

Corporate Governance and Financial Performance: A Comparative Study of South East Asia's Hospitality Industries

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ABSTRACT

The aim of this research is to examine financial performance of hospitality companies from Indonesian, Malaysia, and Thailand. This research also examines the relationship between two aspects of corporate governance, i.e. transparency and independence, and financial performance. Transparency is proxied by environmental disclosure and social disclosure, while independence is identified by the proportion of independent board commissioner and proportion of audit committee independence. The population of this research covers secondary data from Hospitality Company annual reports in 2012-2014 obtain through Indonesia Stock Exchange (IDX), Bursa Malaysia and The Stock Exchange of Thailand (SET). The sample of this research contains 72 hospitality companies in Indonesia, Malaysia, and Thailand that generated using purposive sampling method. The result shows that there are no differences in the financial performance between hospitality companies in Indonesia, Malaysia, and Thailand. Multiple regression analysis shows mixed results. Environmental disclosure and social disclosure both have a significant effect on financial performance. However, the proportion of independent commissioner has no significant effect on financial performance. On the other hand, the proportion of audit committee independence significantly affects financial performance.

Keywords: Corporate governance, financial performance, transparency, independency, environmental disclosure, social disclosure, independent board commissioner, audit committee independence

1. INTRODUCTION

Financial performance is one of the factors that are prioritized in the assessment of the company's stakeholders (Zulfikar et al., 2017). In the hospitality sector, companies also need to expand their hotel functions along with fundamental changes that occur in various aspects of life. The issues concerning about financial performance of hospitality companies are not widely reported in media. Nevertheless, a hospitality company's financial performance can still be observed from the statistics received and the level of occupancy it acquired. A page in www.economy.okezone.com (2013) mentioned that hotels' occupancy rate in Jakarta

decreased by 11.5%. The same page also mentioned that the hotel occupancy rate in Kuala Lumpur, Malaysia, has showed a reduction of 11.2%. Issues regarding about financial performance of hospitality companies also occurred in Thailand. In 2014, on <http://www.establishmentpost.com> site revealed that Thailand's revenues fell by 10% in the tourism sector where the hospitality industry included.

Research on the financial performance of the hospitality industry has been done in various countries. There are several perspectives stated by each researcher. The research on financial performance of the hospitality companies by Azorin et al (2009), Jarboui (2015), Haniffa and Hudaib (2006), and Priya and Nimalathasan (2013). The research's result of Azorin et al (2009) show that environmental revelation, as a form of transparency, affects companies' financial performance. Meanwhile, three other studies that evaluate the effect on the company's independence financial performance also show conclusive results. Several previous studies that debate the similar topic of problems to this study use various independent variables. Partially using the component of corporate governance that's faced with the company's financial performance measurement.

However, the independent variables such studies do not focus on one aspect of corporate governance. Thus, this study is conducted by focusing the research's independent variable on two aspects of corporate governance that are transparency and independence. The principle of transparency is essentially intended to maintain objectivity in running businesses. Companies must distribute material and relevant information in a way that is easily accessible and understandable by stakeholders (KNKG, 2006). In the meantime, the principle of independence refers to the management of a company that is not dominating and intervening thus decisions can be made objectively (KNKG, 2006).

Another visible difference between this study and previous research is related to the scope of the research areas where the previous studies conducted on hospitality companies within one country territory. While this research is a comparative study comparing four countries in Southeast Asia namely Indonesia, Malaysia, and Thailand. This study contributes to the development of science, especially in the field of accounting related to corporate governance in the country of Indonesia, Malaysia, and Thailand. In practice, this study can be used as a consideration by stakeholders to assess the performance of the company from a diverse perspective, which is in terms of its governance. Based on the above explanation, this research will focus on comparing financial performance among the countries studied and the effect of corporate governance related to the aspects of transparency and independence on the financial performance of the pertinent company.

2. THEORETICAL REVIEW

Corporate Governance

Monks and Minow (2011) define corporate governance as a relationship between the various parties (CEO, management, stakeholders, and employees) to affect the direction and performance of a company. OECD (2004) proposed five pillars for good corporate governance. Those pillars are: Fairness, Transparency, Accountability, Responsibility, and independency. Such pillars provide a better understanding of corporate governance and its role.

