

Good Corporate Governance and Accounting Performance Affecting the Profit Quality of Companies Listed on the Stock Exchange of Thailand during the COVID-19 Pandemic

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Abstract: - The objective of this research is to study the good corporate governance and accounting performance affecting profit quality of companies listed on the Stock Exchange of Thailand during the COVID-19 pandemic. The research methodology is multiple regression analysis used in the data analysis and the test of accounting performance used as an intermediate variable according to the concept of [16]. The sample group consists of companies listed on the Stock Exchange of Thailand from 2018-2021. The data used in the study was a total of 2,604 data. The research results revealed that from the mediator variables before COVID-19 (2018-2019) totalling 2 years, the good corporate governance scores have an influence on profit quality. The rate of return on equity is some intermediate variable. It shows that a good corporate governance score has an influence on accounting performance as measured by the return on equity ratio of the shareholders and profit quality. However, the results of the test on the intermediate variable after COVID-19 (2020-2021) did not meet the test criteria for good corporate governance influencing profit quality at the statistical significance level of 0.05.

Key-Words: - Good corporate governance, accounting performance, profit quality

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1 Introduction

From the COVID-19 pandemic situation, the duties of the Board in risk management are immediately more intense, especially when encountering the unexpected events affecting the business operations. However, in reality, the Board should routinely monitor risks in both normal and uncertain circumstances, [12]. Listed companies are an important mechanism to drive the country's economy in terms of income generation, employment, and participation in social and environmental care. Therefore, the Board of Directors, management and departments within the organization should play an important role in promoting the organization to have good governance or good corporate governance, [7], [1]. The organizations with good governance will gain credibility, trust and faith. Having good governance will help create the motivation to work with the organization. The Securities and Exchange Commission (SEC) tries to promote this by rewarding listed companies on the

Stock Exchange of Thailand (SET) with good disclosure. The Thai Institute of Directors (IOD) creates a tool to survey corporate governance of listed companies and prepares a report of the survey called the Corporate Governance Report (CGR). The Stock Exchange of Thailand also grants the award to companies that report compliance with good corporate governance principles known as the "SET Award", [7].

Therefore, the researcher saw the importance of Good corporate governance, [20]. The effective corporate governance system is considered an important foundation for listed companies, [10], [11]. The corporate governance is the basis for sustainable success. It has received attention and is accepted by organizations around the world as a factor that will make the business achieve its goals. It can also build trust and confidence among shareholders, investors, stakeholders, and all involved parties as the tool to add value and sustainable growth of the company. From the aforementioned

importance, the researcher, therefore, aims to study good corporate governance and accounting performance affecting the profit quality of companies listed on the Stock Exchange of Thailand during the COVID-19 pandemic.

2 Literature Review

The researcher has reviewed the literature of foreign and domestic research to be developed as the research conceptual framework. The conceptual framework shows the relationship between the independent variables. The scores are measured by good corporate governance. The intermediate variables are measured from accounting performance. The dependent variable is profit quality as detailed below.

Independent variables: scores of good corporate governance

In [21], the authors present a conceptual framework for corporate governance. It is divided into 2 categories; Category 1 Internal Governance Mechanism and Category 2 External Governance Mechanism. Moreover, the researcher studied the criteria for the Corporate Governance Report of Thai Listed Companies. The criteria used in considering this project have been developed on the basis of OECD Principles of Corporate Governance. It is an internationally accepted principle and has been used as a framework for developing corporate governance principles of other countries. This includes corporate governance principles for listed companies of the Stock Exchange of Thailand used as a framework for consideration. It is divided into 5 sections, [7], as follows:

1. Rights of Shareholders
2. Equitable Treatment of Shareholders
3. Roles of Stakeholders
4. Disclosure and Transparency
5. Board Responsibilities

The researcher has applied all 5 categories of good corporate governance principles as part of the independent variables in this research. The researcher has studied the corporate governance report of the Thai Institute of Directors (IOD) showing Corporate Governance Rating (CG Rating) in order to develop good corporate governance in the organization of Thailand. This will bring benefits both in terms of providing information to investors and improving the overall level of corporate governance. The indicators of good corporate governance, [7], for use in this research are divided into 2 groups:

Group 0 = Group of Non-awarded Good Corporate Governance refers to the companies listed

on the Stock Exchange of Thailand that received an overall score of “N/A” (scores less than 50).

