Corporate governance and social disclosure: a comparative study of listed hospitality industries in South East Asia

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Abstract: This research aims to examine the social disclosure in South East Asia hospitality companies, and the relationship between corporate governance and its social disclosure. Corporate governance are identified from board of commissioner size, proportion of independent commissioner, managerial ownership, and institutional ownership. Company’s social disclosure are measured using the GRI 3.1. This research uses secondary data from hospitality companies listed in Indonesia Stock Exchange (IDX), Bursa Malaysia, and The Stock Exchange of Thailand (SET) in 2012–2014. The sample are 38 hospitality companies that generated using purposive sampling method. This research employs ANOVA and multiple regression analysis. The result of ANOVA shows that there are differences among social disclosure in South East Asia. The multiple regression analysis result shows that the size of board of
commissioner, managerial ownership, and institutional ownership have positive impact on social disclosure. Proportion of independent commissioner has no significant effect on social disclosure.

**Keywords:** corporate governance; social disclosure; board of commissioner size; proportion of independent commissioner; managerial ownership; institutional ownership.


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### 1 Introduction

Tourism industry is one of the growing economic sector that contributes to the greatest revenues of ASEAN countries. This growth implicate on the social, ethical, and environmental aspects (Belal and Owen, 2007). Therefore, it is necessary for companies to be socially responsible. Their effort to become a socially responsible company cannot be ignored and can be an advantage for the company, such as being a sustainable business, enhancing relationships with government and other regulatory bodies, and enhancing company’s reputation.
One of the cases of social issues in Indonesia is potential unemployment, and open unemployment rate (TPT) that increase in the recent years (www.finance.detik.com, 2013; www.tribunnews.com, 2013). Similar issue of social disclosure also occurs in Thailand. One of the cases in Thailand is that Thai migrant workers are treated differently from local workers. (www.mobile.reuters.com, 2014; www.themalaymailonline.com, 2014). Those cases accentuate the needs for a shift in business orientation. Companies should not only be profit-oriented, social activity is needed to balance between corporate goals (earnings) with company activities performed by companies for the community. Thus, social disclosure is necessary to establish relationships between companies and stakeholders.

The main difference of this research with previous research are: this research discusses the correlation of corporate governance to social disclosure, and also compare social disclosure level among Indonesia, Malaysia, and Thailand. This research is considered important for several reasons. First, the issue of social disclosure is widely discussed, especially for companies that perform social disclosure, which may create added value for companies in building reputation as an effort to meet the demands of stakeholders. Secondly, the objects in this study are hospitality companies in Southeast Asia (Indonesia, Malaysia, and Thailand). The objects are selected in order to find the quality of social disclosure information disclosure in hotel companies in each country, with Global Reporting Initiative (GRI) 3.1 as a standard. Given the fact that ASEAN Economic Community (MEA) is in effect, there will be free market in the capital sector, as well as the workforce which will affect the free flow of goods for ASEAN countries and the impact of labour flows. The recent economic crisis changed consumer shopping habits and behavioural patterns in many countries and resulted in new post-crisis consumer trends (Mróz, 2016). Thus, the countries entering MEA will compete to improve the quality of their economies.

This study is motivated by a previous survey by KPMG (2011) on corporate reporting trends. The report shows that companies are increasingly realising the benefits of corporate responsibility reporting and those not yet reporting on their corporate responsibility activities are under substantial pressure to start. Perspective of corporate responsibility reporting, considered as a moral obligation to society has become a business vital (KPMG, 2011). Managers in their decision making process face environmental issues involving ethical and social values that should be promoted by companies and ensuring sustainable economic success (Malarvizhi and Matta, 2016). However, a survey among middle/top managers in Yogyakarta, Indonesia. The survey found that found that businessmen’s awareness level in CSR has not been well implemented, eventhough the respondents have obtained long-term education and got a good intellectual level (Wirjono, 2015).

2 Literature review

Stakeholder theory states that a company is not an entity that operate merely to gain benefits for its own, but it also has to provide benefits for its stakeholders (shareholders, creditors, consumers, suppliers, governments, communities, analysts, and others). Customers are consider to be the primary stakeholders for market oriented Businesses (Julian, 2010). Employees are treated well because they are the customer value creators. Shareholders benefit because a market orientation is valuable, rare, and difficult to
imitate, the necessary conditions for a sustainable competitive advantage (Porter, 1985). Thus, the existence of the company is strongly influenced by the support provided by stakeholders to the company. Stakeholders basically have the ability to control or influence the use of economic resources utilised by the company.