A survey by ACGA (2012) shows that corporate governance sustains an in-line relationship with market performance. Companies that shows good market performance were

supported by good corporate governance, vice versa. Consequently, it is crucial for a company to pay attention to its governance from various aspects.

Financial performance

Financial performance projects of how effective and efficient a company persist in its efforts to accomplish their financial goals (Bidhari, 2013). The financial goals mentioned, which believed by some researchers, is also impacted by the companies' non-financial performance. This study uses Return on Assets (ROA) ratio in measuring the financial performance of a company. ROA is an indication of management ability to manage assets to increase revenue or reduce costs. In this case, ROA measurement is precise if financial performance is associated with corporate governance. It is because corporate governance indicates the management of a company. Yet there is no finding in a study regarding the financial performance of hospitality companies in Indonesia, Malaysia and Thailand. Therefore, in composing hypotheses about the comparison of the financial performance in the three countries, this study follows the survey results conducted by several polling organizations. A survey by Hortwath (2015) shows 4% profit decrease in 2014 for the hospitality industries in Thailand. However, the opposite condition in Malaysia. Malaysian hospitality industries statistics shows an increase by 9.7%. Based on the statistical results, the hypothesis can be structured as follows:

H1. There is a different level of financial performance in the hospitality company in the country of Indonesia, Malaysia, and Thailand.

Environmental disclosure

Environmental disclosure is one of social responsibility disclosure component. Environmental disclosure aims to gain attention, support, and trust from the public in order that the company can continue to operate (Brown and Deegan, 1998). In composing the first hypothesis, researchers follow the previous research of Azorin et al (2009) and Moreno et al (2007) in which the two studies' find that environmental-based activities done by the company give a positive effect on financial performance. For the second hypothesis is:

H2. Environmental disclosure has a positive effect on the financial performance

Social disclosure

Social disclosure is a tools to show companies' activities that related to its social disclosure (Patten, 1991). Furthermore, social disclosure is more affected by public pressure than the number of profitability. Public pressure is a public cumulative assessment towards company. The public opinion will determine how well the reputation of a company (Fombrun and shaley, 1990). Lee and Park (2009) has examined the relationship between social disclosure and financial performance. In their study, they find a positive relationship between social disclosure and financial performance for the hospitality companies. Based on these studies the hypothesis drawn up is:

H3. There is a positive effect of social disclosure on the financial performance

Independent Commissioner

Independent Commissioner in Indonesia, according to the Indonesian Corporate governance Statue known as Pedoman Umum GCG Indonesia, (2006), is someone who does not come from the affiliated parties. Furthermore, the number of independent commissioner should be able to ensure that the monitoring mechanism works effectively and appropriately under legislation. This principle is also in accordance with the corporate governance guidelines in Malaysia and Thailand which requires the exact proportion of board of commissioners on its public company. The relationship between independent commissioners' proportion and financial performance previously has been examined by Jarboui et al (2015). This study used hospitality companies in Tunisia as its research object and the result shows that the proportion of independent commissioner only positively associated with the level of efficiency of the company, and is not directly affects the financial performance. Zahra and Pearce (1989) also examined the relationship between the board of commissioner composition and financial performance. This is in line with legalistic approach which states that the board of commissioner composition does not affect the company's performance directly. Based on the findings of these previous studies the hypothesis that can be set is:

H4. The proportion of independent commissioner has no effect on financial performance

Independent Audit Committee

The audit committee is an entity established by the commissioner to audit companies' operation and condition in which the established entity is in charge of selecting and assessing company's performance (Siegel et al., 1996). Similar to the board of commissioner, the audit committee also has several independent members. The existence of an independent audit committee is considered to facilitate management oversight objectively and without too much negotiation (Wang and Huynh, 2013). In their study also found that independent audit committees positively connected to financial performance. The existence of an independent audit committee is believed to reduce company's agency costs, thus the financial performance increased. Another opinion came from Chang and Li (2008) where the relationship between the independent audit committee and financial performance in their studies based on the assumption that the more independent audit committee, the better company's performance is because dual position can be minimized. Based on these findings, hypothesis proposed as follow:

H5. There is a positive effect of the independent audit committee proportion to financial performance.

