THE EFFECTS OF BOARD OF DIRECTORS ON STOCK TURNOVER THROUGH VOLUNTARY DISCLOSURE OF THAI LISTED COMPANIES

Teerarat Pinmee[1], Napaporn Nilapornkul[2], Panarat Panmanee[3]
[1]Doctor of Philosophy Program, [2,3] Consultants
[2]Faculty of Business Administration, [1, 2]Rajamangala University of Technology Thanyaburi
[3]School of accountancy, University of the Thai Chamber of Commerce
e-mail : teerarat.poo15@gmail.com

Abstract

This study aimed to examine the effects of board of directors on stock turnover through voluntary disclosure. The research sample consisted of consisted of 323 companies of listed firms in all industry groups except financial industry. Data used were secondary data, which were collected during 2014. Data were analyzed by the structural equation model in this study.

The results showed that board of executives had negative effect on voluntary disclosure. Voluntary disclosure had positive effect on stock turnover. In regard to voluntary disclosure as mediation variable, it was found that board of executives had negative effect on stock turnover through voluntary disclosure. The research results also implied that the ownership concentration can make the policy and control of the organization performance to meet the needs of major shareholders and including blood screening, select the board of directors.

Keywords : Board of directors, Board executive, Chairman/CEO, Board independent, Voluntary disclosure, Stock turnover, and The stock exchange of Thailand

Introduction

The quality of financial statements is one of the concepts that is difficult to understand. Practically, it is necessary that financial report shall be prepared in timely manner as it is important for the economic purpose. Ray et al. (2003) proposed that quality of financial statement was highly related to the investors and shareholders protection by disclosing all information completely and ethically. Unfortunately, information disclosure level was found to be low in Southeast Asian countries because it might provide benefits to the competitors (Compbell, 1979; Yosha, 1995). As a result, investors were not able to use such information to analyze the real market value of the securities. Ray et al. (2003) suggested that one of the causes of asymmetric information were that top management possesses greater knowledge of the economic benefits and the potential loss of cash that might happen in the future than the other party, i.e., the auditors do not aware of it. Therefore, this has the effects on the corporate information disclosure. In addition, the managers can also predict the level of economic profits and losses that might occur as well as any impact that effect on the cash flows of the company.

The duties and responsibilities of top management the administration are to prepare financial reports to be presented to the stakeholders (Brown, Beekes, & Verhoeven, 2011). However, the management is able to exercise judgment in preparing financial reports as a result channel management gains (Healy & Wahlen, 1999; Dechow, Sloan, and Sweeney, 1996). Ray et al. (2003) stated that the cause of the asymmetric information is that manager knows greater information about the economic benefits and losses are expected to occur on future cash flows and the auditor did not notice its effects on the disclosures gains and losses. The mechanism of corporate governance can reduce the earnings management behaviors. Annual report is the most important financial and non-financial source to all stakeholders outside the company. In addition, annual report can also be used to support the analysis and compare company information (Botosan, 1997; Lang & Lungholm, 1993).

One of major causes in 1997 financial crisis was the transparency and disclosures of the financial report that did not reflect the reality (Vishwanath and Kaufmann, 1999; Jonhson et al., 2000; Milton, 2002). Out of 20 the world rankings in terms of lack of transparency in financial reporting and disclosure, Thailand was ranked at the 16th place. This lack of transparency indicates that information disclosure of the companies listed on the Stock Exchange of Thailand cannot reflect the real operational and financial conditions (CIFAR 1995, pp 15-17). Financial analysis by international analysts and their financial report design would mislead the users that don't understand financial data (Johns & Blanchet, 2000).

The disclosures of the financial report are divided into two types: compulsory and voluntary disclosure. The compulsory disclosure is the disclosure required by law or regulation. The voluntary disclosure is beyond the compulsory one. It is the disclosure for the sake of the corporate image, the investors and risk avoidance (Yu Tian & Jingliang Chen, 2009). The empirical stages of the disclosure of quality and adequate information for the quality assessment according to the international accounting standards over the last four decades are as follows: the disclosure of corporate social responsibility information.

