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OWNERSHIP CONCENTRATION AND CORPORATE DISCLOSURE AND TRANSPARENCY: EVIDENCE FROM THAILAND

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Abstract

The objective of this study is to investigate the association between the ownership concentration and the corporate disclosure and transparency of Thai listed firms in SET100 index. Transparency and disclosure of corporate is proxy by the scores according to Corporate Governance Report of Thai Listed Companies (CGR) criteria. The characteristics of ownership concentration in this study measure by the shareholding proportion in three dimensions: the largest shareholders of firm, the shares held by the five largest shareholders of firm, and the shares held by blockholders owning 5% or more of the firms' shares of firm. The multiple regression is employed for hypothesis testing. The results showed that the ownership concentration is negatively significantly related to the corporate disclosure and transparency which confirmed the research hypothesis. The finding is also consistent with prior research that firms with concentrated ownership structure have a tendency to lessen their corporate disclosure for various reasons. Moreover, the results indicated that larger firms have higher disclosures and transparency scores because they are closely followed by their stakeholders.

Keywords: Ownership Structure, Ownership Concentration, Disclosure, Thailand

1. Introduction

The Asian financial crisis in 1997 and the global financial scandals have heightened awareness of the economic benefits of good corporate governance. Moreover, the beginning of serious awareness of the importance of corporate governance in Thailand is essentially marked. The Thai Government has established The National Corporate Governance Committee (NCGC) in the year 2002 to encourage the principles of good corporate governance. Moreover, they promoted that year to be "Year of Good Corporate Governance."

The Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance is an international standard adopted by many countries. The Stock Exchange of Thailand (SET) applied the OECD principles and launched The Corporate Governance Guidelines for Listed Companies in 2006 and revised version in 2012 to further meet the criteria of ASEAN CG Scorecard. The OECD Principles including 5 categories as following: (1) the rights of shareholders (2) the equitable treatment of shareholders (3) the roles of stakeholders (4) disclosure and transparency and (5) the responsibilities of the board.

Corporate disclosure and transparency is a critical function of an efficient capital market (Healy and Palepu, 2001) and it is also the key element of the OECD Principles. Investors and

analysts often employ the information disclosed by firms to evaluate firm's value (Breton and Taffler, 1995). The modern stakeholders require more sophisticated information. They ask for additional information which is not provided by the financial statements. The efficiency of the disclosure process depends on the needs of the stakeholders and of the interests of the management of the firms. Hence, disclosure plays an important role to reduce the information asymmetry problem and agency problem between the firms and its stakeholders.

At present, SET and Thailand Securities and Exchange Commission (SEC) have set rules and regulations regarding the disclosure of listed firms' information. The Annual Registration Statement (Form 56-1) is to be submitted within three months from the end of the accounting period and Annual report is to be submitted to SET within four months from the end of the accounting period. However, the disclosure of firm's information has different content and details. Previous research found that the level of firm disclosure is caused by various factors such as firm characteristics, firm size, firm performance, including firm ownership structure. (Barry and Brown, 1985; Aksu and Kosedag, 2006; Beekes and Brown, 2006; Brown and Hillegeist, 2007; Ali *et al.* 2007). Moreover, Wiwattanakantang (2001) studies the ownership structure of Thai listed firms. They found that majority firms (80%) are firms with controlling shareholders or family firms. Thus, this study aims to investigate that whether the concentration of shareholdings affects the firm's disclosure and transparency.

The objective of this study is to investigate whether the ownership concentration related with the corporate disclosure and transparency among Thai listed firms in SET100 index. This study measures the corporate transparency and disclosure by the transparency and disclosure assessment criterion which is one of five major criteria that The Institute of Directors Association of Thailand (IOD) used to assess The Corporate Governance Report of Thai Listed Companies (CGR). The ownership concentration in this study measures by the shareholding proportion. The empirical results show that, listed firms in SET100 index generally have the ownership concentration. The results show that ownership concentration is negatively significantly related to the corporate disclosure and transparency. The finding is consistent with prior research that firms with concentrated ownership structure tend to lessen their corporate disclosure for various reasons (McKinnon and Dalimunthe, 1993; Mitchell *et al.* 1995; Fan and Wong, 2002).