3. RESEARCH METHODS

Population and Sample

In this study, the population is the hospitality companies listed in Indonesia Stock Exchange (IDX), the Kuala Lumpur Stock Exchange (KLSE), and The Stock Exchange of Thailand (SET) in the period of 2011-2014. From the companies' 38th annual report, the number of population is 152. The reason for choosing hospitality companies as the study population is because of the hospitality industry development is in line with the promotion of tourism sector improvement in Indonesia, Malaysia, and Thailand. Meanwhile, the year of 2011-2014 are selected because of the demand for actual research.

The first stage is to determine the number of samples using Slovin formula. With this formula, it has obtained a total sample of 144 samples. Then in the second stage, the samples are eliminated through purposive sampling method, this method is done by taking a sample based on the specific criteria that relevant with the purpose of research (Sekaran and Bougie, 2013). This method gives a total sample of 72 annual reports as result, consisting of 24 samples from six companies in Malaysia, 24 samples of 6 companies in Thailand and 24 samples from six companies in Indonesia.

This study uses a single dependent variable and four independent variables that are parts of the two aspects of corporate governance: transparency and independence. Environmental disclosure and social disclosure is a proxy of transparency. In this study, financial performance represented on Return on Assets (ROA) ratio. ROA ratio indicates that the use of assets effectively as a form of support for the shareholders' economic interests (Haniffa and Hudaib, 2006). The environmental disclosure is measured by the items listed on the GRI version 3.1. (Appendix 1) The disclosure will be measured with a dichotomous approach where disclosure items in each category rated 1 if disclosed, and valued 0 if it is not disclosed. Both environmental and social disclosure are using the GRI version 3.1 (Appendix 2) for measurement. Similar to the environmental disclosure, the social disclosure also using the dichotomous approach which the disclosure item in each category rated 1 if disclosed, and valued 0 if it is not disclosed. Meanwhile the independent commissioner measurement is by comparing the number of the independent commissioner and the overall commissioners in the company, and the independent commissioner is no different, an independent audit committee proportion is also measured by how many independent audit committee compared to the company's audit committee total numbers.

4. RESULTS

This research use One Way ANOVA to find the relationship and interaction between the dependent variable and independent variable (Ghozali, 2011). Based on Table 1 above, the difference of ROA level that shown in the mean difference column between Indonesia and Thailand is -0.046 and significant with a p-value of 0.000. Mean difference between Indonesia and Malaysia is 0.030 and significant with p-value of 0.017. While the mean difference between Thailand and Malaysia was 0.046 and significant with p-value of 0.000.

Table 1 Result of ANOVA test

Multiple comparisons					
Dependent variable: ROA					
	(I) Country	(J) Country	Mean difference (I-J)	Std. error	p-value
Games- Howell	Indonesia	Malaysia	-,01565083	,0125	,215
		Thailand	-,04635833*	,0125	,000
	Malaysia	Thailand	,01565083	,0125	,215
		Indonesia	-,03070750*	,0125	,017
	Thailand	Malaysia	,04635833*	,0125	,000
		Indonesia	,03070750*	,0125	,017

Note: (*, **, ***) Significant at 10%, 5%, 1%.

The comparison of the test results above become evident that there are different levels of ROA in Southeast Asia, namely Indonesia, Malaysia, and Thailand. Thus, the conclusion is that the first hypothesis (H1), which states that there are differences on social disclosure of hospitality companies in Indonesia, Malaysia, and Thailand, is supported.

Multiple regression analysis aims to examine the effect of the independent variable on the dependent variable. Multiple linear regression analysis is performed by measuring the goodness of fit in the regression model, to assess the accuracy of the regression sample function in speculating the actual value.

