Earnings Management and Board Characteristics in Thai Listed Companies

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Abstract

The purpose of this study is to investigate the influence of board characteristics on earnings management behavior in Thai listed companies. The present study considers the key characteristics of board such as size, independence, meeting and CEO-Chairman duality. In addition to these commonly employed factors, the present study also considers the influence of board interlocking on the earnings management practices in Thai firms. Discretionary accruals, a measure of earnings management, are estimated based on both the Modified Jones model and the Performance matched discretionary accruals model. Based on a sample of 550 Thai listed firm-years from 2006 to 2010, the study finds that earnings management is negatively associated with board interlocking. This suggests that board of directors that hold multiple directorial positions in Thai listed companies are more likely to have the knowledge, expertise and experience to carry out the monitoring function effectively compared to board of directors that serve on a single company's board. Board independence is found to have a positive association with earnings management. This result is in contrast to previous studies where a negative association was reported. Perhaps the outside directors in Thailand lack real independence and power to restrain management from resorting to earnings management. The present study finds no impact of board size, board meetings and CEO-Chairman duality on the earnings management of top Thai listed firms. The study, therefore, underlines the positive role that board interlocking can play in influencing the earnings management in Thai listed firms.

Key words: *Earnings management, Corporate governance.*

INTRODUCTION

High profile accounting scandals at the turn of the century involving corporate firms such as Xerox, Enron, WorldCom, Aldelphia, Tyco, Parmalat, One-Tel, and HIH have raised serious concerns about corporate governance practices in general and brought into sharp focus on the issues relating to quality of financial reporting and the weak internal control systems in corporate firms (Ebrahim, 2007; Johl, Jubb, & Houghton, 2007; Kanchanapoomi, 2005). The collapses of such large corporations in the past have highlighted the intentional misconduct of managers. There is also concern about the weakness of corporate governance in the past, as it was not effective enough to protect investors from expropriation. These problems are envisaged to be much more significant in emerging markets where many market imperfections continue to persist. This is particularly the case in Thailand where not only the disastrous devaluation of the Thai Baht but also poor corporate governance, low qualities of financial information and disclosure brought Thailand into the financial crisis in 1977.

Earnings management was a common practice among Thai listed companies (Nikomborirak & Tangkitvanich, 1999) as it allowed managers to exercise their discretion through accounting practices or policies that were questionable in order to achieve desired earnings (Healy & Wahlen, 1999; Powell, Jubb, Lange, & Smith, 2005). Even more concerning is the fact that corporate governance mechanisms in Thailand were not able to protect investors and control misconduct of manager from this detrimental situation. To make matters worse, external auditors were not effective to protect minority shareholders as their independence was often compromised (Persons, 2008). To restrain such earnings management, the board of directors is employed as a watch dog to protect shareholders' wealth. The primary role of the board is to provide monitoring of companies' management on behalf of shareholders, with the intention of reducing the information asymmetry between managers and shareholders so that the interest of shareholders is protected

Therefore, the main motivation of this study is to focus on the influence of the board of directors' characteristics that have gained particular attention in corporate governance literature such as board interlocking, board size, board independence, board meeting and CEO-Chairman duality on earnings management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Earnings Management

According to Healy and Wahlen (1999, page 8) earnings management occurs: "…when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholder about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers". Earnings management occurs for many reasons. For example, firms may manage their earnings with a view to influence stock market perceptions, to increase their compensation, to reduce the likelihood of violation of lending agreements, and to avoid regulatory intervention (Healy & Wahlen, 1999; Teoh, Welch, & Wong, 1998). Earnings management can have serious and harmful effects on the future prospects of companies as prior studies show evidence of negative effect on long-run performance of companies (Kao, Wu, & Yang, 2009; Stehle, Ehrhardt, & Przyborowsky, 2000; Teoh et al., 1998). Additionally, investors may receive false information about real economic performance of companies, leading to adverse selection (Bhattacharya, Daouk, & Welker, 2003).