Group 1 = Good of Awarded Corporate Governance refers to the companies listed on the Stock Exchange of Thailand that received “Passed” (scores of 50-59), “Fair” (scores of 60-69), “Good” (scores of 70-79), “Very good” (scores of 80-89), and “Excellent” (scores of 90-100).

Intermediate variable: Accounting performance: In this research, the researcher has applied the idea of [14] using the financial ratios and corporate performance to predict business bankruptcy. It is an analysis of past performance data in order to know the different situations, [17]. In addition [2], financial ratios are components of the model reflecting the problems affected by each group of companies. For the information obtained from the financial statements for each accounting method prepared by the entity, even in the same type of business, there may be some differences, [8]. From this situation, the ratio of working capital to total assets, the ratio of retained earnings to total assets and the net profit margin before interest and tax on total assets, and the financial ratio are also important tools to be used as variables to test the theory and financial models in many cases such as a model for estimating the credit rating of bonds and models to predict the likelihood of financial problems, etc., [3], [4].

Profitability Ratios is the ratio used to measure the management efficiency in terms of profitability such as increasing sales efficiency in cost control, etc.

Return on Assets

Return on Assets = Earnings before Interest and Tax/Total Assets*100

Return on assets is a ratio that indicates the efficiency of a company in investing its assets to generate returns. It is a value that represents the profit that the company earns from all the assets that the company uses to operate. The higher this ratio is, the better value it will be. It measures the profitability of all assets used by the business to operate. It can yield returns from operations. If the value is high, it indicates efficient use of assets as well, [26]. This study measures profitability using the return on assets, [29]. It was found that good corporate governance affects the return on assets and results in higher business value, [28].

Return on Equity

Return on Equity = Net Profit (Loss)/Shareholder's Equity*100

Return on Equity is the ratio used in the analysis to measure the return on equity reflecting the management ability to generate returns for the shareholders who own the business, [32]. If this ratio is higher, it will demonstrate efficiency in making profits.

Dependent Variable: Profit Quality: Study the profit quality of each company from the 2018-2021 financial statements of companies listed on the Stock Exchange of Thailand.

From the previous review of the literature, it was found that there are several techniques for assessing the quality of profits. However, for this study, the researcher was interested in studying the quality of profit according to the concept. According to the comparison between operating profit calculated on an accrual basis and operating cash flow known as the Quality of Earnings Index, it should be close to one. It can be said that the quality profit level is the ratio of cash flow from operations divided by earnings before interest and income tax depreciation. The amortization values must be equal to one. If the ratio has deviated from one, it will be regarded as quality profit, [9]. The quality of profit will be studied according to the following model, [8].

$$| \text{CPE Ratio}_{it} | = \text{CFO}_{it} / \text{EBITDA}_{it} \quad (1)$$

$$(\text{QOE})_{it} = | \text{CPE Ratio}_{it} | - 1 \quad (2)$$

Research conceptual framework

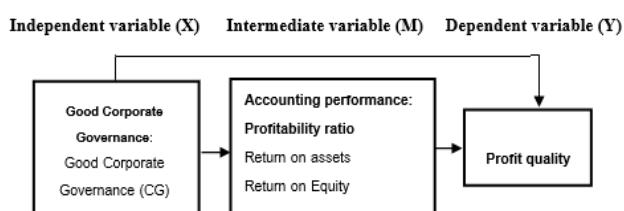


Fig. 1: Conceptual framework of good corporate governance and accounting performance affecting the profit quality of companies listed on the Stock Exchange of Thailand during the COVID-19 pandemic

