Determinants of Corporate Disclosure and Transparency: Evidence from Hong Kong and Thailand

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Abstract

This study examines the degrees of corporate disclosure and transparency of publicly listed companies in two emerging markets and analyzes corporate disclosure practices as a function of specific firm characteristics. The analysis uses the disclosure and transparency scores extracted from a survey instrument designed to rate disclosure practices of publicly listed companies by using the OECD Corporate Governance Principles as an implicit benchmark. Empirical results show that financial characteristics explain some of the variation in the degrees of corporate disclosure for firms in Hong Kong but not for firms in Thailand. Further, corporate governance characteristics, such as board size and board composition show more significant associations with the degrees of corporate disclosure in Thailand than in Hong Kong. The results are broadly consistent with the notion that good corporate governance leads to better corporate disclosure and transparency in less developed markets.

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1. Introduction

Recently, considerable attention has been focused on the corporate disclosure and transparency in East Asia. The financial crisis of 1997 that swept through most of East Asia has highlighted the need of financial and governance reforms in the region. Currently, experts generally agree that the main failing leading to the financial crisis stemmed directly from the lack of disclosure and obscure management practices. Consequently, there are numerous corporate governance reform initiatives including regional (PECC 2001) and international (OECD 2004) efforts focusing on improvement of disclosure standards and transparency of corporate information. The main reason for the emphasis on disclosure standards and transparency is that disclosure and transparency are the twin cornerstones to protecting shareholders' rights. Shareholders should be treated equally, should be able to participate in the decisions affecting the firm, and should be able to elect directors to represent them. Outside investors need to be assured no individual shareholder (or group of shareholders) receives preferential treatment or has influence greater than their respective share of ownership. Finally, shareholders should also be able to exert their influence over the board of directors and hold directors liable for breaches of their fiduciary duty. Only through full and complete disclosure and transparent management practices can shareholders feel confident that the firm to which they have given their funds is being operated with their best interests in mind.

To date, the literature has been focusing mostly on examining corporate disclosure and transparency from a macro perspective. Ball (2001) contends that corporate disclosure infrastructure evolves as a function of the country's economic, legal, and political infrastructure. Consequently, the key research objective has been to understand cross-national differences among countries. For example, Bushman, Piotroski, and Smith (2004) investigate corporate transparency across 45 countries worldwide and conclude that corporate transparency is a function of a country's legal/judicial regime and political economy. Khanna, Palepu, and Srinivasan (2004) examine disclosure practices of companies and find an association between disclosure and firm size, performance, and legal origin. They also conclude that cross-border economic interactions are associated with similarities in disclosure and governance practices. Examining corporate financial disclosure in emerging markets, Salter (1998) documents a relation between corporate financial disclosure and economic sophistication and capital market development. He also finds that levels of corporate disclosure positively relates to prior levels of regulation and the ability to draw foreign portfolio investments. Archambault and Archambault (2003) develop a model predicting levels of corporate disclosure as a function of culture as well as national political and economic systems. From the empirical results, they conclude that corporate disclosure decisions are quite complex and influenced by a number of national and corporate factors. In the end, this line of investigation has enriched our knowledge of the determinants of corporate disclosure across different markets.

This study makes several contributions to the growing literature on corporate disclosure. The main focus is on investigating variation of degrees of corporate disclosure within individual markets. Currently, the literature uncovers cross-national determinants of corporate disclosure and implicitly assumes that there should be little variation in degrees of corporate disclosure among firms listed in the same market. In other words, as all firms exist in the same national environment, all firms simply comply with local regulations and act according to the local institutional environment. The underlying assumption is that there should be little discernible difference among firms with respect to degrees of corporate disclosure. This study attempts to address this underlying assumption in two Asian emerging markets, Hong Kong and Thailand. These markets are selected because of increasing concern over the quality of corporate disclosure in the region since the Asian financial crisis, marked by the *de facto* devaluation of the Thai currency in mid-1997. More importantly, the reason Thailand and Hong Kong are chosen for this study is because of the contrasting experience since the onset of the financial crisis. Thailand encountered the most severe economic collapse in the country's history as a result of the Asian financial crisis. On the other hand, Hong Kong went through the crisis with relative ease and did not experience an economic meltdown of the scope and scale as Thailand. Further, the reason for choosing Hong Kong is that Hong Kong is an international financial center in Asia with an Anglo-Saxon legal system. Corporate governance in Hong Kong is considered to be more advanced than other Asian markets. Most experts would agree that the development of corporate governance in Thailand is far behind that of Hong Kong. For instance, Ho (2000) posits that corporate disclosure and transparency for listed companies in the Thai stock market tend to be lower than listed companies in Hong Kong. Moreover, both equity markets are dominated by a family-controlled business environment, characterized by high family ownership of listed corporations. In the end, comparing and contrasting two markets in the same region that have quite different characteristics should yield additional insights to the issue of corporate disclosure and transparency.

Another unique aspect of this study is that it makes use of a unique data set compiled by the Institutes of Directors in both Hong Kong and Thailand. Based on the OECD Principles of Corporate Governance, the survey instrument for measuring corporate disclosure quality was developed by the Thai Institute of Directors Association with technical assistance from McKinsey and Company in 1999. The latest version of the survey contains 86 questions that are classified into five categories: the rights of shareholders, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the role of board of directors. This study extracts survey questions that are directly related to degrees of corporate disclosure and transparency. Most importantly, the measurement of corporate disclosure with this instrument represents an improvement from the instruments commonly used in other studies. For example, prior studies typically gauge the presence or absence of material being disclosed but often overlook the qualitative aspects of disclosure. Studies frequently award one mark for the presence and zero for the absence of an item of information in the annual report and accounts of firms (for example, S&P disclosure scores). In contrast with prior work, this study recognizes and rewards both the quantity and quality of information disclosed for each criterion. For instance, for a given survey item, a company will receive credit for disclosure if an item is indeed disclosed in accordance with the minimum legal requirement (average). Should a company provide information beyond the legal minimum, approaching the level of international standards or best practice, their disclosure and transparency practices will be rewarded (excellent). Each firm will receive a score indicating the level of corporate disclosure. This more complete measure can provide a qualitative indication of transparency and disclosure practices which is superior to prior work that focuses only on the quantity or the presence of information.

The third and final aim of this study is to examine individual firm characteristics that are associated with the degrees of corporate disclosure and transparency within each market. Although the literature has identified several cross-national determinants of corporate disclosure, little has been done to determine factors that affect corporate disclosure and transparency within an economy. It is hypothesized that determinants of corporate disclosure and transparency can be categorized into two groups. The first group consists of financial variables whereas the second group consists of corporate governance characteristics. It is predicted that some financial characteristics can influence the degrees of corporate disclosure and transparency of a firm. For example, large firms may be more willing to disclose relevant information to the public than small firms. Financial variables, such as profitability, financial leverage, and efficiency are included in this study. At the same time, some governance characteristics can also affect the degrees of disclosure and transparency. This study investigates notable governance characteristics such as ownership concentration, board size and board composition.

The empirical findings offer compelling evidence that levels of corporate disclosure and transparency vary significantly within each of the two Asian markets. From the overall degrees of disclosure scores, it appears that the levels of corporate disclosure in Thailand are higher than in Hong Kong. This finding contradicts the notion that firms in more developed markets tend to have better information disclosure than firms in less developed markets. Empirical results also show that the financial characteristics of firms tend to exhibit a significant association with the degrees of disclosure in Hong Kong but not in Thailand. Specifically, large and profitable firms in Hong Kong tend to have high degrees of disclosure. Hong Kong companies with high asset turnover and financial leverage also tend to have high degrees of disclosure. These results are not evident among Thai firms. On the other hand, corporate governance characteristics tend to exhibit strong associations with degrees of disclosure among Thai firms. Specifically, Thai companies with high proportions of outside directors and large boards tend to have high degrees of disclosure. Interestingly, the proportion of executive directors represented on the board is negatively related to degrees of disclosure in both markets. It is conjectured that in more developed markets, financial characteristics are more relevant to degrees of disclosure while in less developed markets, corporate governance characteristics are more relevant. Finally, the empirical finding from this study suggests that aggregate examination of the determinants of corporate disclosure and transparency across different economies with different institutional setting may lead to inaccurate conclusion.

The paper is organized as follows. Section 2 discusses disclosure practices in Hong

Kong and Thailand. In Section 3, determinants of corporate disclosure and transparency are proposed along with testable hypotheses. Data and methodology are presented in Section 4. Section 5 presents and discusses empirical findings and Section 6 concludes the study.

