrediting competitors—the most applicable issue (99.0%) was the fourth issue—performs trade practices with competitors with honesty. Two issues were equally the second most applicable issues (complies strictly with the agreed terms and conditions with suppliers, creditors, and competitors; and exhibits morality in business competition with competitors such as not discrediting competitors). The least applicable issue (97%) was enforces strict information confidentiality of suppliers, creditors, and competitors.

Figure 4.13 Corporate Governance Principles:

Role of Stakeholders—Environment and Social Responsibility

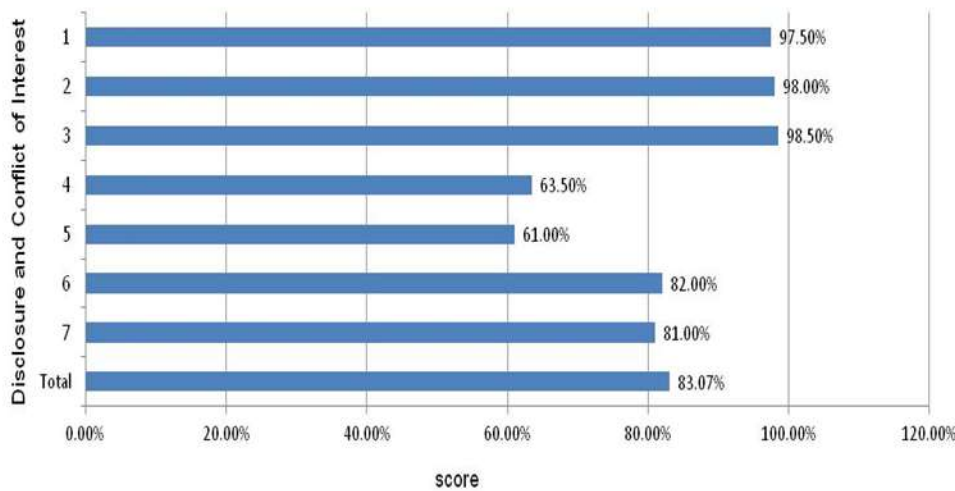


There are eight issues in the environment and social responsibility section: 1) follows the rules and regulations strictly in the field of safety, health, and environment; 2) discloses and keeps all related parties' informed information that could affect safety, and occupational and environmental health; 3) takes responsibility to resolve issues that may affect the community and the environment, such as having effective treatment of waste; 4) performs activities that are beneficial to society, such as donations to charity organisations; 5) encourages employees to participate in activities that benefit the community and build relationships in the community, such as community forestry, cleaning, and so on; 6) creates awareness among all employees of the importance of safety, health and environment, and social responsibility; 7) consumes energy and natural resources of the organisation effectively; and 8) making regular revisions in the development and improvement of environmental management. According to Figure 4.13, the most applicable issue (97%) was the seventh issue—consumes energy and natural resources of the organisation effectively. The second most applicable issue (86%) was the fourth issue—performs activities that are beneficial to society, such as donations to various charity organisations. The third most applicable issue (71%) was the fifth issue—encourages employees to participate in activities that benefit the community to build relationships in the community, such as community forestry, cleaning, and so on. Five out of the eight issues had

an applicability rate below 60%: follows the rules and regulations strictly in the field of safety, health, and environment (59.5%); discloses and keeps all related parties informed information that could affect safety, and occupational and environmental health (58.5%); takes responsibility to resolve issues that may affect the community and the environment, such as having effective treatment of waste (55.5%); creates awareness among all employees of the importance on safety, health and environment, and social responsibility (53.0%); and making regular revisions in the development and improvement of environmental management (50.5%).

Section 4: Disclosure and Conflict of Interest

**Figure 4.14 Corporate Governance Score on
Disclosure and Conflict of Interest Principles**

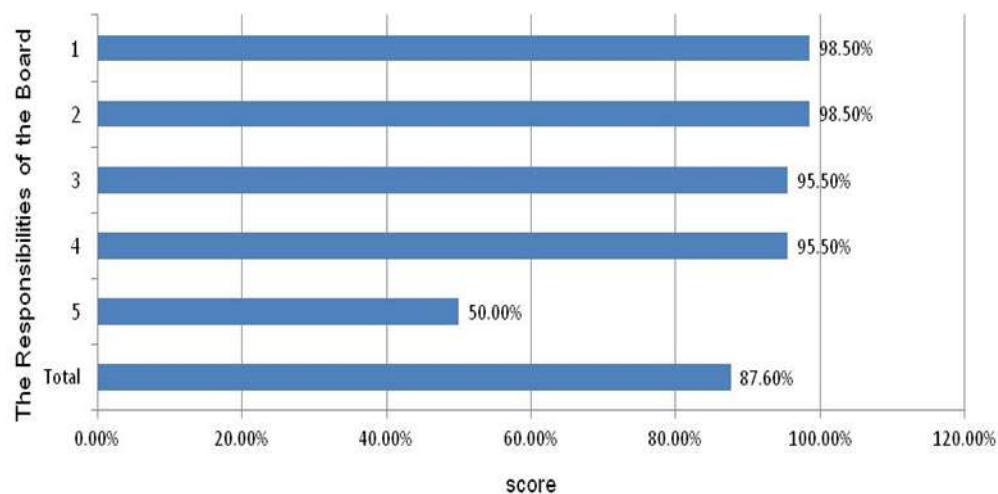


There are seven issues under the disclosure and conflict of interest section: 1) manages corporation with transparency without hidden agenda; 2) presents position and financial information of organisation completely and accurately; 3) prepares accounting information in accordance with generally accepted accounting principles; 4) explains policy, purpose, guidelines, monitoring, and evolution of operations to all related parties; 5) establishes clear policy on conflict of interest issues between organisation and employee or employee family's member; 6) sets policy that prohibits employee from claims or receiving the benefits of doing business with people outside the organisation; and 7) sets policy that prohibits employees from claims or provides benefits to

government officials or any other person. According to Figure 4.14, the issue that correspondents mostly applied (98.5%) was the third issue—prepares accounting information in accordance with generally accepted accounting principles. The second most applicable issue (98%) was the second issue—presents position and financial information of organisation completely and accurately. The third most applicable issue (97.5%) was the first issue—manages corporation with transparency without hidden agenda. While five out of seven issues reached more than 80%, two issues were applicable to less than 60% of companies—explains policy, purpose, guidelines, monitoring, and evolution of operations to all related parties (61.5%) and establishes clear policy on conflict of interest issues between organisation and employee or employee family's member (61.0%).

