

# An Empirical Investigation of Corporate Governance and Cost of Capital: The Case of Thai Listed Companies on the Stock Exchange of Thailand

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## Abstract

This study explored the relationship between corporate governance and the cost of capital which consisted to three main objectives including 1) to investigate the relationship between corporate governance and cost of debt, 2) to investigate the relationship between corporate governance and cost of equity and 3) to investigate the relationship between corporate governance and weighted average cost of capital. In this study, corporate governance was measured by rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency and responsibilities of the board whereas cost of capital was determined by cost of debt, cost of equity and weighted average cost of capital.

The secondary data obtained from 303 listed companies on the Stock Exchange of Thailand in 2014 with the accounting period beginning on 1<sup>st</sup> January and ending on 31<sup>st</sup> December were employed in this study. The samples were companies from all industrial groups except the companies in financial and securities businesses, banking and insurance businesses, and companies under rehabilitation. The data were analyzed by means of Multiple Linear Regression at a significance level of 0.05.

The results revealed that rights of shareholders and disclosure and transparency had a significant negative effect on cost of debt. Rights of shareholders, disclosure and transparency, and responsibilities of the board also had a negative effect on cost of equity. Moreover, rights of shareholders, equitable treatment of shareholders, disclosure and transparency, and responsibilities of the board had a negative effect on weighted average cost of capital. According to the study of the effect of corporate governance with five aspects on cost of capital with three methods, it could be concluded that corporate governance strongly has an effect on weighted average cost of capital, cost of equity, and cost of debt, respectively. In addition, the results showed that the firm with higher corporate governance had a lower cost of capital. Besides, the firm's cost of capital influences the availability of further funding and its possibilities for investment projects. Therefore, the implementation of corporate governance principles should clearly be a concern.

**Keywords:** Corporate Governance, Cost of Equity, Cost of Debt, Weighted Average Cost of Capital

## Introduction

One of the major changes in Thailand's business regulation landscape since the 1997 financial crisis is the introduction of stronger requirements for corporate governance, especially for publicly listed firms (The World Bank, 2013). These laws and regulations were needed, because Thai firms had acted unwisely in the past, abandoning their fiduciary duty and undertaking poorly chosen projects under the guidance of closely held owner/managers (Limpaphayom & Connelly, 2004). This lack of good corporate governance resulted in overinvestment and undirected diversification, resulting in poor shareholder value and in some cases firm failure. In other cases, firms found themselves unable to access further funding due to this level of unwise investment (Limpaphayom & Connelly, 2004). Following the financial crisis, the corporate governance framework was substantially revised and public listing requirements were changed to improve adherence to corporate governance principles (Limpaphayom & Connelly, 2004; Periera & Sathitsuksomboon, 2012; The World Bank, 2013).

From the evaluation of corporate governance which is to stimulate for the alertness to the serious and ongoing development of the corporate governance mechanism, it would help add economic value to the business. Moreover, it is be the information for investors to bring the evaluation results to make decision for their further investment (Srichanphet, .(2009Cost of capital functions to connect between the decision of investment and decision to find out the company's fund together that it will reflect the ratio of capital which the company arranges to use in its investment.

It also considers bringing cost of capital to assist the firm in their insufficient resources calculation for the long-term investment (Gitman and Vandenberg, .(2000Recently, the businesses have to rely on the financing fund, either from liability or from capital. For either the economy or the firm, financing costs are important as they can affect the decision of investment and, eventually, economic growth since capital is the key financing structure component of the firm (Zorn, .(2007

The objective of this research is to study the effect of corporate governance on firm management in real terms: the firm's cost of capital. By examining firms listed on the Stock Exchange of Thailand (SET) for the year 2014, following the most recent reforms to corporate governance practices and rules, it will be possible to identify the potential effects of following good corporate governance principles on the firm's operation conditions.

