THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND THE SUSTAINABILITY REPORT DISCLOSURE OF FINANCIAL FIRMS: AN EMPIRICAL STUDY FROM THE STOCK EXCHANGE OF THAILAND.

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ABSTRACT

This research collected data from financial statements, Form 56-1, annual reports, and sustainability reports of listed companies in the Stock Exchange of Thailand and the Market for Alternative Investment in financial industry during 2553-2557 B.E. The population is 303 firm-years. Data were analyzed using descriptive statistics and multiple regression analysis in order to test the hypothesis at the .05 level of significance. This research finds that, on average, 18% of financial firms in the Stock Exchange of Thailand disclose the sustainability report, with the maximum of 52% disclosure and minimum of 10% disclosure. Furthermore, we measure 3 aspects of sustainability report and find that listed companies report economic sustainability the most (52%), social sustainability the second (18%), and environment sustainability the least (10%). When considering each year from 2553 B.E., listed companies tend to disclose their sustainability reports more and more every year. This study also finds that proportion of independent directors and proportion of directors attending the meetings are positively related to the sustainability report disclosure.

Keywords: Corporate governance; sustainability report; listed companies; the stock exchange of Thailand; financial firms

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Introduction
Corporate governance becomes important factors for business because the administration included many groups of stakeholders. Following the corporate governance make the company having effective and transparent management system (Sanguanwongwan, 2008). It also builds trust for investors, stakeholders, and other people in charge (Stock Exchange of Thailand, 2012).
Goals of business administration are not only prosperity but also to have long term sustainability. Disclosure of sustainability report of company help stakeholders and public receive information of the company in different dimensions. The investors refer to this information as for investigating the chance and risk of the company. The activities which may affect economic system, society, and environment. The researcher was interested in examining the relationship between corporate governance and sustainability report disclosure and the factors affecting sustainability report disclosure of the companies. The present study was empirical study which revealed if there were the effects of corporate governance of listed companies on sustainability report disclosure and how did it affect on such report.

Objectives of the Study
1. To examine the level of sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand
2. To investigate the relationship between corporate governance and sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand

Significance of the Study
1. To reveal level of sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand
2. To examine the relationship between corporate governance and sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand
3. To encourage companies to reveal sustainability information as for supporting corporate governance.

Theories and Conceptual Framework
Agency theory
This theory is to describe the relationship between a principal who assigns an agent to manage his/her resources. The agent has to manage those to make the highest benefits for the principal. If the agent cannot make the highest benefit, there will be an agency problem. Considering information disclosure may be in trouble when agents try not to reveal some information or report incorrect information as for preserving their benefits.

Concept of Corporate Governance
Corporate governance” is the system providing structure and process of relationship between committee, management, and shareholders as for optimizing competitive competency, being growth, and increasing value for long-term shareholders with consideration of other stakeholders (Stock Exchange of Thailand, 2012). Principles of good corporate governance 2012 are divided into 5 sections as follow:
Section 1: Rights of shareholders
The companies should provide good practices for shareholders. Rights of shareholders are crucial. Basic rights should be protected. All shareholders should be encouraged to exercise their rights. In the annual meetings, if there is a large proportion of shareholders in the meeting, this indicates that the companies pay attentions to rights of shareholders. In other words, the companies have good corporate governance. The hypothesis of this study is as follow: 

1. Proportion of share attending annual meeting have positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

Section 2: Equitable treatments of shareholders
The companies should protect benefits and rights of shareholders. All of them should be treated fairly and
equally. Large proportion of independent directors can balance the power. The opinions can be shared freely. This will help all shareholders to be treated fairly and equally. The hypothesis of this study is as follow:

**H2:** Proportion of independent directors has positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

**Section 3: Roles of stakeholders**
Companies must pay attention to rights of all stakeholders. The business administration should concern having responsibility towards all groups of stakeholders. Opinions of stakeholders should be paid attention to. Good relationship among stakeholders should be built. The hypothesis of this study is as follow:

**H3:** Numbers of committee have positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

**Section 4: Disclosure and transparency**
Companies should pay attention to disclosure of important information affecting decision of investors and stakeholders. The financial information and non-financials must be correct, complete, punctual, and reliable. This section is impossible to measure the variable since it is related to corporate governance. It was excluded from the independent variables.

**Section 5: Responsibility of the boards**
The boards have to administer company’s business. Appropriate structure of committee and clear responsibility can lead to effective administration. The hypothesis of this study is as follow:

**H4:** Proportion of audit committee has positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

H5: Proportion of committee attending the meeting has positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

**H6:** Experience in administration of the chairman has positive relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

**H7:** Numbers of dual responsibility directors have negative relationship with sustainability report disclosure of listed financial firms in the Stock Exchange of Thailand.