Section 5: Powers and Duties of Directors

Figure 4.15 Corporate Governance Score on Powers and Duties of Directors Section

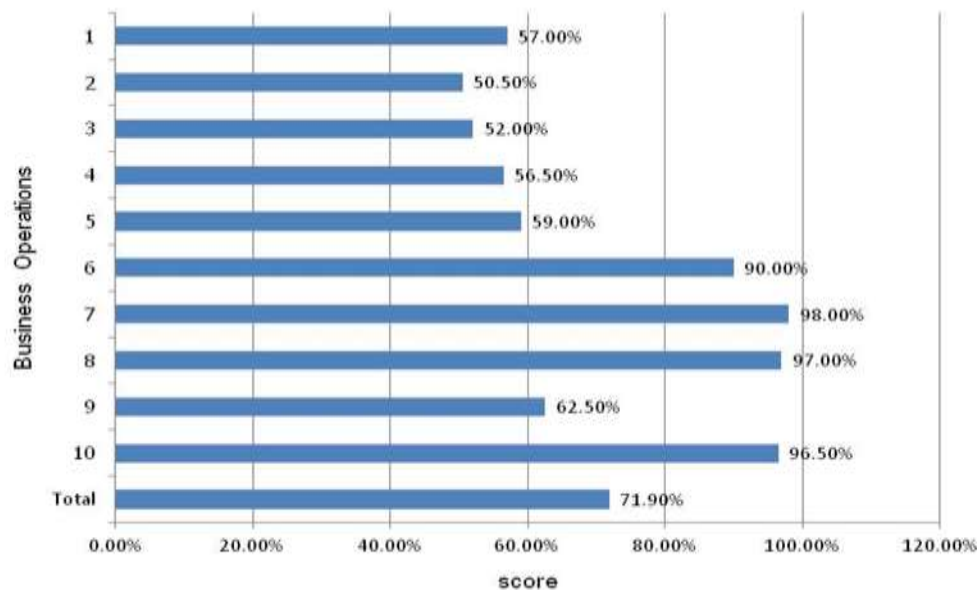


There are five issues under powers and duties of directors: 1) performs duties with honesty, diligence, and transparency; 2) have knowledge and ability to manage business effectively; 3) treats all shareholders equally; 4) remunerates corporate executives appropriately and transparently with approval from shareholders; 5) provides a good internal control system and independent monitoring agencies. Two of these issues were most applicable (98.5% of respondents): performing duties with honesty, diligence, and transparency; and have knowledge and ability to manage business effectively.

There were also two second-most-applicable issues (95.5%): treats all shareholders equally; and remunerates corporate executives appropriately and transparently with approval from shareholders. The least applicable issue (50%) was the fifth issue (provides a good internal control system and independent monitoring agencies).

Section 6: The Principle of Conduct for Management

Figure 4.16 Corporate Governance Score on the Principle of Conduct for Management Section



There are 10 issues under the principle of conduct for management section: 1) have a good internal control system with a clear separation of duties; 2) monitors and evaluates internal and external risk factors that affect the organisation regularly; 3) have management systems and mechanisms to prevent the risk of internal and external inefficiency; 4) specifies clearly the appropriate personal qualifications of key positions of the organisation; 5) employs fixed asset register; 6) sets goals and business direction clearly; 7) operates with quality and is customer-oriented; 8) monitors and evaluates performance based on target set; 9) regulates organisation with transparency and legitimacy; and 10) encourages employees to operate with honesty and ethics. According to Figure 4.16, most respondents (98%) applied the seventh issue: operates with quality and is customer-oriented. Three more issues under this section were applicable to more than 90% of respondents: sets goals and business direction clearly (90.0%); monitors and evaluates

performance based on target set (97.0%); and encourages employees to operate with honesty and ethics (96.5%). However, six issues achieved an application rate lower than 65%: have a good internal control system with a clear separation of duties (57.0%); monitors and evaluates internal and external risk factors that affect the organisation regularly (50.5%); have management systems and mechanisms to prevent the risk of internal and external inefficiency (52.0%); specifies clearly the appropriate personal qualifications of key positions of the organisation (56.5%); employs fixed asset register (59.0%); and encourages employees to operate with honesty and ethics (62.5%).

Table 4.3 Corporate Governance Score Summary

P A R T	QUESTION NUMBER											
	1	2	3	4	5	6	7	8	9	10	Part 3_Tot al	Total
1	92.50%	94.00%										93.25%*
2	91.00%	69.50%										80.25%*
3	85.25%	82.89%	98.10%	66.44%								81.89%*
3.1	93.00%	83.00%	90.00%	96.50%	98.00%	88.00%	92.50%	64.00%	55.50%	92.00%	85.25%	
3.2	97.50%	97.00%	55.50%	98.00%	56.00%	95.50%	97.50%	92.50%	56.50%		82.89%	
3.3	97.50%	98.50%	97.00%	99.00%	98.50%						98.10%	
3.4	59.50%	58.50%	55.50%	86.50%	71.00%	53.00%	97.00%	50.50%			66.44%	
4	97.50%	98.00%	98.50%	63.50%	61.00%	82.00%	81.00%					83.07%*
5	98.50%	98.50%	95.50%	95.50%	50.00%							87.60%*
6	57.00%	50.50%	52.00%	56.50%	59.00%	90.00%	98.00%	97.00%	62.50%	96.50%		71.90%*
Total												81.14%*

*One tailed test; Significant at 0.001 significance level.

In order to investigate Hypothesis 1, the one sample t-test was used to test whether more than half of each dimension and in total of corporate governance principles were compiled by Thai

SMEs. As shown in Table 4.3, the result of one tailed t-test indicates that the means of average scores in the principles are significantly greater than 50%. In other words, SMEs applied more than half of each dimension of corporate governance principles and total corporate governance principles, supporting H1. Small and medium-sized enterprises have good corporate governance.

The one-way analysis of variance and Schiff statistical of difference test were conducted to examine Hypothesis 2. The results are presented in Table 4.4.

Table 4.4 Mean and Standard Deviation of Corporate Governance Score of SMEs

Principles of Corporate Governance	Number	$\bar{x}$	<i>S.D.</i>
Section 1: Rights of shareholders	400	0.9325	0.2512
Section 2: Equitable treatment of shareholders	400	0.8025	0.3987
Section 3: Roles of stakeholders	6400	0.8189	0.3851
Section 4: Disclosure and conflict of interest	1400	0.8307	0.3751
Section 5: Powers and duties of directors	1000	0.8760	0.3298
Section 6: The Principle of Conduct for MGMT	2000	0.7190	0.4496

According to Table 4.4, there are six principles of corporate governance: rights of shareholders, equitable treatment of shareholders, roles of stakeholders, disclosure and conflict of interest, powers and duties of director, and business operation. The average governance score of the rights of shareholder was 0.9325 with standard deviation of 0.2512. The average governance score of the equitable treatment of shareholders was 0.8025 with standard deviation of 0.3987. The average governance score of the roles of stakeholders was 0.8189 with standard deviation of 0.3851. The average governance score of disclosure and conflict of interest was 0.8307 with standard deviation of 0.3751. The average governance score of the powers and duties of director was 0.8706 with standard deviation of 0.3298. The average governance score of the principle of conduct for management was 0.7190 with standard deviation of 0.4496.

Table 4.5 Analysis of Variance with Each Principle of Corporate Governance

Source	Type III	df	Mean	F	Sig	Partial	
	Sum of		Square			Eta	
	Squares					Squared	
CGdimension	Sphericity	20672.196	4	5168.049	15.338*	.000	.072
	Assumed						
	Greenhouse-	20672.196	2.493	8293.003	15.338*	.000	.072
	Geisser						
	Huynh-Feldt	20672.196	2.527	8180.996	15.338*	.000	.072
Lower-bound	20672.196	1.000	20672.196	15.338*	.000	.072	
Error(CGdimension)	Sphericity	268206.878	796	336.943			
	Assumed						
	Greenhouse-	268206.878	496.053	540.682			
	Geisser						
	Huynh-Feldt	268206.878	502.844	533.380			
Lower-bound	268206.878	199.000	1347.773				

* Significant at level 0.05

According to Table 4.5, the test of Within-Subjects Effect, tells that there was an overall significant difference between the means at the different corporate governance dimensions. The significance of F ratio is less than 0.05. As the data violated the assumption of sphericity, values in the “Greenhouse-Geisser” row were used. So it can be concluded that when using an ANOVA with repeated measures with Greenhouse-Geisser correction, the mean scores for each dimension of corporate governance were statistically significantly different ($F(2.493, 496.053) = 15.338, p < 0.0005$). In other words, SMEs applied each corporate governance dimension unequally, supporting H2. Small and medium-sized enterprise compliance with good corporate governance principles in all dimensions are not equal.