3 Research Methodology

The researcher has formulated the research hypotheses from the research conceptual framework as a result of literature reviews, concepts, various theories, and related research results. The research conceptual framework demonstrates the relationship between independent and dependent variables. The independent variable is a good corporate governance

score. The intermediate variable is the accounting performance. The dependent variable is the profit quality as shown in Figure 1. The researcher sets the research hypotheses as follows:

1st Research Hypothesis: The good corporate governance score factor influences the profit quality.

2nd Research Hypothesis: The good corporate governance score factor influences accounting performance.

3rd Research Hypothesis: The good corporate governance score factor influences the profit quality through accounting turnover variables.

The research population consisted of companies listed on the Stock Exchange of Thailand in 7 industry groups; 1. Agriculture and food industry, 2. Consumer goods, 3. Industrial products, 4. Real estate and construction, 5. Resources, 6. Services, and 7. Technology. According to the information from the Thai Institute of Directors, the number of companies listed on the Stock Exchange of Thailand classified by industry groups leads to the data presentation to be analyzed for an overview using data of 651 companies between 2018 and 2021, totalling 4 years. The total number of data used in the study is 2,604 data as shown in Table 1.

Table 1. Comparison of companies that received good corporate governance assessment scores and did not receive good corporate governance assessment scores from 2018 to 2021

Details of population	Before COVID-19		After COVID-19	
	2018	2019	2020	2021
Companies that received good corporate governance scores				
"Passed" (scores of 50-59), "Fair" (scores of 60-69), "good" (scores of 70-79), "very good" (scores of 80-89), and "Excellent" (scores of 90-100)	503	586	616	661
Companies that did not receive good corporate governance scores				
Overall "N/A" score (score below 50)	154	91	76	55
Total listed companies surveyed on corporate governance	657	677	692	716
Less financial business group and Market for Alternative Investment (MAI) that have incomplete turnover from 2018 to 2021	6	26	41	65
Remaining number of companies operating from 2018 to 2021	651	651	651	651

Source: Thai Institute of Directors, 2022

From Table 1, for the announcement of the results of the assessment of good corporate governance (CGR), the Thai Institute of Directors will announce the list of specific companies group receiving good corporate governance award which refers to companies listed on the Stock Exchange of Thailand that received "passes" (scores of 50-59), "fair" (scores of 60-69), "good" (scores of 70-79),

“very good” (scores of 80-89), and “excellent” (scores of 90-100), respectively.

The researcher then realized the importance of good corporate governance, [30], having the good corporate governance scores to be considered an important foundation for a listed company. In [10] the authors said that corporate governance is the basis for sustainable success that has received attention and is accepted by organizations around the world as a factor that will make businesses achieve goals. It can also build trust and confidence among shareholders, investors, stakeholders, all involved parties as a tool to add value and sustainable growth of the company. From the aforementioned importance, the researcher therefore aimed to study good corporate governance and accounting performance affecting the profit quality of companies listed on the Stock Exchange of Thailand during the COVID-19 pandemic.

Table 2. Thai names, English names, abbreviations of variables and indicators

Thai names of the variables	English names of the variables	Abbreviations
Profit quality	Quality of earnings index	QOE
Good corporate governance scores	Corporate Governance Report	CGR
Return on assets	Return on Asset	ROA
Return on equity of shareholders	Return on Equity	ROE

From Table 2, the researcher has developed the research conceptual framework, good corporate governance, and accounting performance affecting profit quality of listed companies on the Stock Exchange of Thailand during the COVID-19 pandemic. This is studied through independent variables, scores from the Corporate Governance Report (CGR) assessed by the Thai Institute of Directors (IOD), intermediate variables, accounting performance consisting of Return on Asset (ROA) and Return on Equity (ROE) and Quality of earnings index (QOE).