The results of this study provided a better understanding of the relationship between ownership concentration and corporate disclosure and transparency of Thai Listed Firms in SET100. In addition, the findings should be contributed to various parties such as academics, investors, financial practitioners, standard setters and regulators. This study is divided into five sections organized as follows. Section 1 introduces the research and its objective. Section 2 discusses the related literature about ownership structure and the corporate disclosure and transparency. Moreover, this section also presents theory and hypothesis development. Section 3 presents the research design, sample selection, data, model specification, and variables measurement. Empirical results of the analysis are presented in Section 4. This is followed by a conclusion in Section 5.

2. Literature review and hypothesis

2.1. Disclosure and transparency

The primary purpose of corporate governance is to improve and control the enterprise in order to enhance their performance (Pavone *et al.* 2018). Organization for Economic Co-operation and Development (OECD) defines that corporate governance is the system applied to supervised and controlled business corporations. The OECD principles of corporate governance include 5 areas: the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the responsibilities of the board. The major components of the corporate governance framework is the complete of financial information disclosed (OECD, 1999). Moreover, it is regarded as important indicators of corporate governance quality.

Corporate transparency means that the firms have provided sufficient information to external investors and stakeholders (Bushman *et al.* 2004). They also mention that the availability of firms' information is an important factor of economic decisions. The levels of

corporate transparency represent the levels of information that firms provided to the stakeholders. In other words, transparency means the extent to which investors are able to access to any required information about firms beyond their regulated disclosure such as management forecasts, analysts' presentations, conference calls, press releases, internet sites, and other corporate reports and full disclosure arises when transparency relates to information flow from the company to investors.

Prior studies employ various proxies to measure firms' disclosure and transparency. For example, Botosan (1997) constructs her own disclosure index. The index is based on the amount of voluntary disclosure which listed firms have disclosed in annual reports. It consists of five categories of voluntary information including background of firms, summary of past performance, key non-financial information, forecast information and management analysis. Francis *et al.* (2008) use self-constructed scores by modifying the Botosan (1997) disclosure index. They argue that self-construct measures dominate externally generated scores where there are additional questions with respect to what disclosures are captured. Moreover, a self-constructed metric can be calculated for any firm then, selection biases are less severe for samples based on this method. However, they also indicate the disadvantage of self-construct scores such as it's being difficult to replicate due to the researchers' judgment involved and the labor intensity of the coding process.

Instead of using self-construct scores, various studies of disclosure and transparency have used analysts' rating of firms' disclosure quality, reported in the Association of Investment Management and Research Corporate Information Committee Reports (AIMR) (Lang and Lundholm, 1993; Welker, 1995; Lang and Lundholm, 1996; Sengupta, 1998; Healy *et al.* 1999; Lobo and Zhou, 2001; Gelb and Zarowin, 2002; Lundholm and Myers, 2002; Shaw, 2003; Brown and Hillegeist, 2007). For example, Healy *et al.* (1999) used AIMR ratings to investigate the benefits of expanded voluntary disclosures. They describe that this rating method provides a comprehensive measure of disclosure because it represents both formal disclosures and informal disclosures. Moreover, the AIMR ratings also reflect the expertise and experience of top financial analysts. In addition, Shaw (2003) explains that AIMR ratings are established by the industry-specific analyst. They evaluated the quality of firms' disclosure and assign a score to each firm on three categories of information including, annual published information, quarterly and other published information, and analyst relations and related aspects.

There are studies that employ other tools for measuring degree of disclosure and transparency. For example, Trueman (1986) measured for firms' disclosure quality by using voluntary publication of earnings forecast of firms. In order to examine the determinant of disclosure and transparency in Hong Kong and Thailand, Cheung *et al.* (2006) measured corporate disclosure quality by using a disclosure checklist instrument developed by Thai Institute of Directors Association (IOD). Furthermore, Chen and Jian (2007) use the Information Disclosure and Transparency Rankings System (IDTRs) established by Taiwan Securities Futures Institute to examine the relationship between disclosure quality and cost of debt.