The difference between each pair of means of average scores was further investigated using the Bonferroni post hoc test (Table 4.6).

Table 4.6 Summary Results from the Bonferroni post hoc test: The Pairwise Comparisons

Mean	Section	1	2	3	4	5	6
0.93250	1	-	.13000*	.11359*	.10179*	-	.21350*
0.80250	2	13.000*	-	-	-	-	.08350*
0.81890	3	10.081*	-	-	-	-.05709*	.09991*
0.83070	4	10.179*	-	-	-	-	.11171*
0.87600	5	5.650*	-	.05709*	-	-	.15700*
0.71900	6	-.21350*	-.08350*	-.09991*	-.11171*	-.15700*	-

* Significant at level 0.05

According to Table 4.6, SMEs applied each corporate governance principle unequally. The average score of section 1 (rights of shareholders) is significantly different from the average score of sections 2 ,3 ,4, 5 and 6 (equitable treatment of shareholders, roles of stakeholders, disclosure and conflict of interest, powers and duties of directors, and the principle of conduct for management). SMEs applied the rights of shareholders principle more than they applied the other five principles of corporate governance. The score of the rights of shareholders principle was more than the scores of the equitable treatment of shareholders, roles of stakeholders, disclosure and conflict of interest, powers and duties of directors, and the principle of conduct for management (0.1300, 0.11359, 0.10179, and 0.21350, respectively). In addition, the average score of the equitable treatment of shareholders was significantly different from the average score of the business operation. SMEs applied the equitable treatment of shareholders principle more than they applied the business operation principle. The score of the equitable treatment of shareholders principle was more than the score of the conduct for management principle at 0.08350.

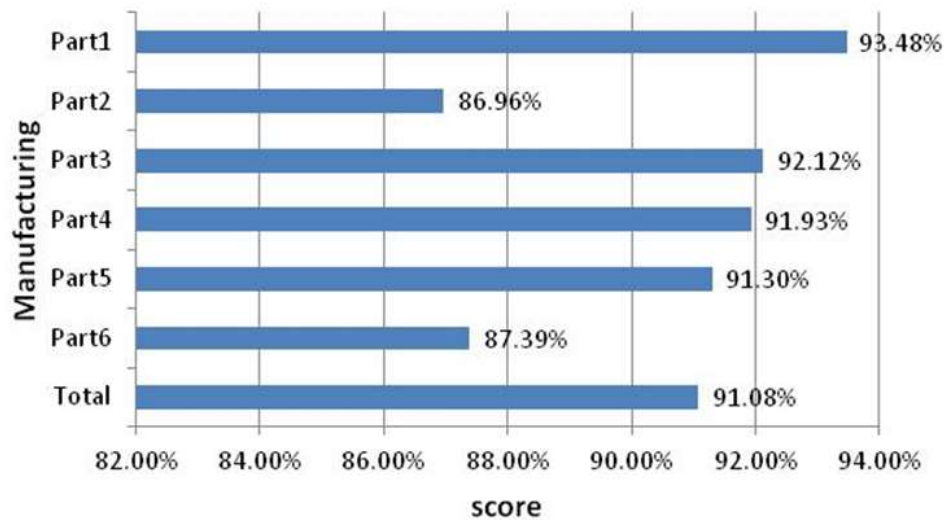
Moreover, the average score of section 3 (roles of stakeholders) was significantly different from the average score of sections 5 and 6 (powers and duties of directors; conduct for management). SMEs applied section 3 (roles of stakeholders more than they applied the other two principles of corporate governance (powers and duties of directors; conduct for management). The score of the roles of stakeholders was less than the score of the powers and duties of directors at 0.05709 but

more than the score of the business operation at 0.09991. The average score of section 4 or the disclosure and conflict of interest section was also significantly different from the average score of section 6 or the business operation. SMEs applied the disclosure and conflict of interest principle more than they applied the conduct for management principle. The score of the disclosure and conflict of interest was more than the business operation at 0.11171. The last difference was the difference between the score of section 5 or the powers and duties of directors and section 6 or the business operation. The average score of the powers and duties of directors section was significantly different from the average score of the business operation section. SMEs applied section 5 (powers and duties of directors) more than they applied the conduct for management principle. The score of the powers and duties of directors was more than the business operation at 0.15700. Supporting H2a and H2b which are SMEs compliance with the right of shareholders dimensions of good corporate governance principles the most and SMEs compliance with the principle of conduct for management dimensions of good corporate governance principles the less.

4.1.3 Analysis of the Corporate Governance of Small and Medium-sized Enterprises by Sector

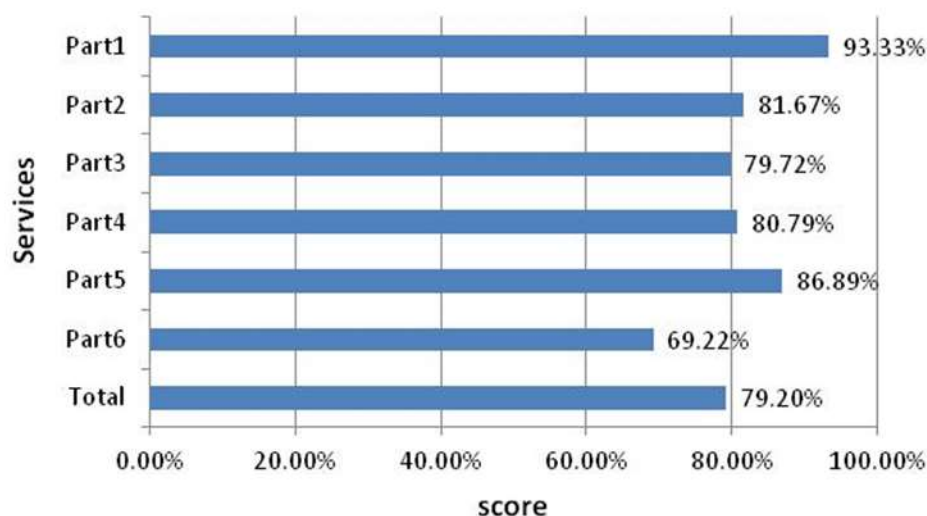
To examine Hypothesis 3, an analysis of the corporate governance of small and medium-sized enterprises by sector was conducted.