2. Corporate Disclosure Practices and Transparency

The focus of this study is the degrees of corporate disclosure and transparency. Bushman, Piotroski, and Smith (2004) define corporate transparency as the availability of firm-specific information to outside investors and stakeholders. Furthermore, they argue that the availability of information is critical to resource allocation decisions and economic growth. Apparently, the levels of corporate transparency depend on the levels of information disclosure exhibited by the firm. As a result, corporate disclosure and transparency are the twin cornerstones to protect shareholders' rights. Shareholders should be treated equally, should be able to participate in the decisions affecting the firm, and should be able to elect directors to represent them. Finally, outside investors need to be assured no individual shareholder (or group of shareholders) receives preferential treatment or has influence greater than their respective share of ownership. Additionally, shareholders should also be able to exert their influence over the board of directors and hold directors liable for breaches of their fiduciary duty. Only through full and complete disclosure and transparent management practices can shareholders feel confident that the firm to which they have give their funds is being operated with their best interests in mind.

The rest of this section discusses corporate disclosure practices and related corporate governance issues in Hong Kong and Thailand. While the conclusion drawn is that the overall corporate governance environment in Hong Kong is much better than in Thailand, the differences between levels of corporate disclosure and transparency remain to be examined. La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) posit that firms in markets with a higher level of legal protection and corporate governance are associated with better performance. Johnson, Boone, Breach, and Friedman (2000) also find strong evidence supporting the importance of corporate governance with respect to the financial performance of firms during the financial crisis. Durnev and Kim (2003) find that higher scores on the CLSA corporate governance index and the Standard & Poor's disclosure index predict higher Tobin's Q values for a sample of 859 large firms in 27 countries. Similar results are obtained by Klapper and Love (2002) using only the CLSA index. Given that the corporate governance structure in Hong Kong is better than in Thailand, this leads to a testable hypothesis whether there is any significant difference between degrees of corporate disclosure and transparency in the Hong Kong and Thai markets.

A. Corporate Disclosure Practices and Corporate Governance in Hong Kong

The corporate governance practice of Hong Kong compare favorably to governance practices elsewhere in the region. According to the CLSA (2002) report, Hong Kong ranked second among the sample countries in East Asia, significantly higher than Thailand. However, in a joint study (Standard & Poor's 2004) of standards of disclosure conducted by Standard & Poor's and National University of Singapore, Hong Kong firms were ranked third behind Singapore and Malaysia, and slightly ahead of Thailand. This study specifically cited a lack of independent directors and insufficient disclosure for Hong Kong firms as two major governance shortcomings.

In Hong Kong, China, most listed companies tend to be controlled by families. According to a survey of the ownership structure of 553 listed companies in the economy in 1995 and 1996 (Hong Kong Society of Accountants [HKSA] 1997), 53 percent have one shareholder or one family group of shareholders owning more than half of the entire issued capital. Control by a single shareholder or family group extends to more than 35 percent of issued capital in 77 percent of the companies, and more than 25 percent of issued capital in 88 percent of the companies. The fact that a single shareholder or family group has majority ownership in most of the listed companies reflects the dominance of family-owned companies in the economy of Hong Kong, China. This ownership structure implies that agency costs arising from the separation of ownership and control are less likely to be prevalent. However, there may be conflicts of interest between controlling shareholders and minority shareholders, making the expropriation of the latter a distinct possibility.

The current framework of corporate governance in Hong Kong, China includes both statutory and non-statutory requirements. Statutory requirements consist of the Companies Ordinance, Securities (Disclosure of Interests) Ordinance, Securities (Insider Dealing) Ordinance, and Takeover Codes. Non-statutory requirements are those specified under the Listing Rules covering the number of independent non-executive directors, disclosures of connected transactions, and disclosures of the different components of directors' remuneration.

The Hong Kong Exchange and Clearing Limited (HKEx) is the primary front-line regulatory organization responsible for the day-to-day supervision and regulation of listed companies, their directors and controlling shareholders, and market users in general with respect to all listing-related matters. HKEx performs a self-regulatory function, overseeing the conduct of its members, and operates a stock market providing a wide variety of products ranging from ordinary shares to options, warrants, unit trusts, and debt securities.

The Securities and Futures Commission (SFC) exercises prudential supervision over the securities, futures, and financial investment industries. All rules made by the HKEx are subject to SFC approval. SFC administers statutory requirements to ensure full disclosure and fair treatment of the investing public. It regularly monitors trading in the securities and futures markets to detect possible malfeasance. It also conducts periodic inspection visits of registered persons and makes inquiries in response to public complaints about misconduct by intermediaries and market malpractice.

SFC is empowered to inspect a listed company's books and records if its directors and officers are suspected of impropriety in the management of a company's affairs. Disciplinary actions and civil and criminal sanctions range from private or public censure to suspension or revocation of a license. Regarding criminal actions, SFC is responsible for the investigation of various criminal offenses and while it prosecutes minor offenses, serious matters are prosecuted at the independent discretion of the Director of Public Prosecutions.

SFC also has frontline regulatory responsibility for takeovers and mergers, offers of investment products, and financial intermediaries other than HKEx members. Executive rulings at the request of any dissatisfied party and disciplinary matters are heard by the Takeovers and Mergers Panel, a committee established by SFC. The panel consists of representatives of SFC, HKEx, financial institutions, and other constituencies with an interest in takeovers and mergers.

B. Corporate Disclosure Practices and Corporate Governance in Thailand

When comparing corporate governance practices across Asian countries, Thailand typically does not fare well in any survey rating. The CLSA (2002) survey placed Thailand near the bottom of the league table, ahead of China, Philippines, and Indonesia, but significantly below Singapore and Hong Kong, the region's leaders. As mentioned earlier, the Standard & Poor's (2004) joint study rated disclosure practices in Thailand in fourth place out of five countries surveyed, ahead of Indonesia, but only slightly behind Hong Kong.

As is the case with Hong Kong firms, most Thai firms are family owned and controlled. Wiwattanakantang (2001) profiled the ownership characteristics of 270 Thai firms in 1996 and found that for more than 80 percent of firms in the sample, the largest shareholders are also the controlling shareholders. Families are overwhelming the controlling shareholder(s). However, simple ownership structures are typically employed; pyramid and cross-shareholding arrangements were noted at less than one-fourth of the sample. Again as with Hong Kong firms, the concentrated ownership structures of Thai firms mean that potential agency conflicts between the controllers and minority shareholders are more of an issue than agency conflicts stemming from the separation of ownership and control.

The foundations for good governance practices in Thailand pre-date the 1997 financial crisis. Laws and regulations covering public companies, the securities exchange, bankruptcy, accounting and disclosure standards, and other requirements were already on the books. The key ingredients missing from a wider acceptance of good governance practices were incentives and enforcement.

The Securities and Exchange Commission (SEC) is charged with overseeing the financial markets. Rather than acting single-handedly, other Thai regulatory bodies and organizations have joined together to improve corporate governance practices in Thai listed companies. Organizations like the Bank of Thailand (Thailand's central bank), the Ministries of Finance and Commerce, the Stock Exchange of Thailand (SET), the Thai Institute of Directors Association (IOD), professional associations for accountants, auditors, and internal auditors, and investors' associations have all started to play a more direct role in creating, implementing, and improving corporate governance practices.

The Stock Exchange of Thailand (SET), which oversees the stock market, produced a report on corporate governance in 2001. The report established principles, recommendations, and best practice guidelines for directors, boards or directors, management, shareholders, risk management and reporting, and business ethics. As one example of the improved disclosure standards promulgated, a new regulation now requires firms to name suppliers that provide more than 30% of a firm's transactions. The Bank of Thailand, the Thai central bank, introduced strict new regulations covering banks and finance companies. The new rules mandate internal auditing and financial statement disclosure standards and limit the number of directorships that bank directors may hold.

Since the cornerstone of shareholders' rights is disclosure and transparency, the Public Company Act, enacted in 1992 (BE 2535), contains the basis for shareholder rights in Thailand. Regulations published by the SEC and the SET form the regulatory standards to which public companies are expected to comply. The SET has also issued regulatory standards to serve as guidelines, supplementing regulations as needed. In the past, regulatory guidelines have been used frequently by the SET.

The PCA covers most aspects of shareholder participation, including rules governing shareholders' meetings, proxy voting, election of directors and other important matters that shareholders must confirm by vote. The PCA also outlines other rights of shareholders including the right to hold directors liable for their actions. Most aspects of disclosure, transparency, and shareholder participation are covered by the SET regulations for listed companies, including guidelines for organizing shareholder meetings, proxy solicitation and voting, disclosure, and allowable actions that shareholders may undertake against directors.

In the wake of the 1997 financial crisis, weak corporate governance practices intensified the severity of the problems Thai companies faced. It became readily apparent that corporate governance practices at many Thai firms did not match international standards. Expectations stemming from the basic tenets of corporate governance such as accountability, responsibility, equitable treatment, transparency, vision, and ethics could not be met. In the seven years since the financial crisis erupted, corporate governance practices and reforms are now mainstream discussion topics. The Thai government named 2002 the "Year of Good Governance", spearheaded by a national corporate governance committee chaired by the Prime Minister. Representatives from ministries, regulatory bodies, the exchange, and industry representatives all participate. Thai regulators and institutions implemented accounting and auditing reforms and standards, toughened disclosure rules, and strengthened the professional bodies guiding the accounting and auditing profession.