**Concept of Sustainability Accounting Disclosure**
Sustainability accounting is a branch of accounting which focuses on revealing non-financial information (Aaron, 2015). Such information is related to results of operations and stakeholders in the companies and those who were not in the companies. The sustainability was disclosed into 3 dimensions, i.e. economic, environment, and social. Accounting for sustainability also concerns administration, risk assessment, and development for sustainability. Reporting information with accounting help assessing the results of operation more completely (Sustainability Accounting Standards Board, 2013). The disclosure is able to be included in the other reports or in separate set of report.

Global Reporting Initiative (GRI) is another framework used to organize sustainability report (Corporate Social Responsibility Institute, 2013). This framework has clear guideline for the report. It was developed by many groups of stakeholders so that it could give quite complete information (Sustainable Business Development Institute, 2015). The report has to cover all indicators of the index in 3 dimensions, i.e. economic, environment, and social (Global Reporting Initiative, 2015).
Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance</td>
<td>Sustainability Report</td>
</tr>
<tr>
<td>Section 1: Rights of shareholders</td>
<td>Disclosure</td>
</tr>
<tr>
<td>- Proportion of share in the annual meeting</td>
<td>- economic</td>
</tr>
<tr>
<td>Section 2: Equitable treatments of shareholders</td>
<td>- social</td>
</tr>
<tr>
<td>- Proportion of independent directors</td>
<td>- environment</td>
</tr>
<tr>
<td>Section 3: Roles of stakeholders</td>
<td>(Global Reporting</td>
</tr>
<tr>
<td>- Numbers of groups of committee</td>
<td>Initiative, 2015)</td>
</tr>
<tr>
<td>Section 5: Responsibility of the boards</td>
<td></td>
</tr>
<tr>
<td>- Proportion of audit committee</td>
<td></td>
</tr>
<tr>
<td>- Proportion of committee attending the meeting</td>
<td></td>
</tr>
<tr>
<td>- Experience in administration of the chairman</td>
<td></td>
</tr>
<tr>
<td>- Numbers of dual responsibility directors</td>
<td></td>
</tr>
<tr>
<td>(Chobpichien, Kumboon, Kamyang, Ruanghiran, &amp; Tiwasan, 2009)</td>
<td></td>
</tr>
</tbody>
</table>

Control Variables

1. Size of firms
2. Concentrate of shareholders
3. Types of audit firms
(Pungjitprapai, 2008)

Figure 1 Conceptual framework

Methodology
Population in this study included listed financial firms of the Stock Exchange of Thailand, e.g. banks, insurance and life insurance, finance and securities, and the companies in the Market for Alternative Investment. Data were from all companies during 2553-2557 B.E. The population was 303 firm-years. Data were collected from minutes of annual general meeting of shareholders, financial statements, annual information form, annual report, sustainability report, and other sources. The hypothesis testing was conducted by multiple regression analysis.

Equation for this study
Sustainability Disclosure Index = $\beta_0 + \beta_1 (PSAGM) + \beta_2 (PID) + \beta_3 (NBC) + \beta_4 (PAC)$
$+ \beta_5 (PDBM) + \beta_6 (EC) + \beta_7 (NDRD) + \beta_8 (Size) + \beta_9 (Top5)$
$+ \beta_{10} (Big4) + \epsilon$

Sustainability Disclosure Index refers to level of sustainability disclosure
$\beta_0$ means constant
$\beta_1$ (PSAGM) means proportion of share in the annual general meeting (quantity of shares in the annual general meeting/all shares)
$\beta_2$ (PID) means proportion of independent director (proportion of independent director/ all independent directors)
Summary

Table 1  Sustainability disclosure index (N=303)

<table>
<thead>
<tr>
<th>Sustainability Disclosure Index</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Order*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All disclosure of aspects</td>
<td>0.10</td>
<td>0.52</td>
<td>0.18</td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>0.33</td>
<td>0.78</td>
<td>0.52</td>
<td>1</td>
</tr>
<tr>
<td>Environment</td>
<td>0.03</td>
<td>0.35</td>
<td>0.10</td>
<td>3</td>
</tr>
<tr>
<td>Social</td>
<td>0.06</td>
<td>0.77</td>
<td>0.18</td>
<td>2</td>
</tr>
</tbody>
</table>