Social disclosure emphasises the importance of corporate responsibility, not just economic activities (creating profit for the sake of business). Social disclosure itself explains whether the entity’s business activities have an impact on the social field. This includes entity relationships with surrounding communities, human rights, product responsibility, and decent workforce. In conducting activities, businesses are also not free from various social issues related to employee issues, community issues, and other social issues around the company.

Previous research by Kabir (2011) in hospitality industry in South Africa, Supriyono et al. (2015) in Indonesia and Malaysia, and Haniffa and Cooke (2005) find positive relationship between corporate governance and corporate social disclosure by adding control variables (firm size, profitability, and industry type). Tsang’s (1998) study of three industries in Singapore in 1986–1995 show that hotel industry has the lowest proportion of CSR disclosures in comparison with the other industries and only three out of 16 hospitality industry firms have disclosed company’s social information. Perez and Rodriguez (2015) conduct a study on 170 companies consisting of large and small network hotels, indicating that companies use the website as a marketing tool, and company’s social disclosure information is published through the company’s financial statements and website.

2.1 Comparison of social disclosure level in Southeast Asia

Kolk et al. (2001) state that there are many differences in social disclosure in different countries. This is due to several factors, including economic condition and the difference in regulations in the home country. Economic progress in Southeast Asia has had an impact on the social environment. Companies that have been focused on economic growth seem to start thinking about their stakeholders and their social environment. On the other side, international fragmentation can create new comparative advantage from geography similar in Asia countries which concentrated the most in trade (Fakher, 2016). The diversity of regulations between countries makes a wide difference in social disclosure. Several previous studies related to the disclosure of social responsibility in two or more countries have been conducted (Kolk et al., 2001; Aquilera et al., 2006; Ramasamy and Ting, 2004), but to date the authors have not found a study that compares the level of social disclosure in Southeast Asia. Therefore, the authors propose the following hypothesis:

\[ H_i: \text{There are differences in social disclosure level in hospitality companies in Southeast Asia.} \]

2.2 Size of board of commissioners and social disclosure

Board of Commissioners is an important part of corporate governance mechanism and is an internal part of corporate governance (KNKG, 2006). In accordance with Coller and Gregory (1999), the larger the size of the Board of Commissioners, the more collective experience and competence the board of commissioners has, so it can perform better
monitoring activities. With better monitoring, it is expected that the company can disclose wider social information by minimising the possibility of covered information. Research in Indonesia conducted by Nasution and Setiawan (2007), Sembiring (2005), and Kabir (2011) in hospitality industry in South Africa find that the larger the number of Board of Commissioners, the more effective is its performance. Based on the research, the researcher propose the following hypothesis:

\[ H_2: \text{The size of Board of Commissioners has a positive effect on social disclosure.} \]

### 2.3 Proportion of independent commissioners and social disclosure

The empirical study on corporate governance shows that the independence of the Board of Commissioners is related with its composition and independence will foster the effectiveness of Board of Commissioners (Huafang and Jiangou, 2007). The role of Independent Commissioner is to oversee management behaviour and to increase voluntary disclosure in the company’s annual report (Rosenstein and Wyatt, 1990). External commissioners may enhance the effectiveness of Board of Commissioners in carrying out its main functions (Fama and Jensen, 1983). Thus, the objective of the company to gain recognition from stakeholders by disclosing social responsibility will be obtained because the Independent Board of Commissioners will provide control and supervision. The proportion of Independent Commissioners will encourage management to voluntarily disclose more information. In Indonesia, a research conducted by Sembiring (2005) find positive relationship between corporate governance and corporate social disclosure find that the proportion of Independent Commissioners positively influences social disclosure, although Supriyono et al. (2015) in Indonesia and Malaysia unable to found significant relationship between corporate governance and corporate social disclosure. Based on the research, the researcher constructed the following hypothesis:

\[ H_3: \text{The proportion of Independent Commissioner positively influences social disclosure.} \]