## Literature Review

### Agency theory and corporate governance

The agency theory of the firm argues that the firm's managers (or principals) make firm decisions that are intended to be for the benefit of the firm's owner (the agent) (Jensen & Meckling, 1976). In situations where the interests of owners and managers conflict, managers have the power to act in their own interest, which is facilitated by information asymmetries between managers and non-controlling owners. The owner accrues two types of agency costs

associated with ensuring managers act in their interests, which include alignment costs and monitoring costs (Jensen & Meckling, 1976; Johnson, et al., 2016). Alignment costs include bonuses and compensation strategies intended to align the manager's interest to that of the owner, while monitoring costs include corporate governance strategies that monitor the manager's actions and performance (Johnson, et al., 2016).

Under the agency theory of corporate governance, corporate governance activities are intended to ensure that the firm is managed for the benefit of shareholders (owners) and stakeholders (others with a significant interest in the firm's operations, such as employees, suppliers and communities) (Byun, et al., 2008). Specifically, corporate governance frameworks introduce discipline to the firm's management, while also providing takeover defences (Chang, et al., 2014). Corporate governance structures also serve to enforce perceptions of corporate legitimacy and the underlying principles of contract law (Roe, 2004). Many firms operate under a specific corporate governance framework that establishes the rights and responsibilities of the board (who provides oversight), managers, shareholders, and stakeholders (Johnson, et al., 2016). These frameworks may be established by the company, but typically there are minimum national requirements, especially for publicly listed firms (Doidge, et al., 2007).

Corporate governance for listed firms in Thailand must meet the minimum requirements established by the Securities and Exchange Commission (2012), or otherwise leave the firm open to regulatory action including delisting from the exchange. However, corporate governance in Thailand has been significantly improved in recent years, especially with the introduction of enhanced requirements for stakeholder protection and shareholder rights (The World Bank, 2013). The five principles of corporate governance currently in place include "Rights of shareholders; equitable treatment of shareholders; role of shareholders; disclosure and transparency; and responsibilities of the board (Securities and Exchange Commission, 2012, p. 55)." These principles are best practices and are in addition to the corporate governance regulations and laws (discussed above) (Securities and Exchange Commission, 2012). Thus, the national corporate governance framework of Thailand includes specific requirements enacted in the Securities and Exchange Act, supplemented by non-mandatory (but highly recommended) best practices. This is a strong start to reforming corporate governance in Thailand (Periera & Sathitsuksomboon, 2012). However, many of the SEC's recommendations are poorly communicated, and may not be implemented by all firms (The World Bank, 2013). Thus, firm-level corporate governance cannot be expected to be uniform in Thailand.

Corporate governance is a concern because it can influence firm practices, such as voluntary disclosure, that influence its reputation and underlying performance (Akhtaruddin, et al., 2009). One of the most studied effects of corporate governance is the relationship between voluntary corporate governance practice and cost of capital. Table 1 summarizes the studies that were reviewed that addressed this relationship. There are also different explanations offered for these relationships. For example, one study found that indirect effects of disclosure (one element of corporate governance) could be attributable to changes in the quality of the firm's real activities and decisions, while direct effects were seen because of increased covariance with the market (Lambert, et al., 2007).

Inside ownership of the firm has also been found to act as a mediating variable in the relationship of some corporate governance indicators (mandatory disclosure) and the firm's cost of capital (Core, et al., 2015).

The hypotheses of the study assume that the effect of improved corporate governance will be reduced cost of financing (including cost of debt, cost of equity, and WACC). These hypotheses are stated as follows:

Hypothesis 1: Corporate governance have a negative relationship to cost of debt.

Hypothesis 2: Corporate governance have a negative relationship to cost of equity.

Hypothesis 3: Corporate governance have a negative relationship to weighted average cost of capital.