Table 2 Results of Regressions Test

Variable	Coefficient	T	Sig
(Constant)	-,068	-2,464	,016
Environmental disclosure	,216	2,296	,025 **
Social Disclosure	,278	2,170	,034 **
Independent Commissioner	-,038	-,967	,337
Independent Audit Committee	,029	1,731	,088
R Square	,358		
Adjusted R Square	,320		
F	9,359		
Sig	,000		

Note: (*, **, ***) Significant at 10%, 5%, 1%.

The regression model used in this study is fit, because F value of 9.359 with 0.000 significance is qualified to be a good overall model fit of regression model, thus that the model can be used to predict the effect of Corporate Governance or four independent variables simultaneously on ROA. The 32% Adjusted value of R Square represents the effect of independent variables on the dependent variable, while another 68% is explained by another variable outside the model.

The testing of the second hypothesis that shown in Table 2 on environmental disclosure variable shows the significant value of 0.025 and a coefficient of 0.216, which means that there is a positive significant impact given by the environmental disclosure variable to ROA. This result means the second hypothesis, which states that there is a positive influence of environmental disclosure on financial performance, is supported. This analysis' results are consistent with the research of Azorin et al (2009), Nor et al (2016) and Moreno et al (2007). The results of three studies mentioned implied that companies disclose environmental information in order to get a better response from stakeholders and gain superiority in the market.

The third hypothesis testing is shown in Table 2; it shows that the social disclosure variables has a significant value of 0.034 and a coefficient of 0.278. This means that there is a positive significant impact of social disclosure on ROA. In conclusion, the third hypothesis, which states that there is a positive effect of social disclosure on financial performance is supported. A similar result also has been found by Lee and Park (2009) in their study. This positive result based on the assumption that the hospitality companies is better known by the public thus, in order to make people believe that the company's operation will not give them negative effects, it needs an assurance.

The fourth hypothesis testing presented in Table 2 shows that the variable proportion of independent commissioner has an insignificant value of 0.337, this means that the proportion of independent commissioner, has no effect on ROA. Based on this discovering, the fourth hypothesis' statement, which states that there is no effect of independent commissioner on the financial performance is acceptable. This result is consistent with a research conducted by Zahra and Pearce (1989). The argument is based on the role of a commissioner to oversee the management, where the commissioner does not have an active role in the preparation of strategy and policy development in fulfilling a company's financial performance target.

The fifth hypothesis testing presented in Table 2 shows that the variable proportion of independent audit committee indicate a significant value of 0.088 with a -0.029 coefficient, this means that there is no influence of independent audit committee proportion on ROA. Based on this finding, the fifth hypothesis statement, which said that the proportion of independent audit committee has a positive effect on financial performance, is not-supported. This finding is inconsistent with. Wang and Huynh research (2013). However, it supports the research of Ali et al (2012). In their study, an independent audit committee is considered as may not be able to run a role that can improve the company's financial performance.

5. CONCLUSION AND SUGGESTION

This study is conducted to examine the financial performance level comparison of hospitality companies in Indonesia, Malaysia, and Thailand. This study also examines the effect of two aspects of corporate governance: transparency and independence that is represented through environmental disclosure, social disclosure, the proportion of independent commissioner and independent audit committees on the financial performance projected on ROA of the hospitality companies that listed in stock exchanges of each country in 2011- 2014. Based on the ANOVA test, it is found that the ROA level of hospitality companies in the four countries are differ significantly. Then, the multiple linear analysis tests result shows that the hospitality companies' financial performance in these four countries is significantly affected by the environmental and social disclosure as a proxy of corporate governance's transparency aspects. Therefore, the more transparent a company in reporting their activity is, the higher level of its financial performance.

The results of this study are not yet complete because the sample used is less than 50% from the total number of the listed companies in Indonesia Stock Exchange (IDX), the Kuala Lumpur Stock Exchange (KLSE), and The Stock Exchange of Thailand (SET). Besides, the two aspects of corporate governance that used are not sufficient enough to explain the effect of corporate governance on the overall financial performance. Future studies may be able to use more sample companies, either hospitality companies or companies in other sectors. Also, the future studies are expected to explain the total effect of corporate governance by increasing the variables of research that have a stronger effect on the financial performance.