2.2. Ownership concentration

The corporate governance system across the world can be classified based on the degree of ownership and control (Madhani, 2016). Previous research identify the controlling shareholders into two broad categories (1) the outsider systems characterized by widely dispersed ownership and (2) the insider systems characterized by concentrated ownership. Firm ownership is an increasingly influential form of corporate governance (Connelly *et al.* 2010).

Ownership concentration means that a single largest shareholder owns majority of the shares while many dispersed investors own the rests (Khan *et al.* 2013). When firm's ownership structured is concentrated, the agency problems would be decreased because large shareholders would be enthusiastic to monitor the management (Zhuang, 1999). The concentrated ownership is typical in Continental European and emerging and developing economies such as China, India, Fiji, including Thailand (La Porta *et al.* 1999; Burr *et al.* 2015).

Several research studies in emerging and developing countries found the dominance of concentrated ownership among companies. La Porta *et al.* (1999) found that about 64% of large

firms in the 27 richest countries have controlling shareholders and control is often concentrated within a family. Concentrated ownership in terms of large promoter shareholding is presumed to possess private information, leading to information asymmetry, and as a result, increasing the adverse selection cost. Therefore, ownership concentration becomes more important issue in the field of corporate governance.

2.3. Ownership concentration, disclosure and transparency

The level of corporate disclosure depends on firms' ownership structure. Samaha and Dawawy (2011) suggest that the ownership structure of an organization is the determinant of the monitoring level and thus affects the extent of disclosures. There are many reasons for concentrated ownership firms to lessen their corporate disclosure (McKinnon and Dalimunthe, 1993; Mitchell *et al.* 1995; Fan and Wong, 2002). Firstly, the controlling shareholders have the right to monitor management responsibilities. They do not need additional disclosure information from firms because they have accessibility to all the relevant information. Secondly, the principle-agent problem is lessened due to the right of controlling shareholder to monitor management's behavior. As a result, there is no need for more corporate disclosures. Additionally, the corporate disclosure is lower because the financial reporting policies adopted by the firm are under the controlling shareholders' decision. Thus, they do not have incentives to disclose more information for the interest of minority shareholders.

Prior research demonstrates that a higher level of ownership concentration may provide less information disclosure because shareholders have internal authority for obtaining information. For example, Hossain *et al.* (1994) found a negative association between management ownership structure and the level of voluntary disclosure in Malaysian listed firms. For French listed firms, Lakhali (2007) also found a negative relationship between ownership concentration and voluntary disclosures of 207 firms over the period of 1997-2001. Similarly, Alam and Deb (2010) and Brammer and Pavelin (2006) investigate the relationship of ownership structure and disclosure in Bangladeshi and British listed firms. They found that firms with more ownership concentration would have low level of disclosures.

Chen and Jaggi (2000) found a strong relation between the ownership pattern and disclosures of the countries in Hong Kong and Singapore. In countries where the substantial ownership of shares is concentrated in the hands of families or in banks like in Germany, higher insider ownership implies better incentives to monitor and greater incentive alignment. In such cases, the disclosure of information is generally low as the information is already with the dominant shareholders. However, Jiang *et al.* (2011) examined the impact of ownership concentration and disclosure on information asymmetry among New Zealand firms. The result showed that the ownership concentration and level of disclosure have no significant relationship.

Empirical evidence suggests that the information asymmetry increases when firms have widely dispersed ownership structure (Warfield *et al.* 1995). As a result, the conflicts of interest between outside investors and managers will occur. Agency problems will be higher because minority shareholders could not intend to play an active role in business management and delegate those responsibilities to manager (Lins, 2003). When the ownership is widely spread, no single owner has enough power to influence the decision of board. In this circumstance, shareholders will confide in outside directors because the important role of board is monitoring firm management. The shareholders have the rights and risks associated with the control of their ownership (Grossman and Hart, 1980). When information asymmetry and interest misalignment between shareholders and management are present, agency problem is increased as well as increased agent costs (Fama and Jensen, 1983; Jensen and Meckling, 1976). Therefore, firms decided to disclose additional information in order to reduce such costs (García-Meca and Sánchez-Ballesta, 2010). In other words, managers of a widely dispersed ownership firm will have the incentive to provide more information to signal their performance to shareholders. The proactive action by firms such as voluntary disclosure provides investors with the necessary information besides the regulated information (Madhani, 2007).