Figure 4.17 Corporate Governance Score for Manufacturing Sector



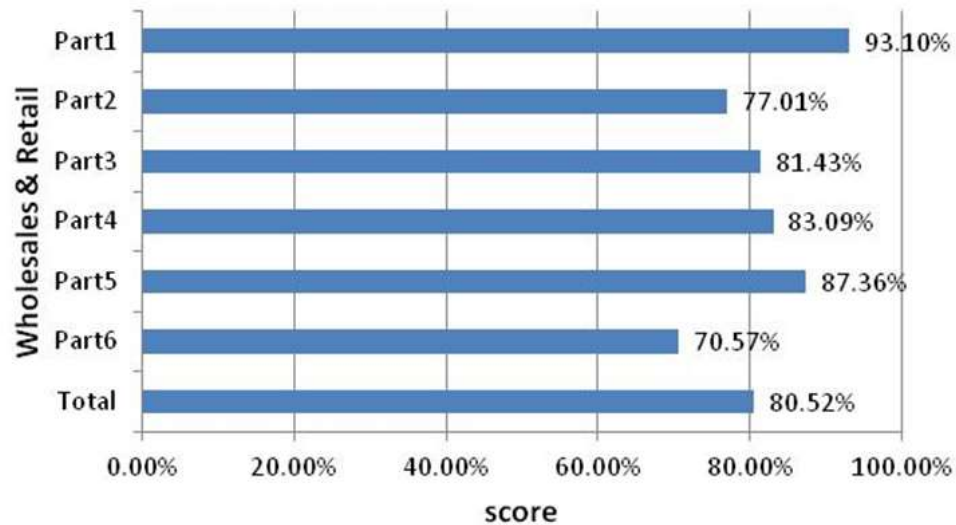
According to Figure 4.17, among six parts of corporate governance principles, respondents which are manufacturing companies mostly applied the rights of shareholders section (93.48%). The second most applicable issue for manufacturing companies was the third part (roles of stakeholders) (92.12%). The third most applicable issue for manufacturing companies was the disclosure and conflict of interest principle (91.93%). While three out of six parts of principles were applied by manufacturing companies at greater than 90%, two parts achieved less than 90% (equitable treatment of shareholders and the principle of conduct for management). The results yield the average rate of application on the principle of corporate governance of manufacturing firms for 91.08%.

Figure 4.18 Corporate Governance Score for Service Sector



According to Figure 4. 18, among six parts of corporate governance principles, respondents which are service companies mostly (93.33%) applied the rights of shareholders section. The second most applicable issue for service companies (86.89%) was the powers and duties of directors, followed by the equitable treatment of shareholders (81.67%). While only one out of six parts of principles were applied by service companies at greater than 90%, the remaining five parts had less than 90% application rate—equitable treatment of shareholders (81.67%), roles of stakeholder (79.72%), disclosure and conflict of interest (80.78%), powers and duties of directors (86.89%), and the principle of conduct for management (69.22%). The results yield the average rate of application on principles of corporate governance of service firms at 79.20%.

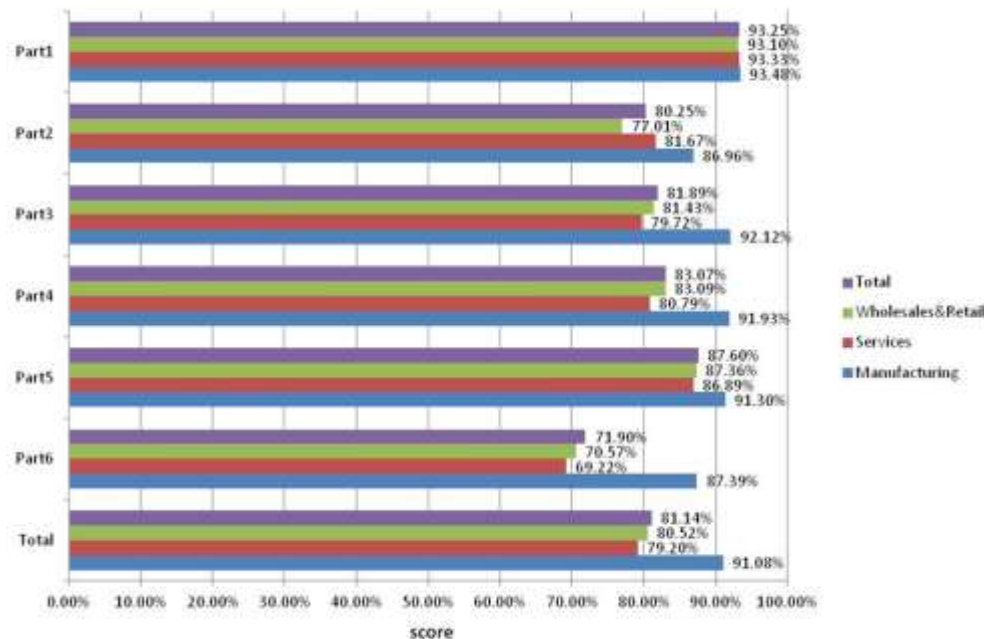
Figure 4.19 Corporate Governance Score for Trading Sector



According to Figure 4. 19, among six parts of corporate governance principles, respondents which are trading companies mostly (93.10%) applied the rights of shareholders section, followed by the powers and duties of directors (87.36%) and disclosure and conflict of interest (83.09%). While only one out of six parts of principles have been applied by trading companies for more than 90% , the remaining five parts have less than 90% application rate: equitable treatment of shareholders (77.07%), roles of stakeholders (81.3%), disclosure and conflict of interest (83.09%), powers and duties of directors (87.36%), and business operation (70.57%). The results yield the average rate of application on principles of corporate governance of trading firms at 80.52%.

A comparison of the corporate governance scores of each business sector was conducted to further investigate the different practices in each sector (Figure 4.20).

Figure 4.20 Comparison of Corporate Governance Score by Each Business Sector



Comparison among the rates of applying each principle of corporate governance by each business sector is divided into six parts according to six principles of corporate governance for SMEs.

1. The rights of shareholders. The rates of applying this section by three business sectors (manufacturing, service, trading) were 93.48%, 93.33%, and 93.10%, respectively. The results yield the average rate of applying the rights of shareholder section by all business sectors at 93.25%.
2. The equitable treatment of shareholders. The rates of applying this section by three business sectors (manufacturing, service, trading) were 86.96%, 81.67%, and 77.01%, respectively. The results yield the average rate of applying the equitable treatment of shareholders section by all business sectors at 80.25%.
3. The roles of stakeholder. The rates of applying this section by three business sectors (manufacturing, service, trading) were 92.12%, 79.72%, and 81.43%, respectively. The results yield the average rate of applying the roles of stakeholder section by all business sectors at 81.89%.

4. Disclosure and conflict of interest. The rates of applying this section by three business sectors (manufacturing, service, trading) were 91. 93% , 80. 79% , and 83. 09% , respectively. The results yield the average rate of applying the disclosure and conflict of interest section by all business sectors at 83.07%.
5. Powers and duties of directors. The rates of applying this section by three business sectors (manufacturing, service, trading) were 91. 30% , 86. 89% , and 87. 36% , respectively. The results yield the average rate of applying the disclosure and conflict of interest section by all business sectors at 87.60%.
6. The Principles of Conduct for Management. The rates of applying this section by three business sectors (manufacturing, service, trading) were 87.39%, 69.22%, and 70.57%, respectively. The results yield the average rate of applying the principle of conduct for management section by all business sectors at 71.90%.

Comparison among the average rates of applying of all principles of corporate governance by each business sector is presented in Table 4.7.

Table 4.7 Comparison of Average Corporate Governance Score by Each Business Sector

Business Type	Part1	Part2	Part3	Part4	Part5	Part6	Total
Manufacturing	93.48%	86.96%	92.12%	91.93%	91.30%	87.39%	91.08%
Services	93.33%	81.67%	79.72%	80.79%	86.89%	69.22%	79.20%
Trading(Wholesale & Retail)	93.10%	77.01%	81.43%	83.09%	87.36%	70.57%	80.52%
Total	93.25%	80.25%	81.89%	83.07%	87.60%	71.90%	81.14%

The one-way analysis of variance and Scheffe statistical of difference test were conducted to examine Hypothesis 2 (Table 4.8).