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2.15 - Corporate Governance and Financial

by Leon Akbar

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3. RESEARCH METHODS

Population and Sample

In this study, the population is the hospitality companies listed in Indonesia Stock Exchange (IDX), the Kuala Lumpur Stock Exchange (KLSE), and The Stock Exchange of Thailand (SET) in the period of 2011-2014. From the companies' 38th annual report, the number of population is 152. The reason for choosing hospitality companies as the study population is because of the hospitality industry development is in line with the promotion of tourism sector improvement in Indonesia, Malaysia, and Thailand. Meanwhile, the year of 2011-2014 are selected because of the demand for actual research.

The first stage is to determine the number of samples using Slovin formula. With this formula, it has obtained a total sample of 144 samples. Then in the second stage, the samples are eliminated through purposive sampling method, this method is done by taking a sample based on the specific criteria that relevant with the purpose of research (Sekaran and Bougie, 2013). This method gives a total sample of 72 annual reports as result, consisting of 24 samples from six companies in Malaysia, 24 samples of 6 companies in Thailand and 24 samples from six companies in Indonesia.

This study uses a single dependent variable and four independent variables that are parts of the two aspects of corporate governance: transparency and independence. Environmental disclosure and social disclosure is a proxy of transparency. In this study, financial performance represented on Return on Assets (ROA) ratio. ROA ratio indicates that the use of assets effectively as a form of support for the shareholders' economic interests (Haniffa and Hudaib, 2006). The environmental disclosure is measured by the items listed on the GRI version 3.1. (Appendix 1) The disclosure will be measured with a dichotomous approach where disclosure items in each category rated 1 if disclosed, and valued 0 if it is not disclosed. Both environmental and social disclosure are using the GRI version 3.1 (Appendix 2) for measurement. Similar to the environmental disclosure, the social disclosure also using the dichotomous approach which the disclosure item in each category rated 1 if disclosed, and valued 0 if it is not disclosed. Meanwhile the independent commissioner measurement is by comparing the number of the independent commissioner and the overall commissioners in the company, and the independent commissioner is no different, an independent audit committee proportion is also measured by how many independent audit committee compared to the company's audit committee total numbers.

4. RESULTS

This research use One Way ANOVA to find the relationship and interaction between the dependent variable and independent variable (Ghozali, 2011). Based on Table 1 above, the difference of ROA level shown in the mean difference column between Indonesia and Thailand is -0.046 and significant with a p-value of 0.000. Mean difference between Indonesia and Malaysia is 0.030 and significant with a value of 0.017. While the mean difference between Thailand and Malaysia was 0.046 and significant with p-value of 0.000.

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Table 1 Result of ANOVA test

Multiple comparisons					
Dependent variable: ROA					
	(I) Country	(J) Country	Mean difference (I-J)	Std. error	p-value
Games- Howell	Indonesia	Malaysia	-,01565083	,0125	,215
		Thailand	-,04635833*	,0125	,000
	Malaysia	Thailand	,01565083	,0125	,215
		Indonesia	-,03070750*	,0125	,017
	Thailand	Malaysia	,04635833*	,0125	,000
		Indonesia	,03070750*	,0125	,017

Note: (*, **, ***) Significant at 10%, 5%, 1%.

The comparison of the test results above become evident that there are different levels of ROA in Southeast Asia, namely Indonesia, Malaysia, and Thailand. Thus, the conclusion is that the first hypothesis (H1), which states that there are differences on social disclosure of hospitality companies in Indonesia, Malaysia, and Thailand, is supported.

Multiple regression analysis aims to examine the effect of the independent variable on the dependent variable. Multiple linear regression analysis is performed by measuring the goodness of fit in the regression model, to assess the accuracy of the regression sample function in speculating the actual value.

Table 2 Results of Regressions Test

Variable	Coefficient	T	Sig
(Constant)	-,068	-2,464	,016
Environmental disclosure	,216	2,296	,025 **
Social Disclosure	,278	2,170	,034 **
Independent Commissioner	-,038	-,967	,337
Independent Audit Committee	,029	1,731	,088
R Square	,358		
Adjusted R Square	,320		
F	9,359		
Sig	,000		

Note: (*, **, ***) Significant at 10%, 5%, 1%.