## Methodology

### 1. Research Design

Quantitative research was used in this study for analyzing the relationship between the independent variable (some factors in rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and board responsibility) and the dependent variables (cost of debt, cost of equity and weighted average cost of capital recommended by Bozec (2010)). Two sources of data were utilized in the study. The target companies for this study were those listed on the Stock Exchange of Thailand (SET). (This research used the secondary data from annual reports of companies and financial data were obtained from the Stock Exchange of Thailand (SET) (for financial information through the SETSMART data service for the year 2014 all the data requirements of purpose analysis that describes the links among corporate governance and cost of capital financial data. The number of observations, or subjects, used in this study was appropriate for multivariate analysis. The level of statistical significance is 0.05%

### 2. Data Collection

The target population for this study were firms listed on the Stock Exchange of Thailand (SET) (n = 303). Financial firms and property funds/REITs were excluded from the sample because these firms have different patterns of assets and accruals and patterns of financial reporting than other firms based on analysis of SET data. Firms that did not have full financial data available for the three years and companies under rehabilitation were also excluded. Financial and disclosure information for all firms was obtained from the firm's Form 56-1 financial reporting and disclosure statements, which are listed in the SETSMART automated database.

### 3. Data Analysis

Descriptive statistics were calculated for all variables. Variables were tested for linearity and constant variance and dependence of the error term (residual plots), normality

(histograms, skewness, and kurtosis), and multicollinearity (tolerance and VIF) to ensure that the assumptions of multiple regression were met. All assumption tests were adequate based on standard rules of thumb (visual examination of residual plots and histograms, skewness -3 to 3, kurtosis -1 to 1, tolerance < 1, VIF < 10).

## Results and Discussion

### 1. Correlation

Table 1 explains Pearson Correlation Coefficient between dependent variable and independent one; and control corporate governance which is explained in effect of governance variables affects on accounting data on cost of capital. The results of the noticeable variables relationship analysis related to the corporate governance and cost of capital consist of 10 variables related to business governance, 3 costs of capital variables, and 2 control variables. The Pearson correlation coefficient was used and found the values between -0.320 to 0.694. the correlation between the variables has the highest value of cost of equity and wacc of 0.694 at the statistical significant level of 0.05. We can bring the variables from this study to test on the hypothesis with the details of analysis result as shown in Table 1

**Table 1:** Correlation matrix of all variables

	C_DEBT	C_EQUITY	WACC	R_AGM	R_DIVI	E_PROXY	S_MSB	D_FIVE	D_CGR	B_AUCOM	B_DUAL	B_SIZE	B_COM	F_SIZE	LEV
C_DEBT	1														
C_EQUITY	-0.002	1													
WACC	-0.051	0.694**	1												
R_AGM	-0.148**	-0.228**	-0.209**	1											
R_DIVI	0.088	-0.117*	-0.089	-0.077	1										
E_PROXY	-0.040	-0.203**	-0.313**	0.064	0.121*	1									
S_MSB	-0.018**	-0.093	-0.020	0.033	0.011	0.061	1								
D_FIVE	0.136*	-0.084	-0.098	-0.022	0.041	-0.002	0.081	1							
D_CGR	-0.076	-0.202**	-0.197**	-0.005	0.011	0.331**	0.317**	0.079	1						
B_AUCOM	0.054	-0.038	-0.209**	0.123*	-0.109	0.176**	-0.196**	-0.005	-0.104	1					
B_DUAL	-0.085	-0.240**	-0.310**	0.140*	-0.029	0.212**	0.028	0.040	0.206**	0.097	1				
B_SIZE	-0.095	-0.258**	-0.320**	0.112	0.045	0.238**	0.169**	0.040	0.216**	-0.050	0.313**	1			
B_COM	-0.104	0.007	0.016	-0.039	-0.088	0.030	0.299**	-0.025	0.259**	-0.117*	0.121*	-0.151**	1		
F_SIZE	-0.069	-0.263**	-0.281**	0.122*	0.042	0.179**	0.103	0.038	0.163**	0.067	0.238**	0.257**	0.156**	1	
LEV	-0.177**	-0.199**	-0.223**	0.109	-0.059	0.150**	0.025	-0.036	0.122*	0.121*	0.169**	0.174**	0.084	0.172**	1

\*\* and \* denote statistical significance at the 0.01 and the 0.05 levels, respectively.