**Table 4.8 Mean and Standard Deviation of Corporate Governance Score of SMEs
for Each Business Sector**

Business Sector	Number	$\bar{x}$	<i>S.D.</i>
Manufacturing	1334	0.9108	0.2852
Service	5220	0.7920	0.4060
Trading	5046	0.8052	0.3961

There are three SME sectors (manufacturing, service, and trading). According to Table 4.5, the average governance scores were: manufacturing sector, 0.9108 with standard deviation of 0.2852; service sector, 0.7920 with standard deviation of 0.4060; and trading sector, 0.8052 with standard deviation of 0.3961.

Table 4.9 Analysis of Variance of Corporate Governance Score with Each Business Sector

Source	df	SS	MS	F	Sig(2-tail)
Between					
Group	2	15.347	7.674	50.565	0.000*
Within Group	11597	1759.951	0.152		
Total	11599	1775.298			

* Significant at level 0.05

According to Table 4.9, the significance of F ratio is less than 0.05, so it can be concluded that the means of average corporate governance score of each business sector are significantly different, supporting Hypothesis 3 – Thai SMEs are not equal in each category of compliance with good corporate governance principles. In order to further investigate Hypothesis 3a, the difference between each pair of means of average corporate governance scores was further investigated using the Scheffe method (Table 4.10).

Table 4.10 Summary Results from Scheffe Method

Mean	Business Sector	Manufacturing	Service	Trading
0.9108	Manufacturing	-	0.1188*	0.1056*
0.7920	Service	-0.1188*	-	-
0.8052	Trading	-0.1056*	-	-

According to Table 4. 10, each type of business applied the corporate governance principle unequally. The average score of manufacturing SMEs was significantly different from the average scores of service and trading SMEs. The manufacturing SMEs applied corporate governance principles more than the other two sectors, supporting Hypothesis 3a, Thai SMEs in the manufacturing sector comply the most with good corporate governance. The score of the manufacturing SMEs was more than the scores of the service and the trading SMEs at 0.1188 and 0.1056, respectively.

4.1.4 Discussion of the Corporate Governance Practices of Small and Medium-sized Enterprises

The result of this study provides a better understanding of the corporate governance framework for SMEs. The study offers knowledge of the existence and the average level of corporate governance, the most, and the least complies aspects of corporate governance practices in Thai SMEs.

These survey results of corporate governance practices in Thai SMEs are consistent with previous studies done for companies listed on the Stock Exchange of Thailand, which found that after the Asian Financial Crisis, corporate governance in Thailand was improved (Jongsureyapart, 2006). Thai SMEs complied with more than half of the corporate governance principles. The scores for Thai SMEs in this survey are quite good, as Table 4.3 and Table 4.4 show.

From 200 sample firms, most respondents were managing directors, with their firms located mostly in the Bangkok Metropolitan area. The majority do business in the service sector. They are mainly 1–10 years of age and have fewer than 10 employees.

When determining the overall corporate governance practices, on average, SMEs complied with 81% of the code of corporate governance principles by implementing the principles in each subgroup, from 71% to 93%. Because of their very closed ownership structure, these are usually family-owned businesses. In other words, typically only family members are shareholders. Therefore, Thai SMEs fair quite well in the area of shareholder rights. The rights of shareholders subgroup was the most performed principle. Figure 4.7 shows a breakdown of the shareholder rights scores into sub-items. Thai SMEs do very well across the two shareholder rights items (awareness of the importance of voting in a fair manner and disclosure of corporate information to shareholders clearly, accurately, completely, and transparently).

However, because SMEs have limited resources and are often family businesses, their leaders are family members who may not have the aptitude to run a business. Hence, the principles of conduct for management section was the least performed principles. The results indicate an opportunity to improve governance in SMEs. For small businesses, they should be supported and improved in their management system, and regulators should promote more on this subgroup.

Furthermore, the study found that there are different practices between business groups. The level of compliance of each business group ranged from 79% to 91%. Among all sectors, the manufacturing group, which typically has to maintain some standards for production, was the most compliant sector. And as expected, the service group was the least compliant. This is probably because manufacturing firms are capital intensive, and must have more good corporate governance practices in order to attract more capital, while service providers do not require much investment; hence, it is not necessary for them to pay attention to corporate governance practice.

Evidence from this study indicates that on average, Thai SMEs follow more than half of the corporate governance principles. They applied each corporate governance principle unequally. They

applied the right of shareholder principle more than they applied the other five principles of corporate governance (equitable treatment of shareholders, roles of stakeholders, disclosure and conflict of interest, power and duties of directors, and the principle of conduct for management). In addition, they applied the principles of conduct for management dimension less than they applied the other five dimensions. Furthermore, each type of business applied corporate governance principles unequally. The manufacturing SMEs applied corporate governance principles more than the service and the trading SMEs.

4.2 Determinants of Corporate Governance in Thai SMEs

This section responds to research question 3: what are the determinants of corporate governance in SMEs? This research question was investigated using lag regression under the following hypothesis.

H4: There is a relationship between ownership concentration and the quality of corporate governance.

H5: There is a relationship between Thai SME characteristics and their quality of corporate governance.

H5a: There is a relationship between Thai SMEs' size and their quality of corporate governance.

H5b: There is a relationship between Thai SMEs' age and their quality of corporate governance.

H5c: There is a relationship between Thai SMEs' leverage and their quality of corporate governance.

H6: There is a relationship between Thai SMEs' board characteristics and their quality of corporate governance.

H6a: There is a relationship between Thai SMEs' board size and their quality of corporate governance.

4.2.1 Descriptive Statistics

The sample included 200 SMEs from the database of the Department of Business Development, Ministry of Commerce, Thailand, during the period 2011–2012. The corporate governance index variable was measured as of the end of 2012, while all independent variables including the firm's size, age, leverage, ownership concentration, and board size were measured as of the end of 2011.

Table 4.11 presents descriptive statistics for these firms. The mean score (SD) on the corporate governance index or corporate governance score was 81.13 (15.29), while the minimum and maximum values were 25.86 and 100, respectively. This statistic shows that, on average, the sample businesses comply with more than half of good corporate governance principles.

The average firm had a firm size of 16.46, an age of 2.11, a leverage ratio of 0.99, a size of board or number of directors of 2.37, and an ownership concentration or percentage ownership in hands of the largest shareholder of 57.27.

Table 4.11 Descriptive Statistics

	Minimum	Maximum	Mean	Median	St. Deviation
CGI	25.8620	100*	81.1379	84.4827	15.2904
SIZE	9.88	20.6	16.4674	17.15	1.5971
AGE	1	4.28	2.113	2.2	0.8674
LEVERAGE	-13.24	48	0.9916	0.64	3.9616
BOARD	1	11	2.375	2	1.4014
OWN	2.02	100	57.2784	50.995	26.0420

*CGI score collected from CG questionnaire with a full 58 score to be a CG index 0–100 by dividing the score from the questionnaire by 58, then multiplying by 100.

4.2.2 Correlation Analysis

Correlation analysis was conducted to examine the relationship among variables (Table 4.12).

The study found that the CG score had a positive association with Size, Age, and Board, which means that larger firms had higher CG scores, older firms had higher CG scores, and firms with larger numbers of board members had higher CG scores. However, CG score was not correlated with ownership concentration and leverage. Besides, this study also found that no variable was highly correlated. Therefore, these variables can be analysed by using multiple regression analysis.