Table 3. Descriptive statistics of the variables used in the study.

Before COVID-19 (2018 - 2019)					
Variables	Number of companies	Min	Max	Mean	S.D.
QOE	651	-267787.94	10165.80	-1873.27	12484.40
CGR	651	0	1	.74	.437
ROA	651	-68.19	1177.78	6.98	44.29
ROE	651	-230.65	262.25	5.86	23.26
After COVID-19 (2020 - 2021)					
Variables	Number of companies	Min	Max	Mean	S.D.
QOE	651	-322410.17	11933.93	-1998.81	13255.19
CGR	651	0	1	.86	.352
ROA	651	-65.11	1227.94	6.93	43.95
ROE	651	-1223.82	332.65	4.18	42.02

Table 3 presents the study of the baseline data of the research study. The researcher conducted the study according to the research conceptual framework (Figure 1) arising from the literature review in order to study good corporate governance and accounting performance affecting the profit quality of companies listed on the Stock Exchange of Thailand during the COVID-19 pandemic.

4 Research Results

Hypothesis testing

For the hypothesis testing, the researcher started with Multiple Regression Analysis using all analytical units from the sample. This is a method to test the relationship between variables in case of more than one independent variable and one dependent variable, [22]. For the factor of good corporate governance score and accounting performance that influences profit quality of companies listed on the Stock Exchange of Thailand for the hypothesis testing), the researcher began with a Multiple Regression Analysis. In [16], the idea was applied to use the set of regression variables in testing the transmission of influence consisting of regression of mediator variables on independent variables, regression of the dependent variables on the independent variables, and regression of the dependent variables on the independent variables. The estimated coefficients in each equation were statistically tested and linked to the model of transmission of influence. This was used to test the mediator variable (Med) (Testing Mediation). The influence was examined through 4-step regression analysis based on the model as shown in Figure 2 and Table 5.

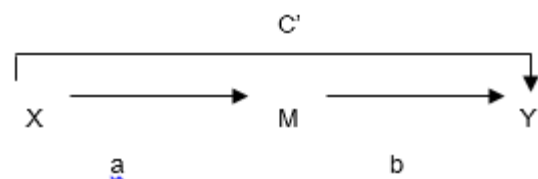


Fig. 2: Testing of transmitting influence

Whereas Step 1 Testing of variables $X \rightarrow Y$

Step 2 Testing of variables $X \rightarrow M$

Step 3 Testing of variables $M \rightarrow Y$

Step 4 Testing of variables $X, M \rightarrow Y$ (shows only the coefficients in the part $X \rightarrow Y$)

After completing 3 steps of checking the influence, in Step 4, if it is found that in testing the coefficients of the independent variable (c'), no

statistical significance was found, it shall be considered that the mediator variables can pass the absolute influence. However, if the found coefficient of the independent variable (C') has statistical significance from the test but is less than the coefficient of the independent variable (C), it can be concluded that the mediator variables can only partially transmit the influence.

The good corporate governance and the accounting performance affect the profit quality before COVID-19 (2018 – 2019)

1st Research Hypothesis: The good corporate governance score factor influences the profit quality.

2nd Research Hypothesis: The good corporate governance score factor influences the accounting performance.

3rd Research Hypothesis: The good corporate governance score factor influences the profit quality through accounting turnover variables.

Step :1 The good corporate governance score influences the profit quality.

Step :2The good corporate governance score influences the accounting performance.

Step 3: The accounting performance influences the profit quality.

Step 4: The good corporate governance score influences the profit quality through accounting turnover variables.

Table 4. Testing of mediator variables before COVID-19 (2018-2019)

(X)	(M)	(Y)	Step1	Step2	Step3	Step4	Conclusion
Accounting performance							
CGR	ROA	QOE	-2.359*	1.813	-317	-	Test conditions are not met.
CGR	ROE	QOE	-2.359*	3.026*	-2.290*	-2.103*	Partial mediation

***With statistical significance at the 0.05 level**

Step 1: That the good corporate governance score influences the profit quality means that if the business has a good corporate governance score, it will result in the company having good profit quality.