## 2. Descriptive Statistics

**Table 2:**

Variables	N	Min	Max	Mean	Median	Mode	SD.
C_DEBT (%)	303	1.02	12.37	5.33	5.25	6.75	1.53
C_EQUITY (%)	303	2.31	27.93	12.11	11.78	12.91	5.98
WACC (%)	303	1.18	22.97	10.01	9.3	9.77	5.02
R_AGM (score)	303	2.00	6.00	4.65	5.00	5.00	0.96
R_DIVI (%)	303	0.00	20.22	2.58	2.21	0	2.51
E_PROXY (dummy)	303	0.00	1.00	0.74	1.00	1.00	0.44
S_MSB (mb)	303	3.84	37.82	24.51	28.38	9.32	3.29
D_FIVE (%)	303	15.80	99.77	55.16	54.38	32.57	18.15
D_CGR (score)	303	0.00	5.00	2.47	3.00	0.00	1.89
B_AUCOM (%)	303	13.64	50	21.83	21.43	23.08	4.43
B_DUAL (dummy)	303	0.00	1.00	0.74	1.00	1.00	0.44
B_SIZE (number)	303	6.00	28.00	14.78	14.00	13.00	2.99
B_COM(mb)	303	0.2	5,595.12	29.92	5.36	2.78	301.16
F_SIZE (mb)	303	100.29	1,779,179.16	26,706.68	4,945.45	30,975.22	113,365.11
LEV (ratio)	303	0.00	1.42	0.46	0.46	0.48	0.24

Table 2 shows descriptive statistics based on observation, including basic statistics, namely minimum value, maximum value, mean, median, mode and standard deviation of all variables according to Cost of Debt had ranged from 1.02 percent to 12.37 percent with an average of 5.33 percent (SD = 1.53), the median and mode are 5.25 and 6.75, respectively. Thai listed firms' Cost of Equity had ranged from 2.31 percent to 27.93 percent with an average of 12.11 percent (SD = 5.98), the median and mode are 11.78 and 12.91, respectively. Thai listed firms' weighted average cost of capital had ranged from 1.18 percent to 22.97 percent with an average of 10.01 percent (SD = 5.02), the median and mode are 9.30 and 9.77, respectively. For the five aspects of corporate governance consisting of 1) rights of shareholders; 2) equitable treatment; 3) role of stakeholders; 4) disclosure and transparency; and 5) responsibilities of the board. Regarding of the rights of shareholders in terms of Shareholder participation rating in the annual general meeting concerns, Thai listed firms had ranged from 2.00 to 6.00 with an

average of 4.65 (SD = 0.96), the median and mode are 5.00 and 5.00, respectively. While the Thai listed firms' Percentage of dividend payment had ranged from 0.00 to 20.22 with an average of 2.58 (SD = 2.51), the median and mode are 2.21 and 0, respectively. About the equitable treatment regarding of the dummy variable: 1 if the Annual General Meeting notice was sent with the proxy voting form to shareholders by the firm, and 0 otherwise if the Thai listed firms had ranged from 0.00 to 1.00 with an average of 0.74 (SD = 0.44), the median and mode are 1.00 and 1.00, respectively. On the role of stakeholders in regard of the Thai listed firms' director remuneration (meeting allowance, salary and bonus); it ranged from 3,839,070.50 baht to 37,872,000 baht with an average of 24,510,304 baht (SD = 3,244,289), the median and mode are 28,384,347 and 9,315,000 respectively. In term of disclosure and transparency regarding the percentage of shares held by five largest shareholders of Thai listed firms had ranged from 15.80 to 99.77 with an average of 55.16 (SD = 18.15), the median and mode are 54.38 and 32.57, respectively. Thai listed firms' rating of CG reporting had ranged from 0.00 to 5.00 with an average of 2.47 (SD = 1.89) (SD = 1.89), the median and mode are 3.00 and 0.00, respectively.