Perhaps the most significant changes that came in the wake of the Asian financial crisis concern disclosure and transparency, as the practical aspects have been greatly strengthened. The stockholders select the external auditors and audited financial statements must be released in a timely fashion. Penalties for non-compliance with the disclosure rules are stiff, and the authorities make public the names of violators. SEC and SET laws and rules clearly spell out the penalties for violating the rules governing listed companies in the areas of insider trading and price manipulation. Although insider trading is punishable with fines, blacklisting, and imprisonment, only recently have there been severe sanctions from the regulators.

Existing rules carefully spell out the type and frequency of information that companies are required to disclose. With additional regulations and a renewed emphasis on enforcement, companies are providing more information in a more timely fashion. For example, SET regulations state that listed companies must publish their financial statements within 60 days of the end of the fiscal year and produce an annual report within 110 days. Non-compliance with disclosure rules carries significant penalties

The pace of corporate governance reform in Thailand has been much slower than other countries. Thai institutions have not been radically overhauled and restructured; changes have come more gradually. Recently, both regulators, the SEC and the SET, have expanded the legal frontiers. New and updated rules, new and revised laws, and increased regulatory oversight have been at the forefront of the push for increased corporate governance and increased enforcement of existing laws and regulations. This has resulted in a drastic improvement in terms of corporate disclosure and transparency among public companies.

3. Determinants of Corporate Disclosure and Transparency

It is hypothesized that there are two broad categories of firm characteristics that can affect the degrees of corporate disclosure and transparency within a market. The first category consists of financial characteristics of the firm while the second category consists of corporate governance characteristics of the firm. There is some indirect evidence in support of the conjecture. Based on factor analysis results, for example, Bushman, Piotroski, and Smith (2003) isolate these two factors from a range of measures capturing firm-specific information environments for a number of countries. In the end, they also find that the two categories of factors, financial characteristics and governance characteristics, are related to countries' legal regimes and political economies. Based on this finding, this study also proposes financial variables and governance variables as possible determinants of the degrees of corporate disclosure and transparency within each market.

A. Financial Characteristics

Five financial variables are proposed in this study, intending to capture different firm characteristics that can influence the degrees of corporate disclosure and transparency. The financial variables used in this study are as follows:

Firm Size. It is hypothesized that large firms are more transparent than small firms. A possible explanation is that large firms have larger investor bases than smaller firms and attract more attention from analysts. Large firms also have more resources to provide better disclosure to investors than small firms. In a cross-country study, Khanna, Palepu, and Srinivasan (2004) find a positive relation between market capitalization and overall transparency scores. Archambault and Archambault (2003) document an inconsistent association between firm size, as measured by total assets, and total disclosure score.

Financial Leverage. Companies that have high financial leverage should have higher degrees of transparency because creditors require them to disclose more information (Khanna, Palepu, and Srinivasan 2004). However, their empirical evidence is not supportive of the contention. Meek, Roberts and Gray (1995) find a negative relation between leverage and disclosure among U.S. and U.K. firms. Archambault and Archambault (2003) also document no association between financial leverage and corporate disclosure.

Financial Performance. It is possible that past performance can affect the degrees of corporate disclosure (Khanna, Palepu, and Srinivasan 2004). For example, profitable firms may be more willing to disclose information to outside investors than less profitable firms. Previous studies have examined the impact of both accounting performance (Lang and Lundholm 1993; Miller 2002) and market performance (Khanna, Palepu and Srinivasan 2004) on levels of disclosure. This study uses both types of financial performance for robustness.

Collateral Assets. Companies with high values of fixed assets may need to disclose more to outsiders of the ways by which make their investment decisions. This should lead to a positive relation between collateral values and the degrees of disclosure. On the other hand, it can also be argued that companies with more assets in place have little need to disclose financial information. Jensen and Meckling (1976) posit that collateral assets can reduce agency conflicts because lenders can take possession of fixed assets in case of bankruptcy. The reduction in agency conflicts may reduce the need to disclose information so it is possible that there is a negative relation between collateral values and the degrees of disclosure.

Asset Utilization. It is possible that companies with high levels of asset utilization may have higher degrees of corporate disclosure than those with low levels of asset utilization. The reason is that firms with high levels of asset utilization may attract more investors and analysts. Therefore, these companies have to disclose more relevant information to outside investors which, in turn, leads to high levels of corporate disclosure and transparency for companies with high levels of assets utilization.

B. Corporate Governance Characteristics

Numerous U.S. studies have focused on the relation between corporate governance and firm performance. The results are mixed showing that good corporate governance practices may not necessarily lead to better firm performance. On the other hand, a number of studies on companies in East Asia have found that corporate governance factors affect firm valuation (Mitton 2002; Lins 2003). The divergence of findings may be due to the fact that corporate governance may not directly affect firm performance. It is hypothesized that there is a mediating variable: corporate disclosure and transparency. In other words, good corporate governance should lead to better disclosure and transparency. However, there is no guarantee that better disclosure and transparency will lead to better performance. This study proposes four corporate governance variables as determinants of degrees of corporate disclosure and transparency. The variables are discussed below:

Ownership Concentration. Recently, the effect of ownership concentration on firm value has received considerable attention from financial economists (Demsetz and Lehn 1985; Morck, Shleifer and Vishny 1988). It is hypothesized that that concentrated share ownership can lead to more active monitoring, thereby leading to better corporate governance. This active monitoring effectively reduces the probability of management expropriating shareholders' wealth (McConnell and Servaes 1990). However, recent studies on East Asian markets conclude that concentrated ownership concentration can lead to agency conflicts between inside owners and outside investors (Claessens, Djankov and Lang 2000; Claessens, Djankov, Fan and Lang 2002; La Porta, Lopez-de-Silanes, and Shleifer

1999). It is hypothesized that the proportion of outstanding shares held by five largest shareholders may be related to the degrees of disclosure and transparency.

Board Composition. One key element of corporate governance is the role of the board of directors in overseeing management. Managerial oversight is needed because managers have their own preferences and may not always act on behalf of the shareholders. Shirking, excessive perks, and non-optimal investments are examples of abusive actions by managers (Jensen and Meckling 1976). The board of directors can reduce agency conflicts by exercising its power to monitor and control management (Fama and Jensen 1983). Independent outside directors are presumed to carry out the monitoring function on behalf of shareholders to ensure that management is in place and to maximize shareholders' interests because shareholders themselves would find it difficult to exercise control due to the wide dispersion of ownership of common stock (John and Senbet 1998). It is contended that outside board members should be independent of the executive management and free from any business or other relationships with the company that could compromise their autonomy. Fama (1980) and Fama and Jensen (1983) argue that including outside directors as professional referees not only enhances the viability of the board but also reduces the probability of top management colluding to expropriate shareholder wealth. The generalization of this effective monitoring argument is that the more independent the outside directors serving the board, the higher the firm performance.

Empirical evidence, however, has been quite inconsistent with regard to the positive impact of board composition on firm performance (Bhagat and Black 1998). Rosenstein and Wyatt (1990) document significant positive stock returns around announcements of appointments of outside directors. Several studies also obtain indirect evidence in support of the positive impact of outside directors (Weisbach 1988; Cotter, Shivdasani, and Zenner 1996; Baysinger and Butler 1985). Using a sample of non-financial companies listed on the

Stock Exchange of Thailand during 1999-2001, Limpaphayom and Sukchareonsin (2003) find a positive relation between board composition and firm market valuation.

Contrary to the argument that outside director incentives are better aligned with the interests of shareholders, several studies suggest that outside directors may not necessarily act in the interests of shareholders since CEOs often dominate the director nomination process (Mace 1986). In addition, Morck, Shleifer and Vishny (1988) suggest that outside board members are capable of becoming entrenched in the form of unchecked deployment of corporate assets or transactions favoring management. Agrawal and Knoeber (1996) point out a possibility that outside directors are appointed as a result of political rather than monitoring reasons. In the end, they document a negative relation between board composition and firm performance. Hermalin and Weisbach (1991) observe that a high proportion of independent directors on the board does not always predict better future accounting performance. Thus, the entrenchment view predicts a negative relation between board composition and firm performance.

In this study, it is hypothesized that board composition may also affect the degrees of corporate disclosure and transparency. The reason is that independent directors may wish to disclose more information to benefit other stakeholders of the firm. This can lead to a positive relation between the proportion of outside directors and the degrees of corporate disclosure and transparency. There are two variables indicating board composition being used in this study. The first variable is the proportion of independent outside directors in the company's board. The second variable is the proportion of executive directors or insiders represented on the board of directors. It is predicted that executive directors may have a conflict of interest and wish to conceal information from outside investors. Consequently, the proportion of executive directors may have a negative impact on the degrees of corporate disclosure and transparency.