Step 2: That the good corporate governance score influences the accounting performance and is measured by the return on assets and the return on equity of shareholders. It was found that a good corporate governance score had an influence on the accounting performance measured from the return on equity at a statistically significant level of 0.05. For other variables, the p-value is overall greater than 0.05.

Step 3: That the accounting performance which is measured by the return on assets and return on

equity of shareholders influences the profit quality shows that the accounting performance measured by return on equity has an influence on profit quality at a statistically significant level of 0.05. For other variables, the p-value is overall greater than 0.05.

Step 4: That the good corporate governance score influences the profit quality with the return on equity of shareholders as a part of the mediator variables shows that good corporate governance scores have an influence on accounting performance as measured by return on equity of shareholders and profit quality.

The good corporate governance and the accounting performance affect the profit quality after COVID-19)2020-2021(

1st Research Hypothesis: The good corporate governance score factor influences the profit quality.

2nd Research Hypothesis: The good corporate governance score factor influences the accounting performance.

3rd Research Hypothesis: The good corporate governance score factor influences the profit quality through accounting turnover variables.

Step :1 The good corporate governance score influences the profit quality.

Step :2The good corporate governance score influences the accounting performance.

Step 3: The accounting performance influences the profit quality.

Step 4: The good corporate governance score influences the profit quality through accounting turnover variables.

Table 5. Testing of mediator variables after COVID-19 (2020-2021)

(X)	(M)	(Y)	Step1	Step2	Step3	Step4	Conclusion
Accounting performance							
CGR	ROA	QOE	-1.949*	1.339	-215	-	Test conditions are not met.
CGR	ROE	QOE	-1.949*	1.941*	-1.152	-	Test conditions are not met.

***With statistical significance at the 0.05 level**

Step 1: That the good corporate governance score influences the profit quality means that if the business has a good corporate governance score, it will result in the company having good profit quality.

Step 2: That the good corporate governance score influences the accounting performance and is measured by the return on assets and the return on equity of shareholders. It was found that a good corporate governance score had an influence on the

accounting performance measured from the return on equity at a statistically significant level of 0.05. For other variables, the p-value is overall greater than 0.05.

Step 3: That the accounting performance which is measured by the return on assets and return on equity of shareholders influences the profit quality shows that the accounting performance has no influence on profit quality at a statistically significant level of 0.05. For other variables, the p-value is overall greater than 0.05.

Step 4: No analysis was made as all mediator variables did not meet the test conditions.

Table 6. Summary of test results for mediator variables before COVID-19 (2018 – 2019) and after COVID-19 (2020 – 2021)

Research hypothesis	Profit quality	
	Before COVID-19	After COVID-19
Accounting performance		
Return on Assets (ROA)	Test conditions are not met.	Test conditions are not met.
Return on Equity (ROE)	Partial mediation	Test conditions are not met.

Remarks: FM is Full mediation.

PM is Partial mediation

– Test conditions are not met.

From Table 6, it was found that the test results of mediator variables before COVID-19 (2018-2019) totaling 2 years using the data from 2018 to 2019 can explain the analysis results that the independent variable is the good corporate governance score. The mediator variable is the accounting performance which is measured by the return on assets and the rate of return on equity. The dependent variable was profit quality. It was found that a good corporate governance score had an influence on profit quality with the rate of return on equity as partial mediation. It shows that the good corporate governance score has an influence on accounting performance as measured by the return on equity ratio and profit quality. However, the results of the mediator variable test after COVID-19 (2020-2021) using data from 2020 to 2021 did not meet the testing conditions.