### 2.4 Managerial ownership and social disclosure

Managerial ownership is a condition which indicates that manager owns shares in the company or manager also acts as the shareholder of the company. This is indicated by the large percentage of share own by company management. Fama and Jensen (1983) state that the higher the level of management ownership, the higher the motivation to reveal company activities. Managers who own shares of the company will surely align their interests as managers with their interests as shareholders. With managerial ownership, management will actively participate in decision making. The greater the ownership of managers within the company the more productive the manager actions in maximising the value of the company, in other words the cost of contracting and supervision becomes low. This is in line with the research of Haniffa and Cooke (2005), Demsetz (1983) and Shleifer and Vishny (1986) which state that the higher level of management ownership, the higher the level of socioeconomic disclosure. Based on the research, the researcher constructed the following hypothesis:

\[ H_4: \text{Managerial ownership positively affects social disclosure.} \]
2.5 Institutional ownership and social disclosure

Institutional ownership is the ownership of company’s shares by institution (i.e., investment company, insurance, bank, and other institutions). Thus, the ownership of this institution is authorised to control the company, the institutional owner may ask the management of the company to disclose social information in its annual report for transparency to stakeholders, to raise the value of the company through capital market mechanisms, which in turn will affect company’s stock price. Faisal (2005) argues that high degree of institutional ownership will lead to greater oversight efforts by institutional investors in order to impede opportunistic behaviour of managers. It is similar to what Shleifer and Vishny (1986) have argued that institutional shareholders, large stocks, have an incentive to monitor corporate decision making. Based on these studies, the researchers arranged the following hypothesis:

\[ H_5: \text{Institutional ownership positively affects social disclosure.} \]

3 Research method

This research sampling is conducted in two stages. The first stage is to determine the number of samples using Slovin method (Sekaran and Bougie, 2013). The second stage is purposive sampling method. The sample are hotels listed in Indonesia Stock Exchange (IDX), Bursa Malaysia, and The Stock Exchange of Thailand (SET) that issue annual reports during 2012–2014. In this research, a hypothesis was said to be significant if the p-value score was less than (<) 0.05 (Hair et al., 2010).

4 Results and discussion

4.1 ANOVA test

ANOVA test is conducted on social disclosure data from hotel companies in Southeast Asia (Indonesia, Malaysia, and Thailand). Table 1 shows that Games-Howell shows different levels of social disclosure in Southeast Asia; Indonesia, Malaysia, and Thailand. Based on the Howell-Games the mean difference between Indonesia and Malaysia is 0.096 and significant with p-value 0.000. While the mean difference between Indonesia and Thailand is 0.076 and significant with p-value 0.011.

The result shows that there are differences in social disclosure conducted in Indonesia, Malaysia, and Thailand which implies that the first hypothesis is supported. This result support the previous research by Kolk et al. (2001) that found differences in social disclosure in different countries. This is due to several factors, including economic condition and the difference in regulations in the home country. On the other hands, Chambers et al. (2003) suggest that uniformity tend to be low in social disclosure and CSR in Asia due to the low of enforcement of regulatory policies. The aspects of legal enforcement are transmitted into international trade, with some differences between countries (Nakawiroj, 2016).
Table 1  Results of one-way ANOVA analysis

<table>
<thead>
<tr>
<th>Multiple comparisons</th>
<th>Dependent variable: SDI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(I)</strong> COUNTRY</td>
<td><strong>(J)</strong> COUNTRY</td>
</tr>
<tr>
<td>Games-Howell</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Thailand</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Thailand</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Malaysia</td>
<td>–0.020</td>
</tr>
<tr>
<td>Thailand</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

*, **, *** indicates significant level at 10%, 5%, and 1% respectively.

4.2 Multiple linear regression

The second to fifth hypothesis testing is performed using multiple linear analysis. Table 2 shows the value of Adjusted R Square (\( Adjusted R^2 \)) of 0.571. Based on the value of Adjusted \( R^2 \) it can be concluded that the ability of independent variables to explain the variation of dependent variable is 57.1% and the rest of 42.9% explained by other variables outside the model.

The F value based on Table 2 is 15.092 with a significance level at 0.000, indicating that the model is and can be used to predict social disclosure. Table 2 also shows that the size of the Board of Commissioners, managerial ownership, and Institutional ownership has a positive effect on social disclosure. Therefore the second, fourth, and fifth hypothesis is supported. Meanwhile, the third hypothesis on the effect of proportion of Independent Commissioners to social disclosure is not supported by the result.