Board Size. The other crucial characteristic of the board of directors is its size. When considering the size of the board, there is a trade-off between additional value-added expertise or monitoring benefits and disadvantages stemming from the coordination problem. Jensen (1993) posits that larger board size leads to less candid discussion of critical issues which, in turn, leads to poor monitoring. In the end, Jensen (1993) contends that the optimal size of the board is eight members. Yermack (1996) finds a positive relation between board size and firm value among large firms in the US. Huther (1997) examines a sample of US public utilities and find that the board size negatively affects firm efficiency. Eisenberg, Sundgren, and Wells (1998) find a significant negative correlation between board size and profitability in a sample of small- and medium-sized Finish and Swedish firms. Given the literature, it is hypothesized that there may be a relation between board size and the degrees of corporate disclosure and transparency.

4. Data and Methodology

The sample consists of a total of 337 Thai firms and 168 Hong Kong firms listed on the stock exchanges of the respective countries. In order to be included in the study, a firm must have a full set of financial information covering the entire 2002 fiscal year. Any firms that went public in 2002 were excluded, as were firms undergoing financial restructuring. Of the 337 firms in Thailand, eight companies from the Market for Alternative Investment (MAI), an exchange for smaller and newer firms, were included. The total of 168 Hong Kong firms surveyed encompassed four listing groups: HSI (Hang Seng Index), HSHKCI (Hang Seng Hong Kong Composite Index), HSCCI (Hong Kong China Affiliated Corporate Index), and HSCEI (Hang Seng China Enterprise Index). From the total country samples, financial services firms (commercial banks, finance companies, insurance firms, and securities companies) were removed from the final data set as well as firms with incomplete or missing data. After this adjustment, a total of 265 Thai firms and 148 Hong Kong firms are used in the empirical analyses.

The centerpiece of this study is a comprehensive survey instrument designed to assess the level of corporate governance practices across firms.[1] This study is unique as it uses virtually the same survey instrument to profile transparency and disclosure practices—and ultimately corporate governance practices—for both Thai and Hong Kong public companies in 2002.

The survey instrument was designed to reflect the corporate governance guidelines put forth by the Organization of Economic Cooperation and Development (OECD) in 1999. The OECD recognized that there is no universal standard of corporate governance practices that can be recommended or implemented in every nation. Nevertheless, the OECD guidelines make a useful suggested framework, covering five important areas of governance: the rights of shareholders, equitable treatment of shareholders, roles of stakeholders, disclosure and transparency, and the role of the board of directors. The survey instrument used in the study is divided into five parts as well, examining company performance in each of the areas highlighted by the OECD principles. The survey contains a total of more than 80 individual measures. A subset of the survey responses—those questions specifically addressing disclosure and transparency, not broader corporate governance practices—are selected from the full set of survey responses. Only 45 questions from the survey were used to construct measures of disclosure and transparency, which is the focus of this study (See Appendix).

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[1] The survey itself was initially developed in Thailand as part of a Thai Institute of Directors Association project called corporate governance baselining, which has been conducted since 2000. The baselining project is part of the initiative by the National Governance Committee, chaired by the Prime Minister of Thailand. To ensure adherence to international standards and comparability, the original questionnaire was designed with technical assistance from McKinsey and Company. The Steering Committee supervising the development and scoring process consists of representatives from the Stock Exchange of Thailand, Securities and Exchange Commission, and related parties (e.g., CPA Association, Investors' Association, and Government Pension Fund). The World Bank generously provided financial support in the early stage of the project in Thailand. Later, the Hong Kong Institute of Directors adopted the instrument. The same research team applied the instrument in both markets.

The data used in the evaluation process are drawn from a wide variety of publicly available information such as annual reports, Securities and Exchange Commissions and stock exchange filings, annual shareholders' meeting minutes, articles of association, company by-laws, and company websites. To reinforce the emphasis on disclosure and transparency, the research team assumed the viewpoint of an outside investor. Publicly available documents were the source documents as this information would also be readily available to outside investors.

Each company was scored in all applicable areas of the survey. While assessing the level of corporate governance for an individual company can be subjective, the survey is designed to minimize this problem. In addition to crosschecking and auditing by different raters, nearly every survey measure has been refined so as to be quantifiable. This is also a unique feature of this study, as previous research has only checked for the presence of a specific corporate governance measure. This study adds to the existing literature as adds a qualitative dimension to the governance measures. Companies that omit or do not comply with a specific scoring criterion receive a 'poor' score. Meeting the legal compliance standard earns a firm a score of 'fair', while firms that exceed the regulatory requirements and/or meet international standards receive the highest score.

Question A3 ("How is the remuneration of the board presented?") can serve as an example. A company that does not show any pertinent information in any of the public documentation with regard to remuneration to board members will receive a "poor" rating. If board remuneration is presented in aggregate (e.g., for the last fiscal year, the total board compensation was 20 million baht), this company will get a "fair" rating. Finally, a company that provides detailed information on board remuneration (e.g., compensation paid to each individual, classified as salary, bonus, and fees) will receive an "excellent" rating. Another example is Question B4 (Does the company provide rationales/explanations for related-party transactions affecting the corporation?). A company will get a "poor" rating if there are no explanations of related party transactions or any documentation available in public sources. A "fair" rating will be given to firms that provide brief explanations of those transactions (e.g., transactions are done at fair market values). However, firms that provide detailed information (e.g., identity of the related parties, the nature of the transactions, the transaction amounts and dates) will be awarded an "excellent" rating. To maintain objectivity and consistency, the criteria for each question are determined by a Steering Committee consisting of representatives from the stock exchanges and securities commissions.

Once the assessment is complete, a simple average of the scores for all questions in a section yields the score for that section. Individual scores are calculated for the five survey sections: shareholders' rights, treatments of shareholders, treatments of stakeholders, disclosure and transparency, and the roles of the board of directors. In additional to scores by section, a single composite score for transparency (TRANSP) is calculated by taking a weighted sum across the scores for each of the five sections. Financial data, used to construct control variables as well as measures of return, are taken from Datastream and Worldscope, published by Thomson Financial, for Hong Kong firms. For Thai firms, additional financial information is also obtained from the Stock Exchange of Thailand. Corporate governance variables (e.g., board composition and ownership concentration) are constructed using manually collected data gathered from annual reports and government sources in the respective countries.

The measure of disclosure and transparency in question, TRANSP, is the dependent variable in the following equation to be estimated for Thailand and Hong Kong separately:

$$\begin{aligned} \text{TRANSP} = {} & \beta_o + \beta_1 \,\text{SIZE(X)}_i + \beta_2 \,\text{PROFIT(X)}_i + \beta_3 \,\text{TURNOVER}_i + \beta_4 \,\text{FIX}_i + \beta_5 \,\text{DEBT}_i \\ & + \beta_6 \,\text{CONC}_i + \beta_7 \,\text{BSIZE}_i + \beta_8 \,\text{BEXC}_i + \beta_9 \,\text{OUTSIDE}_i + \varepsilon_i \end{aligned}$$

There are five independent variables indicating the financial characteristics of the firm whereas there are four independent variables indicating corporate governance characteristics of the firm. The variables calculated are described as follows. Three different measures of *SIZE* are used: SIZE1 is the natural logarithm of total assets; SIZE2 is the natural logarithm of sales; and SIZE3 is the logarithm of market value, defined as price per share times number of shares outstanding at the end of 2002. Two measures of firm performance or profitability, *PROFIT*, are incorporated into the analyses: return on assets (ROA) is net income divided by total assets and *Q* is a proxy of Tobin's Q calculated as the sum of fiscal year-end market value and long-term debt divided by total assets. Other control variables are TURNOVER, sales divided by total assets; FIX, the amount of fixed assets net of depreciation divided by total assets; and DEBT, which is total liabilities divided by total assets.

Shareholding data for the ownership concentration variable (*CONC*) is taken from the annual reports as well, using the information available in the annual reports. In Thailand, firms are legally required to list the shareholdings of the ten largest owners, while Hong Kong firms list only the five largest shareholders. As this level of ownership information is disclosed to investors and readily available, the proportion of outstanding shares owned by five largest shareholders is used as the ownership concentration variable. Board characteristics are taken from firms' annual reports. The number of directors (BSIZE) describes the total size of the board. Directors are classified as executive directors (company employees), independent directors (no company affiliation), and non-executive directors (not a company employee, but may have an affiliation with the firm, its owners, or managers). The variable BEXC is the percentage of executive directors on the board while OUTSIDE is the percentage of independent directors on the board.

In addition to the regression estimations for each country, a pooled regression analysis will be performed on both data sets. A dummy variable indicating firms from Thailand is included in this final model to test the hypothesis on the difference in degrees of corporate disclosure and transparency between firms in Hong Kong and firms in Thailand.