5 Discussion

Testing mediator variables in accounting performance which is measured by the return on assets and return on equity have the objective to

study the good corporate governance and accounting performance that affects the profit quality of the company listed on the Stock Exchange of Thailand during the COVID-19 epidemic. According to the study of data analysis, good corporate governance scores influence profit quality in both the mediator variable test before COVID-19 (2018-2019) and the mediator variable test after COVID-19 (2020-2021). It showed that if the business has a good corporate governance score, it will result in the company having good profit quality including from past research. The findings are consistent with the research of [23] finding that having good corporate governance results in higher company performance. The research by [18] found that companies with a high Gov-Score of Corporate Governance will gain the profits from operations with high corporate value and payouts to shareholders. Meanwhile, the companies with a low Gov-Score of corporate governance will gain low profit from operations, enterprise value, and payouts to shareholders. [24] research found that there is a positive correlation between corporate governance and corporate value as measured by Tobin's Q. Good corporate governance can lead to higher company values. The research of [19] found that companies with good corporate governance will increase their value as well. The research of [15] found that the influence of good corporate governance on corporate value revealed that companies with good corporate governance have a positive impact on corporate value. In [25], the authors revealed that good corporate governance has significant relation in the same direction as the price of ordinary shares of the company. In [27], the authors found that the governance of the proportion of independent directors and the business size had positive correlation with earnings per share. In [33], the authors found that corporate governance mechanisms regarding the position of President and Chief Executive Officer. The number of meetings of the Board of Directors has a negative impact on company performance. In [34], the authors found that corporate governance has positive correlation with company performance. In [31], the authors studied the impact of good corporate governance on company performance as empirical evidence of the Coronavirus crisis. The research findings are inconsistent with the research of [13] finding no correlation between corporate governance index and corporate value.

At the same time, the good corporate governance score factor influences accounting performance. This is measured by the return on assets and the return on equity and it was found that the good corporate

governance score had an influence on the accounting performance measured from the return on equity at a statistically significant level of 0.05. For other variables, the p-value was overall greater than 0.05. For the test of mediator variables, it was found that the accounting performance which was measured by the return on equity [5], [6] requires the dissemination of Financial Ratios for the investors to use as information for making investment decisions. It is the mediator variable between good corporate governance score and profit quality during the mediator variable test before COVID-19 (2018-2019). However, during the mediator variable test after COVID-19 (2020-2021), the testing conditions were not met.

6 Conclusion

According to the results of this research, the researcher has some recommendations for companies listed on the Stock Exchange of Thailand in preparation or even risk management and business adaptation in the event of various crises such as the recent COVID-19 crisis. This includes promoting concrete practices, promoting good corporate governance by the regulatory body in the capital market development of Thailand. The regulatory agencies should pay attention and encourage the companies listed on the Stock Exchange of Thailand to comply with the approaches for good corporate governance to be more rigorous and international. This can increase clarity in principles rather than just form, including preparedness for coping, adaptation, or even finding the ways to prove that it actually works or not. This can also build confidence among those who are interested in investing both domestically and internationally.

This is contributed to individual authors for the creation as suggested by the researcher for listed companies in the Stock Exchange of Thailand. It can be applied as a guideline for implementation to promote good corporate governance by the regulatory body in the capital market development of Thailand. Regulatory agencies should pay attention as well as promoting companies listed on the Stock Exchange of Thailand to comply with good corporate governance guidelines more stringently and internationally. The clarity of principles can be increased rather than specific forms. The ways can be found to prove whether there is a practice or not. The confidence can be built among those who are interested in investing in the country and abroad in order to plan to fix the financial failure of the company, for example, in the

COVID-19 situation or to avoid being affected at a minimum level. The investors should carefully consider the company's financial ratios before investing.

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- Thantip Setan, Piyanat Thunputtadom carried out the simulation and the optimization.
- Thantip Setan has organized and executed the experiments of Section 4.
- Thantip Setan was responsible for the Statistics.

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Conflict of Interest

The authors have no conflict of interest to declare that is relevant to the content of this article.

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