Table 4.12 Correlation among Corporate Governance Scores and Determinant Factors

Variables	CG	SIZE	AGE	LEVERAGE	OWN	BOARD
CG	1					
SIZE	.433** 0.000	1				
AGE	.202** 0.004	.443** 0.000	1			
LEVERAGE	-0.023 0.743	-0.047 0.507	0.103 0.147	1		
OWN	-0.134 0.059	-.142* 0.045	-0.066 0.357	-0.024 0.741	1	
BOARD	.276** 0.000	.408** 0.000	.219** 0.002	0.031 0.666	-.172* 0.015	1

** Significant at level 0.01

* Significant at level 0.05

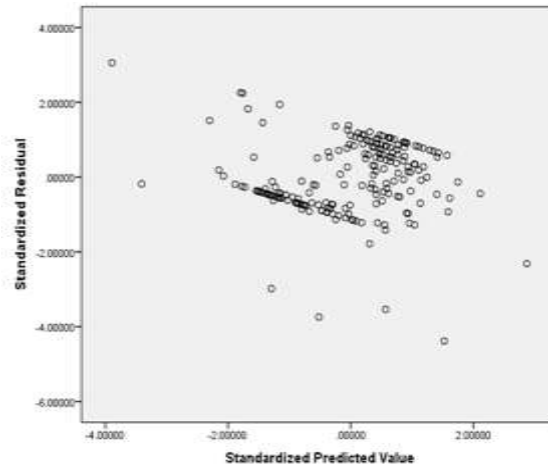
4.2.3 Multiple Regression Analysis

Multiple regression analysis assumptions were tested in this study, with the following results:

Assumption 1: The error term is normally distributed and has an expected value of zero. This assumption is not necessarily tested because using the least square method makes this assumption always true.

Assumption 2: Homoscedasticity. This assumption was tested by plotting a graph between the standardized predicted value (x axis) and the standardized residual (y axis), as shown in Figure 5.1, which shows that the plots disperse around the zero axis. Therefore, there is constant variation of the error term, and the dataset is homoscedastic.

Figure 4.21 Standardized Predicted Value and Standardized Residual



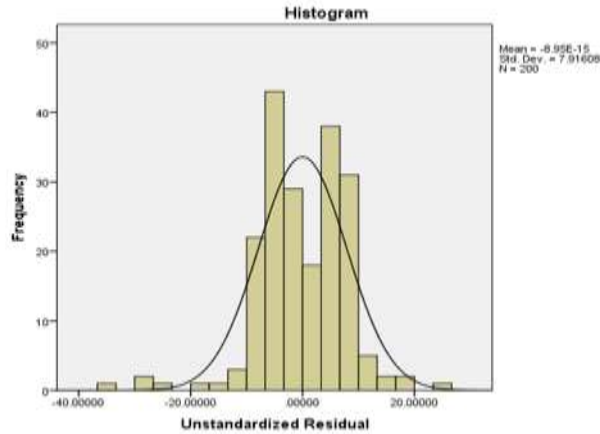
Assumption 3: Errors are independent. In this study, there were no time-series concerned, so there was no need to test this assumption.

Assumption 4: Error terms are normally distributed. This assumption was tested by using the Kolmogorov-Smirnov test (Table 4.13), which found that the significant value is 0.251, which is more than the significant level at 0.05. This result means that error terms are normally distributed, as shown in Figure 4.22.

Table 4.13 Kolmogorov-Smirnov Test

	Kolmogorov-Smirnov	
	Statistic	Sig
Unstandardized Residual	1.018	0.251

Figure 4.22 Histogram of Error Terms



Assumption 5: No multicollinearity. This study tested this assumption by using a tolerance and VIF test. If the VIF value is high (more than 10), it means that the independent variables are correlated, that is, having a multicollinearity problem. For tolerance, where values are between 0–1, if the value approaches 0 it means there is a multicollinearity problem, but tolerance values approaching 1 means there is no multicollinearity problem.

Table 4.14 VIF and Tolerance Test

Independent Variables	VIF	Tolerance
Board	1.225	0.817
Own	1.038	0.964
Size	1.452	0.689
Age	1.27	0.787
Lever	1.025	0.976

According to Table 4.14, this study found no VIF value more than 10 and all tolerance values approaching 1. Therefore, the study does not have multicollinearity problems.

Regression Model.

$$Y_t = \beta_0 + \beta_1 \text{SIZE}_{t-1} + \beta_2 \text{AGE}_{t-1} + \beta_3 \text{LAVERAGE}_{t-1} + \beta_4 \text{OWN}_{t-1} + \beta_5 \text{BOARD}_{t-1} + E$$

Where

Y = CG score at time t

β_0 = Constant

$\beta_1 \dots \beta_5$ = Coefficients of independent variables

SIZE_{t-1} = Natural logarithm of total assets at time $t-1$

AGE_{t-1} = Natural logarithm of the firm age at time $t-1$

OWN_{t-1} = Percentage of ownership in hands of the largest shareholder at time $t-1$

AGE_{t-1} = Natural logarithm of the firm age at time $t-1$

BOARD_{t-1} = Number of directors at time $t-1$

E = Errors

After testing all multiple regression assumptions, a lag regression method was used to test the hypothesis. The results are shown in Table 4.15.

Table 4.15 Regression Analysis Results

Variables	Coefficients	t-values
Intercept	20.9876	1.8565*
Size	3.5839	4.8482**
Age	0.1638	0.1287
Leverage	-0.0442	-0.1768
Own	-0.0358	-0.9363
Board	1.2149	1.5702
Adjusted R2	0.1827	
F-statistic	1.90996E-08	
N	200	

**, * Significant at level 0.05 and 0.10 respectively

These results imply associations between SME characteristics—in this case firm size and CG index. However, no relationships were found between other factors, including the firm's age, leverage, ownership, board size, and CG index. The results support Hypothesis H5, specifically, H5a, that there is a relationship between SME characteristics and their quality of corporate governance and there is a relationship between firm size and quality of corporate governance. However, support was not found for Hypotheses H4, H5b, H5c, H6, and H6a, which are that there is a relationship between ownership concentration and quality of corporate governance, there is a relationship between firm age and quality of corporate governance, there is a relationship between firm leverage and quality of corporate governance, there is a relationship between board characteristics and quality of corporate governance, and there is a relationship between board size and quality of corporate governance.

4.2.4 Discussion of Factors Affecting Corporate Governance Practices in Thai SMEs

Corporate governance practices vary among companies. Factors affecting corporate governance practices have been studied theoretically and empirically. Contributing to this line of research, this study found that among three categories that theoretically have an impact on corporate governance quality—ownership characteristics, characteristics of SMEs, and board characteristics—for Thai SMEs during 2011–2012, only firm size was found to have a statistically positive impact on corporate governance quality. This result is consistent with prior studies on the determinant factors affecting corporate governance quality, which indicate the significance of firm size, and which imply that the bigger the firm, the more resources it has for good corporate governance. In other words, large companies have more resources and written corporate governance directives; hence they tend to follow the principles of corporate governance more than do smaller companies (Ariff et al., 2007; Brown & Caylor, 2004; Khanchel, 2007; Kouwenberg, 2010). However, this study did not find support for the impact of the other two categories—ownership structure and board characteristics—on the quality of corporate governance.

4.3 Corporate Governance and Performance of Thai SMEs

This section responds to research question 4: what are the relationships between corporate governance and SMEs' performance? This question was investigated under the following hypothesis.

H7: There is a relationship between the quality of Thai SMEs' corporate governance and their performance.