Board interlocking

The previous empirical evidence on the relationship between board interlocking and earnings management is mixed. On one hand, some studies show board interlocking is positively associated with earnings management because of the effects of "working load" and "recklessness" of the board on the process of monitoring (Fich & Shivdasani, 2006; Santos, Silveira, & Barros, 2009). This is because board members are too busy to focus on the problems of companies and have less time to participate in board meetings and monitor executives effectively. On the other hand, other studies suggest that board interlocking is negatively associated with earnings management (Banderlipe, 2009; Fama & Jensen, 1983; Saleh, Iskandar, & Rahmat, 2005). This is because a board where members hold multiple directorial positions outside the company is more likely to be more knowledgable and experienced board members who in turn could play a positive role in constraining earnings management.

Thus, the above arguments lead to testing the following hypothesis:

H1: Earnings management is associated with the level of board interlocking

Board size

The optimal size of board members is ensured by an adequate number of board members to perform the monitoring functions effectively. The results from prior studies are mixed. According to Rahman and Ali (2006), board size is positively related with earnings management. In contrast, Xie, Davidson, and DaDalt (2003) argue that smaller

boards are better able to make timely decisions than large boards. However, they state that larger boards with diverse knowledge are more effective for constraining earnings management than smaller boards. Xie et al. (2003) further contend that large boards with various experts are more likely to have a higher degree of independence than small boards. Similarly, Peasnell, Pope, and Young (2004) found that having a large board is better in reducing earnings management compared to smaller boards. Thus the present study examines the influence of board size on earnings management.

These arguments, lead to testing the following hypothesis:

H2: Earnings management is negatively associated with size of board of directors

Board independence

To achieve corporate governance goals, the board of directors needs to closely monitor managers' behavior and be independent from them. However, board members often have conflicts of interest and may not exercise independence in monitoring the top executives (Fama & Jensen, 1983; Hashim & Davi, 2008). This is particularly the case with executive directors who have active day-to-day management roles as well as monitoring roles. Hence, externals or outsiders are brought in to provide monitoring and to protect shareholders' interests. It could be argued that to have an effective role, the board should consist of a significant number of independent directors. According to Peasnell, Pope and Young (2004) and Vafeas (2000), outside directors play a more effective role in monitoring top managers' aggressive behaviors than insiders. Their results show that earnings management is negatively associated with a larger proportion of outside directors.

Based on the above arguments, the present study offers this hypothesis:

H3 : Earnings management is negatively associated with Board independence

Board meeting

The degree of board interaction and activities has influence on earnings management. Boards that meet frequently are more likely to solve the problems of the company effectively (Lipton & Lorsch, 1992). According to Vafeas (1999), the greater the meeting frequency, as proxy by the number of board meetings, the more effective will be the board's monitoring function. They evidence that if companies have fewer board meetings than necessary, the firm's value will decrease. In terms of earnings management, Xie et al. (2003) find that boards of directors that meet more frequently are more likely to reduce the level of earnings management.

Based on the above arguments, another hypothesis is offered:

H4: Earnings management is negatively associated with board meeting

CEO-Chair duality

More often than not whenever a firm's CEO also simultaneously serves as the chairman of the board of directors, it is more likely to reduce board effectiveness. In particular, this dual role may increase agency costs between management and shareholders (Boyd, 1994) and may impede the monitorning function of the board (Brickley, Coles, & Jarrell, 1997). Chen, Firth, Gao and Rui (2006) and Bradbury, Mak and Tan (2006) find that the dual position of CEO and chairman reduces the checks and balances on the top managers leading to higher fraudulent behaviors and earnings management. Furthermore, Dechow, Sloan and Sweeney (1996) find that companies characterized by CEO duality share less earnings information and violate GAAP. Therefore, the present study analyzes the influence of CEO-chair duality on the magnitude of earnings management.

Based on the above arguments, this study offers this hypothesis:

H5 : Earnings management is positively associated with dual position of CEO and chairman

SAMPLE AND RESEARCH METHODOLOGY

Sample Selection and Data Sources

The sample consists of 550 firm-years comprising of 102, 88,118,120 and 122 firms from 2006 to 2010, respectively. Companies in the financial group are excluded because financial policies of these companies are often significantly regulated by the Bank of Thailand (BOT) as the central bank. Information on board related variables is collected from disclosure reports concerning additional information (form 56-1) in the SETSMART and SETINFO databases produced by the SET.