5. Empirical Results

Table 1 shows a comparison of the survey scores for Hong Kong, Thailand, and the pooled sample results, giving an overview of how companies in the two countries compare. For each survey question, the mean, maximum, minimum and difference between country means are shown. For each survey question, Table 1 also includes results of a t-test for the difference between the mean responses from each country. From the results, it is concluded that the degrees of corporate disclosure and transparency for Thailand firms are significantly higher than those for Hong Kong firms. This is inconsistent with the notion that the levels of corporate disclosure and transparency are higher in a more developed market such as Hong Kong, which is perceived to have a better environment for corporate governance.

Insert Table 1 Here

Table 2 presents the descriptive statistics separated by country. From an initial sample of 337 firms in Thailand and 168 Hong Kong companies, firms in the financial services sector were removed from the sample. The remaining sample includes 146 Hong Kong companies and 265 Thai firms. The variable of interest, TRANSP, has a mean of 2.04 for Hong Kong and 2.31 for Thailand. The theoretical maximum and minimum for this variable are three and one, respectively. If firms have transparency and disclosure practices that meet or exceed all international standards, the rating would be three; the poorest practices would be uniformly rated as one.

Insert Table 2 Here

The measures of firm size (SIZE1, SIZE2, and SIZE3) are relatively consistent within a country and comparing between Hong Kong and Thailand. The return measures, gauging firm performance, are comparable as well. On the whole, Hong Kong firms show better financial performance. The mean ROA value is 0.04 and 0.05 for Hong Kong and Thai firms, respectively. When comparing Tobin's Q, the mean for Hong Kong is close to 1, while the mean value for Thai firms is 0.68, perhaps showing that the effects of restructurings in the wake of the 1997 financial crisis may still be influencing investors' expectations of future prospects for Thai companies. Thai firms have a higher average for TURNOVER, with a mean of 0.82 compared with a mean of 0.64 for Hong Kong firms. While Hong Kong firms on average have a greater proportion of net fixed assets (mean of 0.45 for variable FIX versus a mean of 0.36 for Thai firms), Thai firms carry relatively more financial leverage, as measured by DEBT, the ratio of total liabilities to total assets.

Turning next to the ownership concentration variable, the difference between Thai and Hong Kong firms is more stark. As concluded by prior researchers, firm ownership is concentrated for companies in both nations. The mean ownership percentage of the top five shareholders of Hong Kong companies is about 54%, ranging from a high of nearly 99% to a low of 1.1%. Ownership of Thai firms is even more concentrated. The mean ownership percentage of the top five shareholders is almost 68%, ranging from a high of 99.9% to a minimum of 23%.

Board composition is also quite different when comparing the figures from both countries. Though the average board size is nearly the same (a mean of 10.6 directors for Hong Kong versus 11.5 for Thailand), the composition is markedly different. Hong Kong boards have a majority of executive directors on average (mean of 56%, with a high of 85%

and a low of 17%). In contrast, executive directors at Thai firms constitute a much smaller percentage of the board, with an average value of 23%, ranging from a maximum of 67% of the board down to a low of 0%. The mean percentage of independent directors on boards (OUTSIDE) in both countries is identical at 30%. The ranges are similar as well: a maximum of 67% to a minimum of 13% for Hong Kong compared with a 73% and 11% respectively for Thai firms.

The results from the regression analyses are presented in Table 3 to Table 5, with eighteen separate regressions shown. Three separate determinants of firm size (SIZE1, SIZE2, and SIZE3) as well as two separate performance measures (ROA and Q) mean that six models are created for a combined (pooled) sample in addition to each country. Table 3 shows six models for a combined sample of firms from both countries. Results in Table 4 show six models for Hong Kong while Table 5 displays the models for Thailand. The results of the regression models will be first examined by looking at the pooled regressions, then by individual country, followed by a discussion of the cross-country similarities and differences.

Insert Table 3 Here

Firstly, Table 3 shows the results of a pooled regression, combining the Hong Kong and Thailand samples. These regressions include a dummy variable which equals one if the sample firm is from Thailand to test the hypothesis on the difference in degrees of corporate disclosure and transparency between firms in Hong Kong and firms in Thailand. The objective is to compare the levels of corporate disclosure and transparency in Hong Kong and Thailand after controlling for factors associated with the degree of corporate disclosure and transparency. From the results, the coefficient for THAI, the indicator variable for Thai firms, is positive and statistically significant in every pooled regression, showing that there is clearly a difference in the degrees of corporate disclosure and transparency between firms in Hong Kong and firms in Thailand.

The pooled regression results show that all SIZE measures are significant at the one or five percent level in every pooled regression. Of the two performance variables (ROA and Q), only ROA is statistically significant at the ten percent in one pooled regression. Selected variables describing firms' financial characteristics such as sales divided by total assets (TURNOVER) and fixed assets, net of depreciation, divided by total assets (FIX) are statistically significant in several of the pooled regressions, but there is not consistent statistical support to indicate a clear relation between the disclosure and transparency (TRANSP) and these variables. Coefficients for total liabilities divided by total assets (DEBT) and a measure of ownership concentration (CONC) are not significant in any pooled regression. The results for the board characteristics are significant in all the regressions, however. The coefficients for board size (BSIZE) are significant and positive while the coefficients for BEXC, the proportion of executive directors, are negative and significant for every pooled regression. The coefficients for OUTSIDE, the proportion of independent directors, are not significant in any pooled regression. The conclusions from the pooled models are that the level of disclosure and transparency is an increasing function of firm size and the size of the board. Disclosure and transparency is also a decreasing function of the number of executive directors on the board. Lastly, the level of disclosure and transparency is different between Thai and Hong Kong firms.

While the results from the pooled regression show that there is a relation between the level of disclosure and transparency and some of the variables in question, a question remains whether or not the pooled regressions are representative of the results for the individual countries. Given the notable differences with respect to corporate governance and market structure between Thai and Hong Kong firms, are we seeing the whole story? This question can be answered by examining the relation in each country separately.

Insert Table 4 Here

Turning to the individual country regressions, Table 4 shows that the results for Hong Kong are largely consistent across the all models. All models are statistically significant, with values for adjusted R-squared ranging from 23% to 29%. Regression coefficients for all three measures of size are positive and significant at the one percent level in all regressions. The conclusion is that, for Hong Kong firms, the degree of corporate disclosure and transparency is an increasing function of firm size. In other words, large firms tend to disclose more information and have more transparency. Looking next at the measures of firm performance, none of the coefficients for ROA are statistically significant in any regression model. On the other hand, the regression coefficients for Q are statistically significant in two of the three regressions. The results perhaps imply that the degree of corporate disclosure and transparency is not clearly related to accounting performance but related to a market-based measure of expected future performance like Tobin's Q. The coefficients for a measure of asset utilization (TURNOVER) are positive and statistically significant in four of the six regressions, showing that the degree of corporate disclosure and transparency are positively related to a measure of asset utilization. In a similar vein, the coefficients for FIX are positive and statistically significant in every regression. The conclusion is that firms with high values of collateral tend to have high degrees of corporate disclosure and transparency. The coefficients for DEBT, however, tell a slightly different story as none of the coefficients are statistically significant. Overall, it appears that a number of financial variables are indeed related to the degrees of corporate disclosure and transparency for Hong Kong firms.

For governance variables, the results are not as strong as the results for financial variables. For instance, the level of ownership concentration as measured by the percentage of the firm owned by the top five shareholders is not related to disclosure and transparency as the regression coefficients for ownership concentration (CONC) are not statistically significant in any regression. Also, the regression coefficients for board size (BSIZE) are not significant in any regression, leading to the conclusion that the size of the board has no association with the degrees of corporate disclosure and transparency. Further, the regression coefficients for OUTSIDE, the percentage of independent directors, are not significant in any regression for Hong Kong firms. For all regressions for Hong Kong firms, the only variable that exhibits a relation with the degree of corporate disclosure and transparency is the proportion of executive directors represented on the board. The regression coefficients for BEXC, the percentage of executive directors on the board, are negative and statistically significant at least at the ten percent level in every model. The negative coefficients indicate that the degree of disclosure and transparency falls as the percentage of executive directors on the board increases. Firms with executive directors making up a smaller percent of the board have greater disclosure and transparency. The conclusion is that one specific aspect of board composition has an influence on the level of disclosure and transparency by Hong Kong firms.

Insert Table 5 Here

Overall, the empirical results for Thailand shown in Table 5 tell a somewhat different tale. All regressions for Thai firms, across the various firm size and performance measures, are statistically significant, with R-squared values of approximately 7%. In contrast to the findings for Hong Kong, none of the firm size measures are significant in any regression. Further, coefficients for the performance measures (ROA and Q) are not statistically significant in any regression either. Coefficients for the other firm characteristic variables which cover turnover, the level of fixed assets, and leverage (TURNOVER, FIX, and DEBT) are not statistically significant in virtually every regression. The coefficient for DEBT is negative and significant at the ten percent level but only in one regression using Q as the performance measure. The conclusion is that for Thai firms, the degree of corporate disclosure and transparency is independent of size, firm characteristics, and firm performance. In other words, financial characteristics appear to have no association with the degree of corporate disclosure and transparency.