*means order of dimensions from the highest level to the lowest level

Table 1 showed that sustainability disclosure index was 0.18 or 18 percent of all disclosure which is considered in the low level. This indicates that the companies did not pay much attention to sustainability disclosure. Some unrelated dimensions of the business of the companies were excluded from the disclosure. In addition, the disclosure was divided into 3 aspects. The disclosure level of economic dimension was in the highest level (0.52 or 52 percent). All companies increasingly revealed this dimension since it is related to economic value of the companies, e.g. revenue, expense, dispersion of capital to stakeholders, etc. Such information is required to be revealed in the financial statement. The companies need to get people trust their financial security and risk. The disclosure level of social dimension was 0.18 or 18 percent. The companies revealed information about workforce, i.e. rights, benefits, labour protection, goods and services. Such information has to be revealed as for building trust...
in financial transactions.
The level of disclosure of the environment dimension was only 0.10 or 10 percent which was the lowest among all dimensions. It’s possible that many companies did not have business dealt with effects on nature. The disclosure of this dimension is commonly living and non-living things in the ecosystem e.g. pollution, wasted water, etc. This may be not directly related to their business since many companies had done business with few effects on environment.
The all aspects of annual sustainability disclosure and each of them were analyzed and found that the companies tended to increase the sustainability disclosure since 2010. This may due to the attention to sustainability of the society. Trend of sustainability disclosure index was presented in the following graph.

![Annual Sustainability Disclosure Graph](image)

**Figure 2** Annual sustainability disclosure graph

**Table 2** Results from multiple regression analysis to find the relationship between corporate governance and sustainability disclosure of listed financial firms in the Stock Exchange of Thailand

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-0.181</td>
<td></td>
<td>-3.624</td>
<td>0.000</td>
</tr>
<tr>
<td>PSAGM</td>
<td>0.000</td>
<td>-0.085</td>
<td>-1.249</td>
<td>0.213</td>
</tr>
<tr>
<td>PID</td>
<td>0.001***</td>
<td>0.144</td>
<td>2.732</td>
<td>0.007</td>
</tr>
<tr>
<td>NBC</td>
<td>0.002*</td>
<td>0.086</td>
<td>1.659</td>
<td>0.098</td>
</tr>
<tr>
<td>PAC</td>
<td>-0.001</td>
<td>-0.099</td>
<td>-1.614</td>
<td>0.108</td>
</tr>
<tr>
<td>PDBM</td>
<td>0.001***</td>
<td>0.126</td>
<td>2.599</td>
<td>0.010</td>
</tr>
<tr>
<td>EC</td>
<td>0.000</td>
<td>0.041</td>
<td>0.751</td>
<td>0.453</td>
</tr>
<tr>
<td>NDRD</td>
<td>-0.003*</td>
<td>-0.086</td>
<td>-1.772</td>
<td>0.077</td>
</tr>
<tr>
<td>Size</td>
<td>0.026***</td>
<td>0.434</td>
<td>7.623</td>
<td>0.000</td>
</tr>
<tr>
<td>Top5</td>
<td>0.000</td>
<td>0.050</td>
<td>0.693</td>
<td>0.489</td>
</tr>
<tr>
<td>Big4</td>
<td>0.007</td>
<td>0.052</td>
<td>1.053</td>
<td>0.293</td>
</tr>
</tbody>
</table>

R = 0.609  R^2 = 0.371  R_{adj}^2 = 0.349  SE_{est} = ±0.048  F = 12.891  Sig. F = 0.000

***At the significance level of 0.01  ** At the significance level of 0.05  * At the significance level of 0.10
From Table 2, the results from hypothesis testing with the significance level of 0.05 could be discussed as follow.

**Hypothesis 1:** The findings showed that proportion of share attending annual meeting had no relationship with sustainability disclosure. Annual shareholders meeting is organized to reveal operation results of the companies, trends and plan for the future. Shareholders are able to ask and discuss with executives and committee of the companies. The shareholders participate in administering and managing the companies by voting for important decisions (Mr. sec, 2010). Having large numbers of meeting attendees reflects corporate governance as for having shareholders to exercise their rights. The findings showed that most companies had concentrated shareholding by a group of major shareholders. In this case, assessing the value by the proportion of share attending the meeting may not be able to reflect corporate governance clearly. Some major shareholders did not attend the meetings which affected the proportion. Although there were many minor shareholders attended the meeting, the proportion seemed to be low. This affected the hypothesis testing results. If the proportion was changed to number of attendees, corporate governance may be revealed more clearly.

**Hypothesis 2:** Proportion of independent directors has a positive relationship with sustainability report disclosure. The findings indicated that companies with large proportion of independent directors had the balance of power. Everyone could share ideas freely. This help the disclosure to be in the framework of corporate governance. Having outside committee in the executive committee could help monitoring the administrators and create more transparent administration. The companies with large proportion of independent directors tended to have high level of sustainability report disclosure. This is consistent with Barros, Boubaker and Hamrouni (2013), Chobpichien, Kumboon, Kamyang, Ruanghiran, & Tiwasan (2009) which found that proportion of independent director had positive relationship with the disclosure.