The regression model used in this study is fit, because F value of 9.359 with 0.000 significance is qualified to be a good overall model fit of regression model, thus that the model can be used to predict the effect of Corporate Governance or four independent variables simultaneously on ROA. The 32% Adjusted value of R Square represents the effect of independent variables on the dependent variable, while another 68% is explained by another variable outside the model.

The testing of the second hypothesis that shown in Table 2 on environmental disclosure variable shows the significant value of 0.025 and a coefficient of 0.216, which means that there is a positive significant impact given by the environmental disclosure variable to ROA. This result means the second hypothesis, which states that there is a positive influence of environmental disclosure on financial performance, is supported. This analysis' results are consistent with the research of Azorin et al (2009), Nor et al (2016) and Moreno et al (2007). The results of three studies mentioned implied that companies disclose environmental information in order to get a better response from stakeholders and gain superiority in the market.

The third hypothesis testing is shown in Table 2; it shows that the social disclosure variables has a significant value of 0.034 and a coefficient of 0.278. This means that there is a positive significant impact of social disclosure on ROA. In conclusion, the third hypothesis, which states that there is a positive effect of social disclosure on financial performance is supported. A similar result also has been found by Lee and Park (2009) in their study. This positive result based on the assumption that the hospitality companies is better known by the public thus, in order to make people believe that the company's operation will not give them negative effects, it needs an assurance.

The fourth hypothesis testing presented in Table 2 shows that the variable proportion of independent commissioner has an insignificant value of 0.337, this means that the proportion of independent commissioner, has no effect on ROA. Based on this discovering, the fourth hypothesis' statement, which states that there is no effect of independent commissioner on the financial performance is acceptable. This result is consistent with a research conducted by Zahra and Pearce (1989) . The argument is based on the role of a commissioner to oversee the management, where the commissioner does not have an active role in the preparation of strategy and policy development in fulfilling a company's financial performance target.

The fifth hypothesis testing presented in Table 2 shows that the variable proportion of independent audit committee indicate a significant value of 0.088 with a -0.029 coefficient, this means that there is no influence of independent audit committee proportion on ROA. Based on this finding, the fifth hypothesis statement, which said that the proportion of independent audit committee has a positive effect on financial performance, is not-supported. This finding is inconsistent with. Wang and Hlynh research (2013). However, it supports the research of Ali et al (2012). In their study, an independent audit committee is considered as may not be able to run a role that can improve the company's financial performance.

5. CONCLUSION AND SUGGESTION

This study is conducted to examine the financial performance level comparison of hospitality companies in Indonesia, Malaysia, and Thailand. This study also examines the effect of two aspects of corporate governance: transparency and independence that is represented through environmental disclosure, social disclosure, the proportion of independent commissioner and independent audit committees on the financial performance projected on ROA of the hospitality companies that listed in stock exchanges of each country in 2011- 2014. Based on the ANOVA test, it is found that the ROA level of hospitality companies in the four countries are differ significantly. Then, the multiple linear analysis tests result shows that the hospitality companies' financial performance in these four countries is significantly affected by the environmental and social disclosure as a proxy of corporate governance's transparency aspects. Therefore, the more transparent a company in reporting their activity is, the higher level of its financial performance.

The results of this study are not yet complete because the sample used is less than 50% from the total number of the listed companies in Indonesia Stock Exchange (IDX), the Kuala Lumpur Stock Exchange (KLSE), and The Stock Exchange of Thailand (SET). Besides, the two aspects of corporate governance that used are not sufficient enough to explain the effect of corporate governance on the overall financial performance. Future studies may be able to use more sample companies, either hospitality companies or companies in other sectors. Also, the future studies are expected to explain the total effect of corporate governance by increasing the variables of research that have a stronger effect on the financial performance.

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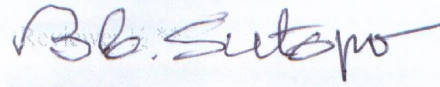
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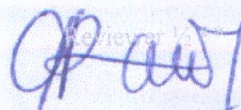
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