The most interesting results for Thai firms appear when examining the governance variables. Although the regression coefficients for ownership concentration (CONC) are not statistically significant in any regression for Thai firms, the regression coefficients for board size (BSIZE) are positive and statistically significant for every regression for Thai firms. This implies that larger boards have a positive effect on the levels of corporate disclosure and transparency. Further, the regression coefficients for the percentage of executive directors (BEXC) are negative and statistically significant at the one percent level for every regression. The conclusion is that insider-dominated boards are less transparent and less likely to disclose information to outsiders. Lastly, the regression coefficients for the percentage of independent directors (OUTSIDE) are positive and statistically significant at the ten percent level for every regression for Thai firms. A larger concentration of independent directors, therefore, is associated with greater degrees of corporate disclosure and transparency. This finding highlights the benefits of having independent directors on the board of directors, representing all outside investors.

To compare and contrast the findings across both countries, in general, the levels of corporate disclosure and transparency appear to be related to selected financial characteristics of companies in Hong Kong. Specifically, the levels of disclosure and transparency are positively related to measures of firm size, asset utilization, collateral values, and, to some degree, market performance among Hong Kong companies, but not for Thai companies. Interestingly, the accounting performance measure (ROA) does not show a significant association with the levels of disclosure and transparency of firms in either country. It appears that financial variables are more related to the degree of disclosure and transparency in Hong Kong but not in Thailand.

The finding for corporate governance variables provides a different conclusion. Although ownership concentration does not affect the level of disclosure for firms in either country, other corporate governance characteristics show significant association with the degree of corporate disclosure and transparency. For instance, board size seems to have no influence on the level of disclosure and transparency for Hong Kong firms, but a positive influence for Thai firms. Furthermore, board composition has a notable influence in Thailand. For Thai firms, the proportion of independent directors also affects the degree of corporate disclosure and transparency. In other words, more independent directors mean greater levels of disclosure and transparency. By far the most significant finding concerns the presence of executive directors (insiders) on the board in both countries. It is found that the percentage of executive directors on the board positively affects levels of disclosure and transparency. More managers (insiders) on the board mean lower disclosure and less transparency. This finding, observed for both Hong Kong and Thailand firms, is consistent the idea that owner-managers have superior information about firm prospects and are less inclined to share information with outsiders.

Finally, the differences between the pooled regression results and individual country regressions indicate that an examination of the determinants of corporate disclosure and transparency across different economies with different institutional settings may lead to inaccurate conclusion.

6. Conclusions

By examining the degrees of corporate disclosure and transparency of publicly listed companies in Hong Kong and Thailand, this study shows that corporate disclosure practices vary significantly within a market and are clearly a function of specific firm characteristics. While the results from these two emerging markets have some similarities, the differences are quite pronounced. For example, the variation in the degree of corporate disclosure and transparency for Hong Kong firms can be explained by certain financial characteristics, such as firm size. In addition, a market-based financial performance measure such as Tobin's Q can explain the variation in the degree of corporate disclosure and transparency for Hong Kong firms, yet an accounting-based measure like return on assets cannot. In marked contrast, neither financial characteristics nor financial performance measures can conclusively explain any of the variation in the degree of corporate disclosure for firms in Thailand.

Further, some corporate governance characteristics do show a conclusive pattern for both countries. For both Hong Kong and Thailand, the degree of corporate disclosure and transparency decreases as the percentage of executive directors (insiders) on the board increases. This conclusion is consistent with prior studies (La Porta et al 1999; Claessens et al. 2000 and 2002; Lemmon and Lins 2003), which present evidence that for emerging markets, the dominant governance question (agency problem) concerns expropriation of minority shareholders at the hands of the controlling owners. This governance question is especially relevant given the concentrated, family-dominated ownership structures observed in both Hong Kong and Thailand firms.

For other governance characteristics of Hong Kong firms, other board characteristics such as board size and the percentage of independent directors cannot explain the variation in the degree of corporate disclosure. In sharp contrast, those corporate governance characteristics do explain much of the variation for firms in Thailand. Specifically, board size and the percentage of independent directors show significant positive associations with the degree of corporate disclosure in Thailand.

One tentative conclusion is that for a more developed capital market like Hong Kong, there seems to be some association between financial and performance measures and corporate governance devices. A more developed capital market will carry with it the attendant financial infrastructure, a more sophisticated investor base, broader analyst coverage, as well as effective and tested legal, regulatory, and enforcement regimes. An emerging market that is less developed, like Thailand, may not have all of the support mechanisms required and must rely on different, visible mechanism to enhance the degree of corporate disclosure and transparency. In less-developed markets, the composition and role of the board of directors becomes paramount in protecting the interests of shareholders and enhancing corporate governance practices. The results are broadly consistent with the notion that good corporate governance leads to better corporate disclosure and transparency in less developed markets. Finally, the results from this study suggest that aggregate investigation of disclosure practices across different economies with different institutional settings may distort the conclusions.

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Appendix – Thai Institute of Director (IOD)'s Survey Instrument

Question Number	Survey Question
	Section A -- Rights of Shareholders
A.1	Does the company offer other ownership rights beyond voting (such as share repurchases or dividends)?
A.2*	Is the decision on the remuneration of board members or executives approved by the shareholders annually?
A.3*	How is the remuneration of the board presented?
A.4*	Assess the content and quality of the notice to call the shareholders meeting (such as appointments of directors, auditors).
A.5	Did the Chairman of the Board attend at least one of the last two AGMs?
A.6*	Did the CEO/Managing Director attend at least one of the last two AGMs, including a list of board attendance?
A.7*	Do AGM minutes record that there was an opportunity for shareholders to ask questions/ raise issues in the past one year?
A.8	Does the company have anti-takeover defenses such as board ownership, cross- or pyramid shareholding?
	Section B -- Equitable Treatment of Shareholders
B.1	Does the company offer one-share, one-vote?
B.2	Is there any mechanism to allow minority shareholders to influence board composition?
B.3	Have there been any cases of insider trading involving company directors and management in the past two years?
B.4*	Does the company provide rationales/explanations for related-party transactions affecting the corporation?
B.5	Is the company a part of an economic group where the parent/controlling shareholder also controls key suppliers, customers, and/or similar businesses?
B.6*	Has there been any non-compliance case regarding related-party transactions in the past two years?
B.7*	Does the company facilitate voting by proxy?
B.8*	Does the notice to shareholders specify the documents and/or notarization required to give proxy?
B.9*	How many days in advance does the company send out the notice of general shareholder meetings?
	Section C -- The Role of Stakeholders in Corporate Governance
C.1*	Does the company explicitly mention the safety and welfare of its employees?
C.2*	Does the company explicitly mention the role of key stakeholders such as customers or the community at large (or creditors or suppliers)?
C.3*	Does the company explicitly mention environmental issues in its public communications?
C.4	Does the company provide an ESOP (employee share option program), or other long-term employee incentive plan linked to shareholder value creation, to employees?

* Denote items that are being used in this study.

Question Number	Survey Question
	Section D -- Disclosure and Transparency
D.1*	Does the company have a transparent ownership structure?
D.2	Does the company have a dispersed ownership structure?
D.3	Is the company's actual ownership structure obscured by cross-shareholdings?
D.4*	Assess the quality of the annual report (financial performance, board members and compensation, etc.).
D.5*	Is there any statement requesting the directors to report their transactions of company stock?
D.6	Does the company use an internationally recognized accounting standard?
D.7*	Does the company have an internal audit operation established as a separate unit in the company?
D.8*	Does the company perform an annual audit using independent and reputable auditors?
D.9*	Are there any accounting qualifications in the audited financial statements apart from the qualification on Uncertainty of Situation?
D.10*	Does the company offer multiple channels of access to information? (annual report, website, press and analyst briefings)?
D.11	Is the financial report disclosed in a timely manner?
D.12*	Does the company have a website, disclosing up-to-date information?
	Section E -- Responsibilities of the Board
E1.1*	Does the company have its own written corporate governance rules?
E1.2*	Does the board of directors provide a code of ethics or statement of business conduct for all directors and employees?
E1.3*	Does the company have a corporate vision/mission?
E.2	Does the regulatory agency have any evidence of the firm's non-compliance with rules and regulations over the last three years?
E.3*	Assess the quality and content of the Audit Committee Report in the annual report.
E.4	Have board members participated in the Institute of Directors (or equivalent) training on corporate governance?
E.5	How many board meetings are held per year?
E.6	Is the chairman an independent director? Is the chairman also the CEO?
E.7	Does the company have an option scheme which incentivizes top management?
E.8	Does the board appoint independent committees with independent members to carry out various critical responsibilities such as: audit, compensation and director nomination?
E.9	What is the size of the board?
E.10	How many board members are non-executive directors?
E.11*	Does company state in its annual report the definition of 'independence'?
E.12	Among directors, how many are independent directors?
E.13*	Does the company provide contact details for a specific investor relations person?
E.14*	Does the company have a board of directors report?
E.15	Do the company provide training to directors (including executive and nonexecutive directors)?