Influence of Board Characteristics on Earnings Management

This study examines the above hypotheses by using the following regression model.

$$EM = \alpha + \beta 1BINT + \beta 2BSIZE + \beta 3BINDEP + \beta 4BMEET + B5CEODUAL + \beta 6LEV + \beta 7CFO + \beta 8SIZE + \beta 9MTB + \beta 10BIG4 + \beta 11SUBSHARE + \beta 12INSTSHARE$$

Where EM includes EMMJ and EMPM. These are proxies of the absolute values of discretionary accruals, as estimated by the cross-sectional modified Jones model and

Performance matched discretionary accrual model respectively. The dependent and independent variables of the model are measured as follows:

Table 01: Summary of variables measurement

Variables	Measurements
Dependent variable:	
Earnings management	The absolute values of discretionary accruals
Independent variables:	
Board director characteristics:-	
Board interlocking	Percentage of board of directors' positions that board member are holding in other listed companies
Board size	The number of board of directors
Board independence	Proportion of outside board members on the board
Board meeting	Frequency of board of directors yearly meeting
CEO-Chairman duality	Dummy variable with the value of "1" if the CEO also serves as Chairman of the board. "0" if the two positions are occupied by different individuals.
Control variables:	
Leverage ratio	Ratio of total liabilities to total assets
CFO	Cash flows from operating activities
Size	Natural logarithm of total assets
Market to book ratio	Ratio of the firms' market value of common stock to book value of common stock.
Big 4 audit firms	Dummy variable with the value of "1" if firm's financial statements are audited by Big 4 and "0" otherwise.
Substantial shareholders	Total percentage of shares held by Individual and unaffiliated owners who own 5% or more of sample firm's stock.
Institutional shareholders	Total percentage of shares held by institutional shareholders

This study includes five variables of interest on board characteristics and number of firm specific control variables, such as leverage ratio (hereafter LEV), cash flow from operation (hereafter CFO), size (hereafter LOGASSETS), market to book ratio (hereafter MTB), big 4s, substantial shareholders (hereafter SUBSHARE) and institutional shareholders (hereafter INSTSHARE).

Measurement of Earnings Management

This study uses discretionary accruals to measure earnings management. Two different proxies are used, namely the Modified Jones model and the Performance matched discretionary accrual to estimate the level of discretionary accruals. In our study, total accruals ($TA_{i,t}$) are computed by the difference between income before tax and extraordinary ordinary items ($EBXI_{i,t}$) and net cash flow from operating ($CFO_{i,t}$) as follow:

$$TA_{i,t} = EBXI_{i,t} - CFO_{i,t} \quad (1)$$

Modified Jones model

According to Dechow, Sloan and Sweeney (1995), the original Jones model is unable to capture the impact of sales-based manipulation because accounts receivables should not be considered as nondiscretionary accruals. Thus, they proposed a modification to the original Jones model known as the Modified Jones model (1995). Based on the Modified Jones model, the nondiscretionary accruals (NDA) of the event period for the firm *i* in time period *t* is calculated using equation (2):

$$NDA_{i,t} = \alpha 1(1/A_{i,t-1}) + \alpha 2\left[(\Delta REV_{i,t} - \Delta AR_{i,t})/A_{i,t-1}\right] + \alpha 3(PPE_{i,t}/A_{i,t-1}) \quad (2)$$

Where:
- $NDA_{i,t}$ = nondiscretionary accruals for company *i* in year *t*
- $A_{i,t-1}$ = lagged (one year) total assets
- $\Delta REV_{i,t}$ = change in revenues for company *i* in year *t*
- $\Delta AR_{i,t}$ = change in net receivables for company *i* in year *t*
- $PPE_{i,t}$ = property, plant and equipment for company *i* in year *t*
- $\alpha 1$, $\alpha 2$, $\alpha 3$ = industry-specific parameters

It is important to note that the parameters $\alpha 1$, $\alpha 2$, $\alpha 3$ from the equation (2) are estimated from the original Jones model not from the Modified Jones model.