**Hypothesis 3:** The results showed that numbers of committee had no relationship with sustainability report disclosure. The companies had different sets of committee to support different operations more effectively. According to Srijunpetch (2012), the committee may be appointed to conduct some jobs for the board. However, their operations need to be monitored. The Principles of Good Corporate Governance for Listed Companies in the Stock Exchange of Thailand (2012) suggests the boards to have different sets of committee to help managing the companies effectively. Pannarong (2010) viewed that committee will study and investigate specific jobs which make the monitoring effective. However, most companies appointed boards as committee. The auditing process of chairman may be reduced or may not occur. Some information or opinions were neglected. The companies then disclosed limited information.

**Hypothesis 4:** Proportion of audit committee has no relationship with sustainability report disclosure. The responsibility of the audit committee was defined in the Principles of Good Corporate Governance for Listed Companies 2012. The Stock Exchange of Thailand (2012) suggested that the companies should appoint audit committee to control financial reports to be correct, transparent, and complete. There should be an internal control system with good standard. Pannarong (2010) pointed out that audit committee has to recheck financial information, report, risk management, internal control, and communicating with auditors. From this point of view, it is possible that the audit committee is in charge of financial report. The sustainability report disclosure is not directly related to this set of committee. Therefore, proportion of the audit committee did not affect level of sustainability disclosure. The audit committee was not directly responsible to deal with sustainability of the company. The large proportion of audit committee did not increase level of sustainability disclosure.

**Hypothesis 5:** Proportion of committee attending the meeting has positive relationship with sustainability report disclosure. The committee learned what had happened with the companies from the meetings. They can share ideas, consider the issues, and make
decisions immediately to optimize the operations of the companies. The results of the meeting may increase level of sustainability disclosure as for sharing information to public. It is another way to create good image and show transparency of the companies. According to Chobpichien, Kumboon, Kamyang, Ruanghiran, & Tiwasan (2009), proportion of committee attending the meeting has positive relationship with social information.

**Hypothesis 6:** Experience in administration of the chairman has no relationship with sustainability report disclosure. It is possible that sustainability disclosure is a new issue for business. The companies have not revealed much information on sustainability. Guideline for the disclosure is changing. The providers have to be up-to-date as for having the current format of disclosure. Assistant Professor Dr. Sompon Kamonsiripichaporn, founder and leader in GRI reports in Thailand, suggested that organizing reports based on GRI have been improved into many versions. Although there are many indicators, the development of framework is needed to be continued. There are many issues to be discussed for the context (Taproot of Virtue, 2010). Therefore, experience of chairman did not increase the sustainability disclosure. In stead of this, companies may need to occasionally catch up the announcement on how to organize the reports.

**Hypothesis 7:** Numbers of dual responsibility directors have no relationship with sustainability report disclosure. Most companies’ structure had executives as committee. Pratoomsri (2014) examined the independence of committee and found that most companies had concentrated shareholding among major shareholders. These shareholders chose people who were on their side to be committee and executives. Therefore, the independence of committee had no relationship with level of disclosure. Thuravatikul (2009) pointed out that dual responsibility makes people independent since they can make benefits for themselves and ignore other shareholders. There would be a financial lost and risk for the companies. Having large numbers of committee who have dual responsibilities would affect financial report disclosure rather than sustainability.

In addition, size of the companies was found a positive relationship with the sustainability report disclosure. Large sized companies were under pressure and interested by investors who need lots of information. This is consistent with Pungjitprapai (2008) and Panpeng (2015). They found that size of the companies had a positive relationship with the disclosure. Concentrated shareholding had no relationship with the disclosure. It is possible that most companies had concentrated shareholding among major shareholders. In addition, there are organizations monitoring good administration. All shareholders tend to be treated equally. The intervention by major shareholders is reduced (Kulsrison, Meeampol, & Vichitlekarn, 2009).

Types of audit firm were found no relationship with the disclosure. The audit firms did not pay attention to sustainability report disclosure since there is no accounting standards or regulations related to sustainability disclosure. This is consistent with Chepanucrau (2012). The researcher found that types of auditors in Big4 had no relationship with environmental report disclosure.

**Suggestions**

The results suggest that level of sustainability report disclosure was low. The companies should encourage the exercise of good corporate governance, i.e. proportion of independent director and proportion of committee attending meetings. These factors affect level of disclosure.

**Suggestions for future research**

1. To study attending meetings of shareholders, numbers of shareholders should be measured.
2. Future research may change or add independent variables when studying the relationship.
3. Other industry group, e.g. resources, industry, etc., should be studied as to increase the population
4. The list in sustainability report should be adjusted to be flexible and have more variety.
5. In this study, all topics of disclosure were rated in the same point. Each company has different levels of disclosure. Under the same topic, some companies revealed the information more than others. Rating
may be conducted in other methods, e.g. counting lines, words, or paragraphs, etc.

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