* Denote items that are being used in this study.

Table 1
Corporate Disclosure and Transparency Scores

This table presents descriptive statistics for corporate disclosure and transparency scores. The scores are calculated based on the subset of questions extracted from the full survey instrument developed by the Thai Institute of Director Association (IOD). The sample consists of 148 Hong Kong companies and 265 Thai companies. The survey uses the general classification according to the OECD Corporate Governance Principles. RIGHT is protection of the rights of shareholders; TREAT measures equal treatment of all shareholders; STAKE is the role of stakeholders in corporate governance; DISC measures the extent of disclosure and transparency; BOARD is the role of the board of directors; and TRANSP is an overall index of corporate disclosure and transparency. Statistically significant differences at the 1, 5, and 10 percent levels are denoted by ***, ** and * respectively.

	Pooled Sample	Hong Kong			Thailand			
	Mean	Mean	Min	Max	Mean	Min	Max	Difference
A.2	2.42	2.54	1	3	2.36	1	3	0.18 *
A.3	1.84	1.97	1	3	1.76	1	3	0.20 ***
A.4	1.87	1.17	1	2.33	2.26	1	3	-1.09 ***
A.6	1.20	2.56	1	3	1.15	1	3	1.40 ***
A.7	2.87	1.60	1	3	2.92	1	3	-1.32 ***
RIGHT	**2.06**	**1.61**	**1.0**	**2.44**	**2.31**	**1.11**	**3.0**	**-0.70** ***
B.4	2.77	2.56	1	3	2.88	1	3	-0.32 ***
B.6	3.00	3.00	3	3	3.00	3	3	0.00
B.7	2.99	3.00	3	3	2.98	1	3	0.02
B.8	2.26	2.61	1	3	2.07	1	3	0.54 ***
B.9	2.38	2.96	2	3	2.06	1	3	0.90 ***
TREAT	**2.68**	**2.83**	**2.2**	**3.0**	**2.60**	**1.8**	**3.0**	**0.23** ***
C.1	2.12	2.25	1	3	2.06	1	3	0.19 ***
C.2	2.16	2.28	1	3	2.10	1	3	0.18 ***
C.3	1.84	1.50	1	3	2.05	1	3	-0.55 ***
STAKE	**2.05**	**2.01**	**1.33**	**3**	**2.07**	**1**	**3**	**-0.06**
D.1	2.27	1.75	1	2.5	2.57	1.5	3	-0.82 ***
D.4	2.45	2.48	1.8	3	2.44	1.4	3	0.04
D.5	1.64	1.85	1	3	1.52	1	3	0.33 ***
D.7	2.13	1.58	1	3	2.44	1	3	-0.86 ***
D.8	2.99	3.00	3	3	2.99	2	3	0.01
D.9	2.77	3.00	3	3	2.65	2	3	0.35 ***
D.10	1.99	2.10	1.5	3	1.93	1.5	2.5	0.17 ***
D.12	1.86	2.19	1	3	1.68	1	3	0.51 ***
DISC	**2.32**	**2.21**	**1.83**	**2.77**	**2.38**	**1.76**	**2.77**	**-0.17** ***
E.1_1	1.90	1.32	1	3	2.22	1	3	-0.90 ***
E.1_2	2.05	1.27	1	3	2.48	1	3	-1.21 ***
E.1_3	1.70	1.77	1	3	1.66	1	3	0.11
E.3	2.09	1.57	1	2.14	2.29	1	3	-0.72 ***
E.11	1.00	1.00	1	1	1.0	1	1	0.00
E.13	1.99	1.64	1	3	2.19	1	3	-0.55 ***
E.14	2.03	3.00	3	3	1.48	1	3	1.52 ***
BOARD	**1.92**	**1.61**	**1.15**	**2.38**	**2.08**	**1.08**	**2.85**	**-0.47** ***
TRANSP	**2.21**	**2.04**	**1.72**	**2.65**	**2.31**	**1.71**	**2.78**	**-0.26** ***

Table 2
Descriptive Statistics

This table presents descriptive statistics for the variables used in the regression models. The sample consists of firms from Thailand (265 companies) and Hong Kong (146 companies) during 2002. Financial services firms are excluded from both country samples. Financial data are obtained from *Datastream*, published by Thomson Financial. TRANSP is a index of disclosure and transparency, constructed from corporate governance surveys conducted in both Thailand and Hong Kong. SIZE1 is the natural logarithm of total assets; SIZE2 is the natural logarithm of sales; and SIZE3 is the logarithm of market value, defined as price per share times number of shares outstanding at the end of 2002. ROA is net income divided by total assets and Q is the sum of market value and long-term debt divided by total assets. TURNOVER is sales divided by total assets. FIX is the amount of fixed assets, net of depreciation, divided by total assets. DEBT is total liabilities divided by total assets. CONC is a measure of ownership concentration, representing the percentage of outstanding shares owned by the top five shareholders. BSIZE is the size of the board of directors and BEXC is the percentage of the board that is made up of executive (inside) directors. OUTSIDE is percentage of the board that is made up of independent directors.

	Hong Kong			**Thailand**		
Variable	**Mean**	**SD**	**Median**	**Mean**	**SD**	**Median**
TRANSP	2.04 (169.85)	0.15	2.02	2.31 (195.43)	0.19	2.33
SIZE1	16.07 (126.05)	1.54	15.98	14.92 (155.58)	1.56	14.60
SIZE2	15.06 (126.29)	1.44	14.79	14.37 (154.12)	1.52	14.37
SIZE3	15.50 (129.76)	1.44	15.29	14.03 (144.35)	1.57	14.00
ROA	0.04 (5.49)	0.10	0.05	0.05 (10.26)	0.08	0.05
Q	0.93 (15.71)	0.71	0.70	0.68 (22.54)	0.48	0.56
TURNOVER	0.64 (10.60)	0.73	0.39	0.82 (22.64)	0.59	0.73
FIX	0.45 (20.91)	0.26	0.43	0.36 (23.06)	0.25	0.34
DEBT	0.36 (26.04)	0.16	0.34	0.47 (31.27)	0.24	0.46
CONC	54.34 (35.98)	18.25	56.74	67.79 (61.78)	17.86	69.65
BSIZE	10.58 (37.32)	3.42	10.00	11.50 (58.20)	3.22	11.00
BEXC	0.56 (41.46)	0.16	0.57	0.23 (25.85)	0.14	0.20
OUTSIDE	0.30 (34.62)	0.10	0.29	0.30 (55.53)	0.09	0.29

Table 3
Pooled Regression Results

This table presents regression results for Hong Kong firms and for Thailand firms from pooled regression analyses. The sample consists of companies listed on the Stock Exchange of Thailand (262 companies) and Hong Kong Stock Exchange (143 companies) during 2002, excluding firms in the financial services sector. Financial data are obtained from *Datastream*, published by Thomson Financial, for both Hong Kong and Thailand. Additional financial data for Thai firms are obtained from the Stock Exchange of Thailand. The dependent variable is TRANSP, an index of disclosure and transparency constructed from corporate governance surveys conducted in both Thailand and Hong Kong. SIZE1 is the natural logarithm of total assets; SIZE2 is the natural logarithm of sales; and SIZE3 is the logarithm of market value, defined as price per share times number of shares outstanding at the end of 2002. ROA is net income divided by total assets and Q is the sum of market value and long-term debt divided by total assets. TURNOVER is sales divided by total assets. FIX is the amount of fixed assets, net of depreciation, divided by total assets. DEBT is total liabilities divided by total assets. CONC is a measure of ownership concentration, representing the percentage of outstanding shares owned by the top five shareholders. BSIZE is the size of the board of directors and BEXC is the percentage of the board that is made up of executive (inside) directors. OUTSIDE is percentage of the board that is made up of independent directors. t-statistics are shown in parentheses. Statistical significance at the 1, 5, and 10 percent levels are denoted by ***, ** and * respectively.