According to prior research above, this study predicted the relationship between the ownership concentration and the degree of disclosure and transparency stated in alternative form is as follow:

H₁: The ownership concentration is negatively associated with the degree of corporate disclosure and transparency.

3. Methodology

3.1 Sample and data collection

The sample of this study is non-financial listed Thai firms in SET100 index. From the samples, incomplete data or missing firms including rehabilitation firms were removed. The corporate disclosure and transparency data are hand collected from the annual registration statements (Form 56-1), and SET Market Analysis and Reporting Tool (SETSMART) database for the year 2015. The ownership concentration and firms' characteristics data are obtained from the company's annual report submitted annually to the Stock Exchange of Thailand. Financial firms are excluded because of the difference and more restricted regulations (Pathan *et al.* 2008).

3.2. Model for testing hypothesis

This study acquires transparency and disclosure scores (50 questions) according to Corporate Governance Report of Thai Listed Companies (CGR) criteria from Form 56-1, SETSMART database and annual reports for the years 2015. Each criterion is scored on a binary basis as "yes" (included) or "no" (not included). Each "yes" answer is score equal to 1 point, "no" is equal to 0 point. The overall transparency and disclosure scores for each firm is calculated as:

$$DISCLS = \sum_j S_j \quad (1)$$

where;

$DISCL$ = transparency and disclosure scores
 j = the attribute subscript, $j=1, \dots, 50$
 S_j = the amount of firms' disclosed items.

The independent variable is concentrated ownership. Ownership concentration is an importance mechanism of corporate governance since it ensures that managers have accountability to protect the interests of the stakeholders. In this study, concentrated ownership measured by the percentage ownership of the largest shareholders (Black *et al.* 2006), the percentage of shares held by the five largest shareholders (Demsetz and Lehn, 1985), and the percentage of shares held by blockholders owning 5% or more of the firms' shares (Koh, 2003; Bushman *et al.* 2004; Baek *et al.* 2004). The control variables are firm characteristics consisting of firm size, and firm leverage. The multiple regression model was employed for hypothesis testing as following:

$$DISCL_i = \beta_0 + \beta_1 LSHARE_i + \beta_2 FIVEL_i + \beta_3 BLOCK_i + \beta_4 SIZE_i + \beta_5 LEV_i + \varepsilon_i \quad (2)$$

where;

$DISCL_i$ = the disclosure and transparency scores of firm i
 $LSHARE_i$ = the percentage of the largest shareholders of firm i
 $FIVEL_i$ = the percentage of shares held by the five largest shareholders of firm i
 $BLOCK_i$ = the percentage of shares held by blockholders owning 5% or more of the firms' shares of firm i
 $SIZE_i$ = ln(total assets) as of the end of the firm's fiscal year
 LEV_i = the debts ratios of firm i

4. Empirical results

The descriptive statistics of the variables used in this study are presents in Table 1. It consist of DISCL (the disclosure and transparency scores), LSHARE (the percentage of the largest shareholders), FIVEL (the percentage of shares held by the five largest shareholders), BLOCK (the percentage of shares held by blockholders owning 5% or more of the firms' shares), SIZE (the natural logarithm of firm's total assets), and LEV (debts ratios of firm). The highest scores of the disclosure and transparency is 50 while the lowest scores is 32. The level of the disclosure and transparency is 42.53 on average. (SD.= 3.71). It is interesting to note that the disclosure and transparency scores of SET100 firms have low dispersion.