Regarding the board's responsibilities in terms of auditing committees percentage in Thai listed firms, this ranged from 13.64 percent to 50 percent with an average of 21.83 percent (SD = 4.43), the median and mode are 21.43 and 23.08, respectively. CEO duality dummy variable: 1 = CEO had not come from the chairman of the board, 0 was otherwise. of Thai listed firms had ranged from 0.00 to 1.00 with an average of 0.74 (SD = 0.44), the median and mode are 1.00 and 1.00, respectively. The amount of board of directors in Thai listed firms had ranged from 2.00 to 28.00 with an average of 14.78 (SD = 2.99), the median and mode are 14.00 and 13.00, respectively. The amount of board compensation in Thai listed firms had ranged from 200,000 baht to 95,595,119,250 baht with an average of 29,915,432.82 baht (SD = 301161679.60), the median and mode are 5,361,500 baht and 2,780,000 baht, respectively. Natural logarithm of the firm's total assets of Thai listed firms had ranged from 8 to 12.44 with an average of 9.74 (SD = 0.71), the median and mode are 9.61 and 8.80, respectively. The total debt over the total assets of financial leverage of Thai listed firms had ranged from 0.00 to 1.42 with an average of 0.46 percent (SD = 0.24), the median and mode are 0.46 and 0.48, respectively.

### 3. Discussion

#### 3.1 Corporate Governance Factors in Cost of Debt (Model 1)

Outcomes of Model 1 (Table 3) show significant factors in cost of debt include R\_AGM ( $p < 0.001$ ) D\_FIVE ( $p = 0.046$ ). The goodness of fit of the model is very low ( $R^2 = 0.086$ ), indicating that only 8.60% of the variance in cost of debt is attributable to variance in corporate governance. While the model was significant based on the accompanying ANOVA test ( $F = 2.280$ ,  $p = 0.009$ ), in practice the model predicts a very limited amount of information about the factors in cost of debt. Therefore, this model does not show that most corporate governance factors influence cost of debt, although R\_AGM and D\_FIVE have a small (though significant) effect. H1 is mostly rejected.

**Table 3:** Multiple Regression Results for Corporate Governance and Cost of Debt

Independent Variables	Exp. Sign	Standardized Coefficients	t-test	p-value
<b>Model6</b>				
Intercept	None		2.328	0.021*
R_AGM	( - )	-0.129	-2.206	0.028*
R_DIVI	( - )	0.091	1.565	0.119
E_PROXY	( - )	0.012	0.192	0.848
S_MSB	( - )	-0.008	-0.128	0.898
D_FIVE	( - )	0.138	2.423	0.016*
D_CGR	( - )	-0.074	-1.139	0.256
B_AUCOM	( - )	0.066	1.097	0.274
B_DUAL	( - )	-0.039	-0.627	0.531
B_SIZE	( - )	-0.043	-0.702	0.483
B_COM	( - )	-0.015	-0.235	0.814
F_SIZE	( - )	0.000	0.003	0.998
LEV	( - )	-0.115	-1.961	0.051
F		2.280		
p-value		0.009*		
R <sup>2</sup>		0.086		
Adj. R <sup>2</sup>		0.048		
Durbin- Watson		1.840		

### 3.2 Corporate Governance Factors in Cost of Equity (Model 2)

The test of Hypothesis 2 (Model 2) examined the role of corporate governance factors in cost of equity (Table 4). The model was significant ( $F = 7.350$ ,  $p < 0.001$ ). Significant factors identified in this model were R\_AGM ( $p = 0.001$ ), D\_CGR ( $p = 0.001$ ), B\_DUAL ( $p = 0.006$ ), and B\_SIZE ( $p = 0.028$ ), F\_SIZE ( $p = 0.003$ ), and LEV ( $p < 0.001$ ). The goodness of fit of this model was moderate ( $R^2 = 0.365$ ), indicating that 36.50% of variance in cost of equity was attributed to variance in the corporate governance factors. This shows that corporate governance factors do predict more of cost of equity than they do cost of debt, but it still only has a small effect. H2 is partially accepted.