Performance matched discretionary accruals model

This study also tests for earnings management by employing an extended version of the Modified Jones model used by Kothari, Leone, & Wasley (2005) which is called performance matched discretionary accruals model, as the alternative model. This performance matched discretionary accruals model is calculated by incorporating return on assets (ROA)[1] into the Modified Jones model as equation (4):

$$NDA_{i,t} = \alpha 1(1/A_{i,t-1}) + \alpha 2\left[(\Delta REV_{i,t} - \Delta AR_{i,t})/A_{i,t-1}\right] + \alpha 3(PPE_{i,t}/A_{i,t-1}) + \alpha 4(ROA_{i,t})$$

(3)

Where: $NDA_{i,t}$ = nondiscretionary accruals for company *i* in year *t*
$A_{i,t-1}$ = lagged (one year) total assets
$\Delta REV_{i,t}$ = change in revenues for company *i* in year *t*
$\Delta AR_{i,t}$ = change in net receivables for company *i* in year *t*
$PPE_{i,t}$ = property, plant and equipment for company *i* in year *t*
$ROA_{i,t}$ = return on assets for company *i* in year *t*
$\alpha 1, \alpha 2, \alpha 3, \alpha 4$ = industry-specific parameters

Similar to the Modified Jones model, the industry-specific parameters $\alpha 1$, $\alpha 2$, $\alpha 3$, $\alpha 4$ from the equation (4) are estimated from the original modified Jones Model adjusted with ROA.

Finally, the discretionary accruals ($DA_{i,t}$) is then calculated as shown:

$DA_{i,t}$ = $TA_{i,t}/A_{i,t-1}$ - $NDA_{i,t}$

(4)

Two groups of discretionary accruals (positive and negative) are found after we subtract $NDA_{i,t}$ from $TA_{i,t}/A_{i,t-1}$ in equation (6). In this study we assume that both positive and negative discretionary accruals will have the level of impact, irrespective of the sign. Therefore, we have converted these values to the absolute form. One difference in this study to prior studies is the use of net PPE instead of gross PPE. Similar to the study of Jaggi, Leung and Gul (2009), Saleh et al. (2005) and Chen, Lin and Zhou (2005), the data on gross PPE is not available in the SETSMART and SETINFO database. As a result, net PPE is used in equations (2) and (3) of the current study.

[1] In calculating ROA, we use return on assets for the current year ROA_t as Kothari et al (2005) found that this method produces less misspecified tests compared with ROA_{t-1}. To avoid the potential problems related with changing a tax rate in Thailand, ROA is estimated by using earnings before interest and tax expense divided by total assets. This estimation is similar to, Jones, Krishnan, & Melendrez (2008) and Kothari et. al. (2005).

RESULTS AND DISCUSSION[2]

Based on the statistical analysis of the relationship between earnings management based on Modified Jones model (EMMJ) and board characteristics shown in Table 02, surprisingly, no significant relationship is found between earnings management and board characteristics in the final model 11. However, when we separately analyze the relationship between earnings management and each board characteristic as shown in models (1)-(10) of Table 02, we find that there is a significant positive relationship between discretionary accruals and board independence shown in model (3) and (8), respectively, at 0.05 level. These results are inconsistent to previous studies as it explains that a company with a larger number of independent board directors is more likely to increase earnings management. Among the control variables included in this model, only two are found to be significantly associated with earnings management.

Similar to Peasnell, Pope and Young (2004) and Chen, Lin and Zhou (2005), we find that earnings management is negatively associated with cash flow from operations (CFO) at 0.05 level. This result suggests that companies with high CFO are likely to have less earnings management. In addition, market to book ratio (MTB) is found to be positively associated with earnings management at 0.001 level, suggesting that companies with strong level of MTB are likely to have high earnings management.

Table 03 shows the regression results of the relationship between earnings management based on Performance Matched discretionary accruals model (EMPM) and board of director characteristics. Our finding is similar to those found by Banderlipe (2009), Fama & Jensen (1983), and Saleh, Iskandar and Rahmat (2005) as it evidences that earnings management is negatively associated with board interlocking at 0.05 level. It could be argued that a board director who is holding multiple directorial positions in Thai listed companies is more likely to reduce earnings management as knowledge and expertise in business affairs can assist the board to carry out their monitoring function effectively.

[2] The full results and explanation of the descriptive statistics, trend in variables employed over the study period and pair-wise correlations among variables employed are not shown in this paper for reasons of brevity but are available from the corresponding author upon request.