	A1	**A2**	**A3**	**A4**	**A5**	**A6**
INTERCEPT	1.714 *** (14.68)	1.725 *** (15.67)	1.765 *** (15.60)	1.676 *** (14.28)	1.694 *** (15.31)	1.734 *** (15.49)
SIZE1	0.017 *** (2.60)	-	-	0.019 *** (3.13)	-	-
SIZE2	-	0.018 *** (2.78)	-	-	0.021 *** (3.29)	-
SIZE3	-	-	0.013 ** (2.13)	-	-	0.016 *** (2.69)
ROA	0.187 * (1.70)	0.178 (1.61)	0.167 (1.45)	-	-	-
Tobin's Q	-	-	-	0.014 (1.02)	0.013 (0.93)	0.0001 (0.01)
TURNOVER	0.020 (1.40)	-0.004 (-0.26)	0.013 (0.96)	0.024 * (1.73)	-0.003 (-0.22)	0.019 (1.37)
FIX	0.045 (1.35)	0.035 (1.05)	0.045 * (1.33)	0.049 * (1.46)	0.037 (1.11)	0.047 (1.39)
DEBT	-0.044 (-0.99)	-0.039 (-0.91)	-0.007 (-0.18)	-0.061 (-1.44)	-0.055 (-1.33)	-0.027 (-0.67)
CONC	0.0003 (0.73)	0.0003 (0.74)	0.0004 (0.86)	0.0004 (0.83)	0.0004 (0.82)	0.0004 (0.85)
BSIZE	0.010 ** (3.02)	0.010 *** (3.03)	0.010 *** (3.14)	0.009 *** (2.87)	0.009 *** (2.89)	0.010 *** (2.95)
BEXC	-0.204 *** (-3.65)	-0.206 *** (-3.69)	-0.203 *** (-3.62)	-0.199 *** (-3.54)	-0.202 *** (-3.59)	-0.203 *** (-3.59)
OUTSIDE	0.083 (0.75)	0.087 (0.79)	0.086 (0.77)	0.054 (0.49)	0.061 (0.55)	0.068 (0.61)
THAI	0.204 *** (7.18)	0.200 *** (7.19)	0.200 *** (7.01)	0.215 *** (7.57)	0.209 *** (7.52)	0.208 *** (7.40)
Adjusted R^2	0.398	0.412	0.394	0.395	0.396	0.391
F-value	27.67 ***	27.82 ***	27.29 ***	27.35 ***	27.53 ***	26.93 ***
N	405	405	405	405	405	405

Table 4
Regression Results for Hong Kong Firms

This table presents regression results for Hong Kong firms. The sample consists of firms listed on the Hong Kong Stock Exchange (142 companies) during 2002, excluding firms in the financial services sector. Financial data are obtained from *Datastream*, published by Thomson Financial. The dependent variable is TRANSP, an index of disclosure and transparency constructed from corporate governance surveys conducted in both Thailand and Hong Kong. SIZE1 is the natural logarithm of total assets; SIZE2 is the natural logarithm of sales; and SIZE3 is the logarithm of market value, defined as price per share times number of shares outstanding at the end of 2002. ROA is net income divided by total assets and Q is the sum of market value and long-term debt divided by total assets. TURNOVER is sales divided by total assets. FIX is the amount of fixed assets, net of depreciation, divided by total assets. DEBT is total liabilities divided by total assets. CONC is a measure of ownership concentration, representing the percentage of outstanding shares owned by the top five shareholders. BSIZE is the size of the board of directors and BEXC is the percentage of the board that is made up of executive (inside) directors. OUTSIDE is percentage of the board that is made up of independent directors. t-statistics are shown in parentheses. Statistical significance at the 1, 5, and 10 percent levels are denoted by ***, ** and * respectively.

	B1	**B2**	**B3**	**B4**	**B5**	**B6**
INTERCEPT	1.480 (10.47) ***	1.460 (11.26) ***	1.356 (9.99) ***	1.380 (9.67) ***	1.371 (10.54) ***	1.353 (10.26) ***
SIZE1	0.032 *** (3.24)	-	-	0.036 *** (3.78)	-	-
SIZE2	-	0.040 *** (4.02)	-	-	0.042 *** (4.61)	-
SIZE3	-	-	0.009 *** (4.66)	-	-	0.043 *** (4.65)
ROA	0.122 (0.97)	0.066 (0.53)	0.007 (0.05)	-	-	-
Tobin's Q	-	-	-	0.038 ** (2.15)	0.038 ** (2.21)	-0.0002 (-0.01)
TURNOVER	0.053 *** (2.90)	0.009 (0.53)	0.037 ** (2.25)	0.044 ** (2.44)	-0.006 (-0.32)	0.037 ** (2.17)
FIX	0.119 ** (2.55)	0.094 ** (2.01)	0.111 ** (0.2.49)	0.121 *** (2.63)	0.094 ** (2.03)	0.111 ** (0.2.47)
DEBT	0.015 (0.20)	-0.011 (-0.16)	0.072 (1.08)	0.032 (0.46)	0.017 (0.24)	0.071 (1.05)
CONC	0.0006 (1.03)	0.0006 (1.00)	0.0009 (1.58)	0.0010 (1.54)	0.0010 (1.54)	0.0009 (1.50)
BSIZE	0.0007 (0.15)	0.001 (0.28)	-0.001 (-0.27)	0.0006 (0.13)	0.001 (0.33)	-0.001 (-0.28)
BEXC	-0.141 ** (-2.02)	-0.153 ** (-2.23)	-0.135 ** (-2.00)	-0.130 * (-1.88)	-0.141 ** (-2.10)	-0.135 ** (-2.00)
OUTSIDE	-0.072 (-0.53)	-0.065 (-0.50)	-0.136 (-1.04)	-0.119 (-0.90)	-0.098 (-0.78)	-0.138 (-1.08)
Adjusted R^2	0.229	0.259	0.286	0.250	0.284	0.286
F-value	5.66 ***	6.47 ***	7.27 ***	6.22 ***	7.20 ***	7.26 ***
N	142	142	142	142	142	142

Table 5
Regression Results for Thai Firms

This table presents regression results for companies listed on the Stock Exchange of Thailand. The sample consists of 262 companies listed in 2002, excluding firms in the financial services sector. Financial data are obtained from *Datastream*, published by Thomson Financial. Additional financial data for Thai firms are obtained from the Stock Exchange of Thailand. The dependent variable is TRANSP, an index of disclosure and transparency constructed from corporate governance surveys conducted in both Thailand and Hong Kong. SIZE1 is the natural logarithm of total assets; SIZE2 is the natural logarithm of sales; and SIZE3 is the logarithm of market value, defined as price per share times number of shares outstanding at the end of 2002. ROA is net income divided by total assets and Q is the sum of market value and long-term debt divided by total assets. TURNOVER is sales divided by total assets. FIX is the amount of fixed assets, net of depreciation, divided by total assets. DEBT is total liabilities divided by total assets. CONC is a measure of ownership concentration, representing the percentage of outstanding shares owned by the top five shareholders. BSIZE is the size of the board of directors and BEXC is the percentage of the board that is made up of executive (inside) directors. OUTSIDE is percentage of the board that is made up of independent directors. t-statistics are shown in parentheses. Statistical significance at the 1, 5, and 10 percent levels are denoted by ***, ** and * respectively.

	C1	C2	C3	C4	C5	C6
INTERCEPT	1.928 *** (11.46)	1.979 *** (12.52)	2.056 *** (13.16)	1.923 *** (11.41)	1.979 *** (12.48)	2.044 *** (12.81)
SIZE1	0.013 (1.52)	-	-	0.015 * (1.74)	-	-
SIZE2	-	0.011 (1.25)	-	-	0.013 (1.46)	-
SIZE3	-	-	0.004 (0.54)	-	-	0.007 (0.85)
ROA	0.200 (1.19)	0.211 (1.26)	0.224 (1.27)	-	-	-
Tobin's Q	-	-	-	0.010 (0.40)	0.010 (0.38)	0.006 (0.22)
TURNOVER	-0.0005 (-0.02)	-0.017 (-0.79)	-0.006 (-0.27)	0.005 (0.23)	-0.014 (-0.65)	0.0001 (0.01)
FIX	0.003 (0.06)	-0.005 (-0.10)	-0.004 (-0.09)	0.004 (0.08)	-0.005 (-0.10)	-0.003 (-0.06)
DEBT	-0.075 (-1.30)	-0.061 (-1.10)	-0.038 (-0.74)	-0.094 * (-1.67)	-0.081 (-1.47)	-0.059 (-1.14)
CONC	-0.0001 (-0.25)	-0.0002 (-0.26)	-0.0002 (-0.31)	-0.0002 (-0.31)	-0.0002 (-0.32)	-0.0002 (-0.37)
BSIZE	0.016 *** (3.30)	0.016 *** (3.24)	0.016 *** (3.26)	0.015 *** (3.16)	0.015 *** (3.09)	0.015 *** (3.11)
BEXC	-0.251 *** (-3.08)	-0.251 *** (-3.08)	-0.254 *** (-3.10)	-0.255 *** (-3.11)	-0.255 *** (-3.11)	-0.259 *** (-3.15)
OUTSIDE	0.299 * (1.74)	0.295 * (1.72)	0.296 * (1.71)	0.292 * (1.69)	0.289 * (1.67)	0.290 * (1.67)
Adjusted R^2	0.078	0.075	0.071	0.074	0.070	0.065
F-value	3.47 ***	3.37 ***	3.22 ***	3.31 ***	3.20 ***	3.02 ***
N	262	262	262	262	262	262