Table 1. Descriptive statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
DISCL	32.00	50.00	42.53	3.71
LSHARE	5.00	71.99	30.99	15.65
FIVEL	17.13	82.16	56.19	16.33
BLOCK	5.00	79.72	50.39	17.72
SIZE	7.31	14.59	10.64	1.33
LEV	0.12	0.89	0.50	0.18

Note: DISCL: the disclosure and transparency scores of firms, LSHARE: the percentage of the largest shareholders of firm, FIVEL: the percentage of shares held by the five largest shareholders of firm, BLOCK: the percentage of shares held by blockholders owning 5% or more of the firms' shares of firm, SIZE: ln(total assets) as of the end of the firm's fiscal year, LEV: debts ratios of firm.

The ownership concentration in this study are proxy by LSHARE (the percentage of the largest shareholders), FIVEL (the percentage of shares held by the five largest shareholders), and BLOCK (the percentage of shares held by blockholders owning 5% or more of the firms' shares). The average of LSHARE is 30.99% with the maximum of 71.99% while the average of FIVEL is 56.19% with the maximum of 82.16%. Moreover, the average of BLOCK is 50.39% with the maximum of 79.72%. The results above indicates that listed firms in SET100 index generally have the controlling shareholders consistent with Wiwattanakantang (2001) that majority of Thai listed firms have concentrated ownership structure and most of them are family firms.

Table 2. Correlation of disclosure and transparency, ownership concentration and control variables

	DISCL	LSHARE	FIVEL	BLOCK	SIZE	LEV
DISCL	1	-0.451**	-0.304**	-0.248	0.152	0.095
LSHARE		1	0.777**	0.646**	0.178**	-0.004
FIVEL			1	0.941**	0.082	-0.096
BLOCK				1	0.021	-0.108
SIZE					1	0.395
LEV						1

Note: ** represent significance at level 5%.

Table 2 reports the correlation matrix for the variables. Regarding the disclosure and transparency, the correlation coefficients indicate that the disclosure and transparency is significantly negatively related to the ownership concentration proxy by the percentage of the largest shareholders of firm (LSHARE) (-0.451) and the percentage of shares held by the five largest shareholders of firm (FIVEL) (-0.304). However, the disclosure and transparency is not significantly related to the ownership concentration proxy by the percentage of shares held by blockholders owning 5% or more of the firms' shares (BLOCK). In addition, the correlation between the disclosure and transparency and firm size is positive (0.152) which indicates that larger firms are more likely to disclose their information. Finally, the correlation between the

disclosure and transparency and firms' leverage is also positive (0.095). With respect to ownership concentration variables, LSHARE exhibits the significantly positive correlation with FIVEL, BLOCK, and SIZE and negative correlation with LEV. The variance inflation factor (hereafter, VIF) is tested to detect multicollinearity. This study finds that the VIFs of the regressor variables in model do not exceed the cut-off point (ten), thus there should be no serious multicollinearity on the following analysis of regressions.

Table 3 demonstrated the regression results of the corporate disclosure and transparency on firms' ownership concentration and control variables. The adjusted R-squared of model is equal to 22.3%. The model shows that ownership concentration proxy by the percentage of the largest shareholders (LSHARE) is negatively significantly related to the corporate disclosure and transparency (DISCL). This result shown the negatively associated between the ownership concentration and the level of corporate disclosure and transparency.

Table 3. Regression of the disclosure and transparency and ownership concentration

	Expected sign	Parameter estimates	Sig.	
Intercept		37.676	0.000	
Ownership concentration variables:				
LSHARE	-	-0.147	0.000	***
FIVEL	-	0.039	0.647	
BLOCK	-	-0.003	0.960	
Control variables:				
SIZE	+	0.680	0.025	**
LEV	+/-	0.249	0.910	
Adjusted R-square		0.223		
N=86				

Note: ***, and **represent significance at the 1%, and 5%, respectively. LSHARE: the percentage of the largest shareholders of firm i, FIVEL: the percentage of shares held by the five largest shareholders of firm i, BLOCK: the percentage of shares held by blockholders owning 5% or more of the firms' shares of firm i, SIZE: $\ln(\text{total assets})$ as of the end of the firm's fiscal year, LEV: debts ratios of firm.