Table 02: Determinants of Earnings Management (based on Modified Jones Model)

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Constant	0.1142***	0.1288***	0.0810***	0.1116***	0.0920***	0.2571***	0.2514***	0.2483***	0.2700***	0.2707***	0.2439***
	(16.71)	(6.33)	(5.72)	(19.01)	(6.63)	(3.7)	(3.99)	(3.91)	(4.01)	(4.33)	(3.49)
bint	-0.0103					-0.0112					-0.0162
	(-0.56)					(-0.53)					(-0.79)
bsize		-0.0016					-0.0032				-0.0023
		(-0.92)					(-1.64)				(-1.18)
bindep			0.0811*					0.0926*			0.0764
			(2.09)					(2.3)			(1.93)
duality				-0.001					-0.0062		-0.0061
				(-0.09)					(-0.55)		(-0.54)
bmeet					0.0025					0.001	0.0008
					(1.37)					(0.96)	(0.74)
lev						-0.0427	-0.0416	-0.0422	-0.0434	-0.0454	-0.0417
						(-0.93)	(-0.92)	(-0.93)	(-0.96)	(-1.01)	(-0.92)
cfo						-0.3284*	-0.3291*	-0.3304*	-0.3300*	-0.3269*	-0.3273*
						(-2.16)	(-2.18)	(-2.21)	(-2.18)	(-2.15)	(-2.18)
size						-0.0068	-0.0043	-0.0081*	-0.0076*	-0.0082*	-0.006
						(-1.78)	(-1.16)	(-2.22)	(-2.08)	(-2.26)	(-1.44)
mtb						0.0169***	0.0171***	0.0173***	0.0166***	0.0168***	0.0178***
						(3.52)	(3.50)	(3.57)	(3.42)	(3.46)	(3.69)
big4s						0.0014	0.0009	0.0036	-0.0001	0.0003	0.0045
						(0.14)	(0.1)	(0.35)	(-0.01)	(0.03)	(0.42)
subshare						0.0288	0.0272	0.0299	0.0296	0.0277	0.0303
						(0.54)	(0.51)	(0.57)	(0.55)	(0.52)	(0.58)
instshare						-0.0065	-0.0113	-0.0063	-0.005	-0.0052	-0.0106
						(-0.23)	(-0.42)	(-0.23)	(-0.18)	(-0.19)	(-0.39)
N	550	550	550	550	550	548	548	548	548	548	548
r2	0.0003	0.0012	0.0062	0	0.0066	0.2674	0.2703	0.2741	0.2675	0.268	0.2767
r2_a	-0.0015	-0.0006	0.0044	-0.0018	0.0048	0.2439	0.2469	0.2508	0.244	0.2445	0.2479
F	0.3169	0.8438	4.3827	0.0074	1.8755	7.1971	6.7722	6.7819	6.9515	6.9028	5.7002

*** p<0.01 is significant at 0.01 or better; ** p<0.05 is significant at 0.05 or better; * p<0.10 is significant at 0.10 or better. OLS regression is used to analyze following model: $|EMMJ| = \alpha + \beta 1 BINT + \beta 2 BSIZE + \beta 3 BINDEP + \beta 4 BMEET + B5 CEODUAL + \beta 6 LEV + \beta 7 CFO + \beta 8 SIZE + \beta 9 MTB + \beta 10 BIG4 + \beta 11 SUBSHARE + \beta 12 INSTSHARE.$

Additionally, we also find that earnings management is positively associated to board independence at 0.05 level. This result is consistent with Park & Shin (2004) who find that ouside directors do not reduce earnings management. Our findings suggest that adding an outside director to the board in Thai listed companies may not achieve the objectives of the code of best practice for directors of Thai listed companies because outside board of directors are only shadow board to dress a better look for Thai corporate governance. They may not a real board as they may lack real independence and, in many cases, the actual power to investigate management's expropriation misconduct. Apart from that, the insignificant associations between earnings

Table 03: Determinants of Earnings Management (based on Performance Matched Discretionary accruals Model)