4.3.1 Descriptive Statistics

In this section, the sample decreases from 200 to 152 due to data limitations. Some companies did not submit their financial statement into the database of the Department of Business Development, Ministry of Commerce, Thailand, during the period 2012–2013. The governance variable was measured as of the end of 2012, while the financial variables were measured as of the end of 2013.

Table 4.16 presents descriptive statistics for the sample firms. The mean score (SD) on the corporate governance index was 0.8349 (0.148), while minimum and maximum values were 0.2586 and 1.00, respectively. This statistic shows that, on average, the sample businesses complied with more than half of good corporate governance principles.

The average firm had a size of 16.7389, an age of 2.2395, a leverage ratio of 0.9098, a BOARD of 2.5394, an OWN of 57.2935, an ROA of -1.2907, and a ROE of -0.9823.

Table 4.16 Descriptive Statistics

	Minimum	Maximum	Mean	Median	St. Deviation
CGI	0.2586	1.0000	0.8349	0.8793	0.1488
SIZE	9.8800	20.6000	16.7389	17.19	1.4521
AGE	1.0000	4.2800	2.2395	2.3	0.8156
LEVERAGE	-13.2400	48.0000	0.9098	0.615	4.1234
BOARD	1.0000	11.0000	2.5394	2	1.4687
OWN	2.0000	100.0000	57.2935	50.495	26.634
ROA	-154.0600	47.0000	-1.2907	2.355	22.1008
ROE	-699.4400	497.2300	-0.9823	4.475	88.4671

4.3.2 Correlation Analysis

A correlation analysis was conducted to examine the relationship among variables (Table 4.17).

The study found that the CG score had a positive association with Size, Board, and ROA, which means that larger firms had a higher CG score, firms with larger numbers of board members had a higher CG score, and firms with a higher CG score had higher ROA, as expected. Size also showed strong correlations with Age, BOARD, and ROA. In addition, BOARD was positively correlated with the ratio of ownership structure. However, the CG score was not correlated with Age, Leverage, Ownership concentration, or ROE. Besides, this study also found that no variable was highly correlated. Therefore, these variables can be analysed by using multiple regression analysis.

Table 4.17 Correlation Analysis

	CGI	SIZE	AGE	LEVERA GE	BOARD	OWN	ROA	ROE
SIZE	0.3172***							
AGE	0.097626	0.3067***						
LEVERA GE	-0.01024	0.029749	0.127017					
BOARD	0.2909***	0.4203***	0.125637	0.016654				
OWN	-0.10039	-0.11226	-0.10019	-0.07653	-0.2350**			
ROA	0.2065*	0.1826*	0.035844	-0.08022	0.054805	0.073423		
ROE	0.053352	0.059491	0.035539	-0.00535	0.066911	0.088933	0.4376***	

The sample includes 152 SMEs presented in the SMEs database of the Department of Business Development, Ministry of Commerce, Thailand. The governance-related statistics are as of the end of 2012, while the financial statistics are as of the end of 2013

***, **and *denote significance at the 1%, 5%, and 10% levels, respectively.

4.3.3 Multiple Regression Analysis

In this section, empirical modes were set up to test Hypothesis 7. The dependent variables were the performance of SMEs measured using ROA for Model 1 and ROE for Model 2. Lag regressions were employed to test the hypotheses reviewed in the previous section.

Regression Model

$$Y_t = \beta_0 + \beta_1 \text{CGI}_{t-1} + \beta_2 \text{SIZE}_{t-1} + \beta_3 \text{AGE}_{t-1} + \beta_4 \text{LEVERAGE}_{t-1} + \beta_5 \text{OWN}_{t-1} + \beta_6 \text{BOARD}_{t-1} + E$$

Where

Y = Performance at time t

Model 1; $Y = \text{ROA}$ = Return on Assets at time t

Model 2; $Y = \text{ROE}$ = Return on Equity at time t

β_0 = Constant

$\beta_1 \dots \beta_6$ = Coefficients of independent variables

CGI_{t-1} = Corporate Governance Index at time $t-1$

SIZE_{t-1} = Natural logarithm of total assets at time $t-1$

AGE_{t-1} = Natural logarithm of firm age at time $t-1$

LEVERAGE_{t-1} = Total debt divided by total assets at time $t-1$

OWN_{t-1} = Percentage of ownership in hands of the largest shareholder at time $t-1$

BOARD_{t-1} = Number of directors at time $t-1$

E = Errors

Table 4.18: Regression Model

	Model 1 (ROA)	Model 2 (ROE)
Const.	-65.5729	-80.9837
p-value	0.004064	0.383367
CGI	26.31177	20.30497
p-value	0.040467**	0.69941
SIZE	2.394839	1.421159
p-value	0.096038*	0.809844
AGE	-0.16259	3.019774
p-value	0.943618	0.750142
LEVERAGE	-0.39947	-0.03569
p-value	0.357213	0.984063
BOARD	-0.58583	4.249227
p-value	0.670605	0.45472
OWN	0.077516	0.379407
p-value	0.259856	0.181521
Adj R²	0.275382	0.138158
F	1.983076	0.470261

**, * Significant at the 0.05 and 0.10 significance level respectively

4.3.3.1 Relationship between ROA and Corporate Governance Index

Table 4.18 shows the results of the empirical tests. In regression Model 1—the influence of the corporate governance index or quality on ROA—the coefficient of 26.31 is significant at the 5% level, suggesting that a higher corporate governance index tends to increase SMEs' performance, even after controlling for other financial characteristics in regression. Of the control variables, firm size shows an influence on the performance of SMEs, consistent with previous research. The result supports Hypothesis 7, that there is a relationship between corporate governance and SMEs' performance.

4.3.3.2 Relationship between ROA and Corporate Governance Score

In regression Model 2, however, the corporate governance index or quality does not show any significance on ROE. The corporate governance index and other control variables, including firm size, lose significance when using ROE as the measure of performance.

4.3.4 Discussion of Corporate Governance and Performance of Thai SMEs

The results of this study indicate a positive relationship between corporate governance and the performance of Thai SMEs measured by ROA. Consistent with prior studies on the relationships between corporate governance and the value of firms, good corporate governance is beneficial to the company (Abor & Biekpe, 2007; Aren et al., 2014; Bowen et al., 2008; Brunning et al., 2007; Larcker et al., 2007; Puksamatanan & Nittayagasetwat, 2012; Segaro, 2010). The principles of good corporate governance can help SMEs to have better management and more robust internal controls, which provide an opportunity to grow that much more. Therefore, by applying the concept of corporate governance to the conduct of the business, it helps to control and manage the business operation with efficiency and effectiveness, which will lead to sustainable development and added value to the business. Thus, good corporate governance affects the performance of SMEs in Thailand.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Small and medium-sized enterprises (SMEs) are important to the economies of most countries in the world, especially those in developing countries. They create jobs and products, and in Thailand they account for about 90% of all Thai enterprises. Large or public companies also have grown from SMEs. Since the significance of SMEs cannot be denied, understanding them is useful for both academics and practitioners.

The objectives of corporate governance are to provide mechanisms to ensure the achievement of business operations and success. It refers to the structures and processes for the efficient and proper direction and control of companies in the interest of all stakeholders. It is as relevant for SMEs as it is for larger or listed firms in order to facilitate growth, competitiveness, and sustainability. However, due to difficulties in collecting reliable and systematic data on SMEs, there are limited empirical studies that have explicitly investigated corporate governance in SMEs.