**Table 4:** Multiple Regression Results for Corporate Governance and Cost of Equity

Independent Variables	Exp. Sign	Standardized Coefficients	t-test	p-value
<b>Model 12</b>				
Intercept	None		5.443	0.000*
R_AGM	( - )	-0.170	-3.443	0.001*
R_DIVI	( - )	-0.068	-1.380	0.169
E_PROXY	( - )	0.043	0.785	0.433
S_MSB	( - )	-0.013	-0.258	0.797
D_FIVE	( - )	-0.020	-0.413	0.680
D_CGR	( - )	-0.181	-3.352	0.001*
B_AUCOM	( - )	-0.004	-0.087	0.931
B_DUAL	( - )	-0.147	-2.777	0.006*
B_SIZE	( - )	-0.138	-2.629	0.009*
B_COM	( - )	0.006	0.112	0.911
F_SIZE	( - )	-0.156	-3.016	0.003*
LEV	( - )	-2.275	-5.510	0.000*
F		7.350		
p-value		0.000*		
R <sup>2</sup>		0.365		
Adj. R <sup>2</sup>		0.336		
Durbin- Watson		2.241		

### 3.3 Corporate Governance Factors in WACC (Model 3)

Hypothesis 3 (Model 3) was once again tested using multiple linear regression (Table 5). The model was significant ( $F = 26.679$ ,  $p < 0.001$ ). The goodness of fit test indicated a moderate fit ( $R^2 = 0.252$ ), indicating that 25.2% of WACC was predicted by the corporate governance variables and control variables. Significant variables included E\_PROXY ( $p = 0.033$ ), D\_FIVE ( $p = 0.028$ ), D\_CGR ( $p = 0.017$ ), B\_AUCOM ( $p < 0.001$ ), B\_DUAL ( $p = 0.001$ ), B\_SIZE ( $p < 0.001$ ), F\_SIZE ( $p < 0.001$ ), and LEV ( $p = 0.007$ ). This indicates that at least one of the variables from each of the five categories of corporate governance responsibilities of the firm were significant. Both control variables were also accepted. H3 was accepted, with the understanding that the model effects were only moderate.

**Table 5:** Multiple Regression Results for Corporate Governance and Weighted Average Cost of Capital.

Independent Variables	Exp. Sign	Standardized Coefficients	t-test	p-value
<b>Model 18</b>				
Intercept	None		7.410	0.000*
R_AGM	( - )	-0.074	-1.576	0.116
R_DIVI	( - )	-0.057	-1.210	0.227
E_PROXY	( - )	-0.112	-2.138	0.033*
S_MSB	( - )	0.019	0.391	0.696
D_FIVE	( - )	-0.101	-2.204	0.028*
D_CGR	( - )	-0.124	-2.397	0.017*
B_AUCOM	( - )	-0.179	-3.778	0.000*
B_DUAL	( - )	-0.165	-3.278	0.001*
B_SIZE	( - )	-0.262	-5.261	0.000*
B_COM	( - )	-0.017	-0.342	0.733
F_SIZE	( - )	-0.105	-2.154	0.032*
LEV	( - )	-0.158	-3.327	0.001*
F		12.491		
p-value		0.000*		
R <sup>2</sup>		0.419		
Adj. R <sup>2</sup>		0.393		
Durbin- Watson		2.169		