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Constant	0.0992***	0.1078***	0.0674***	0.0988***	0.0819***	0.1681**	0.1752**	0.1714**	0.2016***	0.1917***	0.1675**
	(16.21)	(6.63)	(5.66)	(20.38)	(7.04)	(3.01)	(3.20)	(3.13)	(3.59)	(3.59)	(2.84)
bint	-0.0137					-0.0291					-0.0358*
	(-0.83)					(-1.68)					(-2.10)
bsize		-0.0011					-0.0026				-0.0021
		(-0.80)					(-1.56)				(-1.21)
bindep			0.0749*					0.0837*			0.0669*
			(2.19)					(2.43)			(1.97)
duality				-0.0162					-0.0162		-0.0171
				(-1.72)					(-1.62)		(-1.68)
bmeet					0.0017					0.0009	0.0008
					(1.09)					(0.96)	(0.81)
lev						0.0191	0.0188	0.0184	0.0172	0.0155	0.0199
						(0.62)	(0.61)	(0.60)	(0.56)	(0.51)	(0.65)
cfo						-0.1047	-0.1070	-0.1083	-0.1088	-0.1050	-0.1044
						(-0.75)	(-0.77)	(-0.78)	(-0.78)	(-0.75)	(-0.76)
size						-0.0052	-0.0040	-0.0072*	-0.0073*	-0.0073*	-0.0049
						(-1.49)	(-1.11)	(-2.17)	(-2.15)	(-2.18)	(-1.26)
mtb						0.0115*	0.0113*	0.0115**	0.0108*	0.0111*	0.0122**
						(2.56)	(2.53)	(2.60)	(2.43)	(2.47)	(2.72)
big4s						0.0109	0.0086	0.0110	0.0070	0.0080	0.0130
						(1.18)	(0.94)	(1.14)	(0.77)	(0.88)	(1.32)
subshare						0.0344	0.0323	0.0346	0.0365	0.0327	0.0381
						(0.75)	(0.71)	(0.78)	(0.80)	(0.72)	(0.86)
instshare						-0.0079	-0.0103	-0.0063	-0.0039	-0.0053	-0.0105
						(-0.29)	(-0.38)	(-0.23)	(-0.14)	(-0.19)	(-0.39)
N	550	550	550	550	550	548	548	548	548	548	548
r2	0.0009	0.0009	0.0077	0.0044	0.0047	0.1185	0.1186	0.1237	0.1192	0.1165	0.1335
r2_a	-0.0009	-0.0009	0.0059	0.0026	0.0029	0.0902	0.0903	0.0956	0.0910	0.0881	0.0989
F	0.6910	0.6435	4.7760	2.9415	1.1890	3.7802	3.3847	3.4354	3.6240	3.4181	3.3165

management and board size, board meeting as well as CEO-Chairman duality are found in this study. Among the control variables of this model, only market to book ratio (MTB) is found to be positively associated to earnings management at 0.1 level.

*** p<0.01 is significant at 0.01 or better; ** p<0.05 is significant at 0.05 or better; * p<0.10 is significant at 0.10 or better. OLS regression is used to analyze following model: $|EMPM| = \alpha + \beta 1 BINT + \beta 2 BSIZE + \beta 3 BINDEP + \beta 4 BMEET + B5 CEODUAL + \beta 6 LEV + \beta 7 CFO + \beta 8 SIZE + \beta 9 MTB + \beta 10 BIG4 + \beta 11 SUBSHARE + \beta 12 INSTSHARE.$

CONCLUSION

This paper investigates the association between earnings management and board of director characteristics, namely, board interlocking, size, independence and meeting, along with CEO-Chairman duality in Thailand from 2006 to 2010. In the study, discretionary accruals based on both Modified Jones and Performance matched discretionary accruals models are used to determine absolute values of discretional accruals as proxies for earnings management. Firstly, based on the statistical analysis of the relationship between earnings management based on Modified Jones model (EMMJ) and board characteristics, the results show that earnings management is unassociated with board characteristics. Secondly, based on the statistical analysis of the relationship between earnings management based on the Performance matched discretionary accruals (EMPM) and board characteristics, our findings show that earnings management is negatively associated with board interlocking. This finding suggests that board directors' who hold multiple directorial positions in Thai listed companies are more likely to restrain earnings management as their knowledge and expertise in business affairs can assist the board to carry out their monitoring function effectively. In addition, we also find that earnings management is positively associated with board independence. Our findings suggest that adding an outside director to the board in Thai listed companies may not improve good corporate governance in Thailand. This is because they lack real independence and actual power to investigate management's misconduct effectively. Apart from board interlocking and independence, we do not find any significant associations between earnings management and board size, board meeting as well as CEO-Chairman duality.

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