In order to contribute to knowledge on SMEs' corporate governance practices and performance, this study was conducted with three main objectives: 1) survey corporate governance practices of Thai SMEs; 2) examine factors that determine corporate governance practices in Thai SMEs; and 3) investigate whether corporate governance practice has an impact on the performance of SMEs.

The sample consisted of 400 Thai SMEs selected from the SMEs database of the Department of Business Development, Ministry of Commerce, Thailand. A theoretical framework was drawn out and a questionnaire was designed based on the factors chosen. Questions were mailed to the entire sample, and 50% responded. Univariate and multivariate analyses were employed to investigate the data.

The survey showed that Thai SMEs applied corporate governance principles unequally. They applied the right of shareholder principle more than they applied five other principles of corporate governance (equitable treatment of shareholders, roles of stakeholders, disclosure and conflict of interest, board authority, and principles of conduct for management). Each type of business also applied corporate governance principles unequally. Manufacturing SMEs applied corporate governance principles more than did service and trading SMEs.

In addition, correlation analysis revealed that Thai SMEs' corporate governance scores had positive correlation with firm size, firm age, and board characteristics. The multivariate analysis results are in line with previous studies, showing that the bigger the SME, the better the corporate governance it has. The results also indicate that there is a positive relationship between corporate governance and performance of Thai SMEs measured by ROA. The evidence suggests the importance of firm size in promoting good corporate governance in SMEs and confirms the importance of corporate governance on the performance of SMEs. According to the code of good corporate governance, not only will efficiency and effectiveness of company operations improve, but also the rights and benefits of all stakeholders will be protected. It will make the business more socially acceptable and competitive, hence leading to good performance, economic sufficiency, and ultimately sustainability.

However, we are still far from thoroughly understanding how SMEs operate in developing countries. It is clear that good corporate policies should support the growth of all large, medium, and small companies. But it is important to remember that SMEs face particular challenges: difficulty in accessing finance, greater burdens from regulatory frameworks, and a cost disadvantage for expansion in relation to major companies. We need to have a policy set for SMEs, not because they are small, but because they are an important part of the real economy and provide seedling cultivation for large enterprises. In fast-changing market environments, small businesses play an important role in creating challenges in the global labour market.

Recently, the Thai government, in the National and Economic Development Plan No. 10 (BE 2550-2554), focused its attention on promoting good corporate governance in SMEs in order to build

efficiency and transparency required for expansion and sustainable growth. To achieve this, the OMSEP developed and supported implementation of the Code of Corporate Governance for Thai SMEs, which is based on the OECD principle of corporate governance. The scope of corporate governance has been extended to be applicable to all SMEs. It is a compilation of best practices to provide a framework by which the business and management of SMEs are to be directed and controlled.

Over the last few years, the Code has been promoted to create widespread awareness of the need for good governance. However, the level of code usage varies from business to business. The type and size of business plays an important role in the process and extent of effectiveness. Good corporate governance encourages companies and their owners and managers to achieve their corporate goals by using more efficient resources. SMEs with good corporate governance have been found to generate growth in return. The study noted some aspects of the implementation of the Code of Corporate Governance by SMEs that will be beneficial to those involved. Using unique data, this study assessed the corporate governance practices of Thai SMEs, the factors that determine corporate governance practices in Thai SMEs, and the relationship between corporate governance practices and performance of Thai SMEs. Theoretical and empirical contributions were made to the literature on SMEs' management and corporate governance. Findings obtained from this research have implications for SME practitioners as well as researchers. This study can serve as a reference for policy makers and regulators to assist SMEs in developing businesses for efficiency and effectiveness in operations for sustainable growth.

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2. การนำผลงานวิจัยไปใช้ประโยชน์

- เชิงนโยบาย : ผลการวิจัยเป็นประโยชน์ต่อหน่วยงานรัฐที่มีหน้าที่กำกับดูแลวิสาหกิจขนาดกลางและขนาดย่อม เพื่อใช้เป็นแนวทางในการกำหนดระเบียบข้อบังคับเกี่ยวกับการกำกับดูแลกิจการที่ดีใน SMEs ทั้งนี้ถือเป็นการผลักดันให้วิสาหกิจขนาดกลางและขนาดย่อม นำหลักธรรมาภิบาลไปปรับใช้อย่างจริงจัง อันจะสามารถดำเนินธุรกิจได้อย่างยั่งยืน
- เชิงสาธารณะ : ผลการวิจัยสร้างความตระหนักรวมทั้งสนับสนุนถึงความสำคัญของการกำกับดูแลต่อวิสาหกิจขนาดกลางและขนาดย่อม และประโยชน์ของการประกอบธุรกิจอย่างมีธรรมาภิบาล ซึ่งจะเป็นประโยชน์ต่อผู้มีส่วนได้เสียของวิสาหกิจขนาดกลางและขนาดย่อม
- เชิงวิชาการ : สามารถนำผลการศึกษาไปเผยแพร่ในแวดวงวิชาการทั้งในและต่างประเทศ อีกทั้งยังเป็นประโยชน์ต่อการศึกษา ค้นคว้า วิจัยสำหรับผู้สนใจต่อยอดงานวิจัยทางด้านการกำกับดูแลกิจการ วิสาหกิจขนาดกลางและขนาดย่อม(SMEs) และการกำกับดูแลในวิสาหกิจขนาดกลางและขนาดย่อม

3. อื่นๆ

- ไม่มี -

CORPORATE GOVERNANCE PRACTICES IN SMALL AND MEDIUM ENTERPRISES (SMEs) IN THAILAND

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ABSTRACT

The aim of this preliminary study is to develop a better understanding of the background and practices in corporate governance of small and medium enterprises (SMEs) in Thailand. The theoretical framework has been drawn out and SME's good corporate governance principles from various sources have been compared and combined. The questionnaire was designed based on good corporate governance principles chosen. The sample consists of 200 Thai SMEs selected from the SMEs database of the Department of Business Development, Ministry of Commerce, Thailand in 2012. The results showed that Thai SMEs applied each corporate governance principle unequally. They applied the right of shareholder principle more than they applied other five principles of corporate governance namely, the equitable of the shareholder, the roles of stakeholders, disclosure and conflict of interest, board authority, and principle of conduct for management section. Each type of business also applied corporate governance principle unequally. The manufacturing SMEs applied corporate governance principles more than the service and the trading SMEs.

Keywords: Corporate governance, good corporate governance principles, small and medium enterprises (SMEs), Thailand.

**FACTORS AFFECTING CORPORATE GOVERNANCE PRACTICES: EVIDENCE FROM
SMALL AND MEDIUM ENTERPRISES (SMEs) IN THAILAND**

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ABSTRACT

This study endeavored to identify factors that are affecting corporate governance practices of small and medium enterprises (SMEs) in Thailand. The purpose of this study is to provide the understanding on what are matters when corporate governance is set in business especially in small and medium size enterprises in developing countries like Thailand hence help to increase chances of success in promote good corporate governance practices. This study examined three factors that influence the corporate governance practices of SMEs. These factors are: ownership, firm, and board characteristics. The theoretical framework has been drawn out and questionnaire was designed based on the factors chosen. The sample consists of 200 SMEs in Thailand. The study employs univariate and multivariate analyses to examine three hypotheses developed to find out factors that are affecting corporate governance practices of SME in Thailand. The results confirm previous studies' findings that the bigger the SMEs is, the better the corporate governance it has. The evidence suggests the importance of firm size in promoting good corporate governance in SMEs.

Keywords: Corporate governance, small and medium enterprises (SMEs), Thailand.