This study showed that while corporate governance did have a significant effect on cost of debt, the effect was minimal ( $R^2 = 0.086$ ), suggesting that corporate governance would have a limited practical effect on the firm's capital structure. However, only a few corporate governance factors influenced cost of debt, including R\_AGM (negative) and D\_FIVE (positive) also influenced cost of debt, but this is consistent with expectations regarding corporate finance, since a firm with a higher leverage would be considered riskier and therefore pay a higher debt premium (Johnson, et al., 2016). The previous study showed that higher takeover defences (fewer shareholder rights) reduced cost of debt. This is not comparable to

the findings of the current study, which found that shareholder rights and disclosure and transparency had a role, the lack of direct evidence on the relationship of corporate governance does not allow for an explanation for these relationships, although it could be related to national or firm-level finance dynamics or the legal and regulatory structure of Thailand compared to the US (Chang, et al., 2014; Chen, et al., 2009). This is an area that requires further research and theorization, to understand how corporate governance influences cost of debt. This is increasingly important given the growing legal requirements for corporate governance in Thailand and in other developing countries (Periera & Sathitsuksomboon, 2012; The World Bank, 2013).

As with most of the other previous studies reviewed (Byun, et al., 2008; Chen, et al., 2009; Core, et al., 2015; Dhaliwal, et al., 2014; Lambert, et al., 2007), the study did identify a moderate effect of corporate governance factors on cost of equity ( $R^2 = 0.365$ ), indicating that the importance of corporate governance for cost of equity is higher than it is for cost of debt.

However, only four of the corporate governance factors were significant, including R\_AGM (negative) D\_CGR, B\_DUAL (negative) and B\_SIZE (negative). Regarding most of the other previous studies reviewed (Byun et al., 2008; Chen et al., 2009; Core et al., 2015; Dhaliwal et al., 2014; Lambert et al., 2007), the study identified moderate effects of corporate governance aspects on cost of equity which indicated that the importance of corporate governance and cost of equity was higher than cost of debt. Nevertheless, only five aspects of corporate governance, including R\_AGM, D\_CGR, B\_DUAL, and B\_SIZE were negatively significant.

Finally, this study has also shown that there were factors in corporate governance that influenced the firm's WACC, including E\_PROXY D\_FIVE, D\_CGR, B\_AUCOM, and B\_DUAL, B\_SIZE. Control variables including the firm size and leverage were also significant. These findings suggest that it is the holistic picture of corporate governance, rather than any particular area of corporate governance, that influences the firm's cost of capital and its potential capital structure. The dynamic nature of corporate governance and its relationship to capital structure, in which factors like leverage determine the effects of different corporate governance indicators (Chang, et al., 2014), could be one reason for this lack of consistency. It is also notable that the combined model for WACC predicted more variance than the two independent cost models. This could suggest some interaction effects between the cost of equity and cost of debt with corporate governance, which this research was not designed to examine.

## Conclusions and Recommendations

This research has demonstrated that corporate governance practices in Thai firms do influence the firm's cost of capital. While the strongest effect is on the weighted average cost of capital. This finding supports the SEC's promotion of principles of corporate governance that support shareholder rights, equitable treatment of shareholders, stakeholder roles, disclosure and transparency and board responsibilities, not just as a matter of corporate oversight and management but also as a way to improve the firm's cost of capital. Since the firm's cost of capital influences the availability of further funding and its possibilities for investment projects, the implementation of corporate governance principles should clearly be a concern. This is especially true for publicly listed firms such as those on the SET, who are dependent on public equity financing.

There are several limitations to this research, of which the most important is the necessarily somewhat subjective nature of the corporate governance indicators. While the SETSMART database does offer information about the firm's corporate governance principles, there is no single index of corporate governance in Thailand that encompasses compliance with the SEC's Principles of Good Corporate Governance (2012). Construction and validation of such a research and routine market monitoring would provide a useful area of further research, since it would allow for long-term monitoring and investor information for firms listed on the SEC and larger time series studies. Development of such an instrument could follow existing models such as the G-Index, which monitors shareholder rights (Chang, et al., 2014), although the index should be modified in order to account for the governance structure of Thai firms.

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