In line with the previous research from Sembiring (2005) in Indonesia, this result indicates that the larger the size of the Board of Commissioners, will result in the broader information disclosed by management. Therefore based on this result we argue that the size of Board of Commissioners is seen as an effective corporate governance mechanism to encourage transparency and social disclosure. The third hypothesis shows no effect of proportion of Independent Commissioner on social disclosure, support the conclusion from the previous research conducted by Supriyono et al. (2015).

This result shows that Independent Commissioner may not directly participate in the decision making of social disclosure. The fourth hypothesis shows managerial ownership positively affects social disclosure, providing support for Demsetz (1983) conclusion. This result suggests that with managerial ownership, managers align their interests with shareholders, therefore they will be more active in social activities because they consider external community to pay attention to environmental conditions due to the company’s operations. The institutional ownership also shows positive effect on social disclosure, this results consistent with Shleifer and Vishny (1986) who find that larger institutional ownership will create pressure on management to engage in wider social disclosure.

This research contribute in two ways, First, this result support the stakeholder framework, and its argument that management is expected to perform activities in accordance to with their stakeholders expectation and report these activities to their
stakeholders (Ullman, 1985; Guthrie et al., 2004). Disclosure is management tool for managing the information required by different stakeholder groups (Gray and Lavers, 1994, 1995). Therefore second, managers may use this result as reference to manage strong relation to their stakeholders. This strong relation is vital to the survival of the company. Since globalisation and current economic turbulence have generated market change in the world demand and supply (Coccia, 2014).

Table 2  Result of regression analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.074</td>
<td>2.721</td>
<td>0.009</td>
</tr>
<tr>
<td>KOM</td>
<td>0.008</td>
<td>2.974</td>
<td>0.005</td>
</tr>
<tr>
<td>INKOM</td>
<td>0.047</td>
<td>1.079</td>
<td>0.286</td>
</tr>
<tr>
<td>MGR</td>
<td>0.076</td>
<td>3.728</td>
<td>0.001</td>
</tr>
<tr>
<td>INS</td>
<td>0.195</td>
<td>5.513</td>
<td>0.000</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.031</td>
<td>1.177</td>
<td>0.245</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.571</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>15.092</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig</td>
<td>0.000*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

***,**,* indicates significant level at 1%, 5%, and 10% respectively

Explanation:

SDI: Social disclosure, is a disclosure of information regarding corporate activities related to the corporate social environment, measured using index based on 40 items of social disclosure (Global Reporting Initiative (GRI), 2010) indicators

KOM: The size of the Board of Commissioners is the number of members of the Board of Commissioners within a company in a nominal scale

INKOM: The proportion of Independent Commissioners is the ratio between the numbers of commissioners who come from outside the company or not from affiliated parties to the total Board of Commissioners, presented in percentage

MGR: Managerial ownership is the amount of shares owned by the management compared to total share capital of the managed company, presented in percentage

INS: Institutional ownership is the amount of shares owned by institutions (i.e., investment companies, insurance, banks, and other institutional ownership). This variable is presented in percentage

SIZE: The size of the company, measured using natural logarithm of total asset

5 Conclusions, limitations, and suggestions

The comparison test shows that the level of social disclosure differ significantly among the studied countries. Further analysis also find that the size of Board of Commissioners, managerial ownership, and institutional ownership affect the level of social disclosure, while the proportion of Independent Commissioners has no effect on social disclosure.
The limitation of this study is that this research does not examine the quality of social disclosure, but merely examines the quantity of social disclosures performed by hotels in Southeast Asia. In addition, there is an element of subjectivity in the justification of social disclosure, as there is no specific provision that can be used as a reference, so the justification of social disclosure based on GRI indicator may vary among companies. In this study, the determination of the measurement of social disclosure is based on the comprehension of the researcher.

Based on the limitations of this study, further research is expected to examine the aspects of corporate governance as a whole to know the influence of corporate governance on company social disclosure more precisely and comprehensively. Furthermore, with regard to measure the level of social disclosure, the GRI index used should keep abreast of existing developments.

References