The finding is consistent with prior research that firms with concentrated ownership structure tend to lessen their corporate disclosure for various reasons (McKinnon and Dalimunthe, 1993; Mitchell *et al.* 1995; Fan and Wong, 2002). On the other hands, the regression results indicate that ownership concentration proxy by the percentage of shares held by the five largest shareholders (*FIVEL*) and the percentage of shares held by blockholders owning 5% or more of the firms' shares (*BLOCK*) are not significantly associated with the level of corporate disclosure and transparency.

With respect to firm characteristics, firm size (*SIZE*), and leverage (*LEV*), the results indicate that firm size is positively associated with the degree of corporate disclosure and transparency. The result is consistent with Aksu and Kosedag (2006) that larger firms have higher disclosures and transparency scores because they are closely followed by their stakeholders (including, creditors and investors). Moreover, they have more extensive disclosure standards in order to minimize the political costs and are willing to pay for the costs of voluntarily disclosing information. However, firm leverage is not significantly associated with the degree of corporate disclosure and transparency. Although the predicted signs of these variables are not predicted because of mixed results from prior research, *LEV* has positive relation with *DISCL*. The positive relation of *LEV* suggests that firms with high leverage tend to provide more information than firms with low leverage.

Since, the correlation between *BLOCK* and *FIVEL* showed in Table 2 is 0.942 which may cause the multicollinearity problem. The study also tests whether the corporate disclosure and transparency associated with the ownership concentration by exclude *BLOCK* from the regression model. The coefficient and adjusted R-square are slightly change as shown in Table 4, although the result is consistent with model that include both *BLOCK* and *FIVEL*.

Table 4. Regression of the disclosure and transparency and ownership concentration

	Expected sign	Parameter estimates	Sig.	
Intercept		37.693	0.000	
Ownership concentration variables:				
LSHARE	-	-0.146	0.000	***
FIVEL	-	0.035	0.311	
Control variables:				
SIZE	+	0.681	0.023	**
LEV	+/-	0.245	0.912	
Adjusted R-square		0.2325		
N=86				

Note: ***, and **represent significance at the 1%, and 5%, respectively. LSHARE: the percentage of the largest shareholders of firm I, FIVEL: the percentage of shares held by the five largest shareholders of firm I, SIZE: ln(total assets) as of the end of the firm's fiscal year, LEV: debts ratios of firm.

5. Conclusion

This study explores the association between the corporate disclosure and transparency and the ownership concentration of listed firms in SET100 index. The degree of corporate disclosure and transparency is measured by the disclosure and transparency scores which is one part of Corporate Governance Report of Thai Listed Companies (CGR) developed by the Institute of Directors Association of Thailand (IOD). The data are hand collected from SET Market Analysis and SETSMART database. The concentration of ownership are measured in three dimensions: the percentage of the largest shareholders of firm, the percentage of shares held by the five largest shareholders of firm, and the percentage of shares held by blockholders owning 5% or more of the firms' shares of firm.

The empirical results show that, listed firms in SET100 index generally have the ownership concentration. The results show that average of LSHARE is 30.99% with the maximum of 71.99% while the average of FIVEL is 56.19% with the maximum of 82.16%. Moreover, the average of BLOCK is 50.39% with the maximum of 79.72%. The high level of ownership concentration is consistent with Wiwattanakantang (2001) that majority of Thai listed firms have concentrated ownership structure and most of them are family firms.

The regression result shows that ownership concentration proxy by the percentage of the largest shareholders (*LSHARE*) is negatively significantly related to the corporate disclosure and transparency (*DISCL*). The finding is consistent with prior research that firms with concentrated ownership structure may have less corporate disclosure for various reasons (McKinnon and Dalimunthe, 1993; Mitchell *et al.* 1995; Fan and Wong, 2002). Moreover, the results are also consistent with Lakhal (2007), Alam and Deb (2010) and Brammer and Pavelin (2006) that there is a negative association between ownership concentration and extent of disclosures among listed firms.

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