This paper aims to conduct empirical study to investigate the direct and indirect effects of board of directors on stock turnover through voluntary disclosures. An absence of information asymmetry between stock traders is considered to be an important mechanism in decreasing the cost of capital and enhancing market efficiency (Glosten & Milgrom, 1985; Lang & Lundholm, 1996; Welker, 1995). Reduction of board of directors such stock turnover through voluntary disclosure is a research question.

Aims

(1) To investigate the board of directors on voluntary disclosure.

(2) To investigate the effect of board of directors on stock turnover through voluntary disclosure.

Literary review

1. Stakeholder Theory

Company has to identify the most important stakeholders and administrate stakeholders' benefits in each group for corporate benefits. That might include officers who control the resources for continual operation. All parts of stakeholders were differently important to the company and differently affect to the company. Company cannot respond to all requests of stakeholders but one thing the manager should do is to reveal firm's information voluntarily in annual financial reports. Normally, the theory of stakeholders consists of morality and business management (Deegan, 2000; 2002.). In terms of morality, it is suggested that the company should treat the stakeholders to emphasize on the company's responsibilities (Donalson and Preston, 1995; Freeman and Reed, 1983; Hasnas, 1998). The stakeholder management was socially responsible for information disclosure. It was a tool to control the stakeholders' request (Abeysekera, 2006).

2. Signaling Theory

According to this theory, both original and unoriginal voluntary information disclosure are explained. The original voluntary information involves about cost market. For example, the manager revealed the voluntary information to give the signal to cost market about the expect benefits in the future, etc. The unoriginal voluntary information involves about the society and environment. The positive news would be informed to cost market about the environmental risk - reduction strategies. In contrast, it would be negative signal if there was no revealed information (Shehata, 2014; Verrecchia; 1983).

3. Board of Directors and Voluntary Disclosure Fama (1980) and Fama and Jensen (1983a) stated that the board is a governance mechanism that plays an important role to track the performance of the management as well as to protect the interests of stakeholders. Fama and Jensen (1983) argued that the board is also the controlling committee assignments, although the final decision-making depends on the chief executive. In addition, the board has responsibility to create control systems for internal affairs and audit management. Brown, Beekes, and Verhoeven (2011) stated that the board is responsible for determining the objectives and controlling. Therefore, the board is important to drive the good governance and create practices affecting the higher value of the business and procedures for financial reporting quality.

Materials and Methods

1. The population Scope

This study aimed to investigate the effects of board of directors on stock turnover through voluntary disclosure of Thai listing companies. The sample consisted of 323 listed companies on the Stock Exchange of Thailand from all industry groups except companies from the financial industry. Data were collected from the annual reports of the companies during 2014 as well as from SETSMART Database collected by the Stock Exchange of Thailand.

2. Scope of content: Board of directors; There are many related characteristics of Board of Directors such as executive board of directors (Schiehll, Terra & Victor, 2013; Sukcharoensin, 2012), duality chairman/CEO (Schiehll, Terra & Victor, 2013) and board independent (Schiehll, Terra & Victor, 2013).

Mediator variable: The voluntary disclosure of information including strategic, non-financial, and financial, which were developed from the results of disclosed. The study examined the data shown in the annual report prepared by the Securities Commission in voluntary disclosure (VDI), based on Meek, Roberts, and Gray (1995), Eng and Mak (2003), Chau and Gray (2002), Botosan (1997), Lim et al. (2007), Francis et al. (2008), and Chobpichien (2013) for a total of 36 items.

Dependent variable: Stock turnover which is the value of shares traded during the year divided by the firm's market value of equity at the end of the year (Elbadry, Gounopoulos, & Skinner, 2010; Prasanna & Menon, 2012; Prommin et al., 2014).

Control variable: this study determined that Big-4 audit firm comprising Price Waterhouse Coopers, Emst & Young, Deloitte and Touche, and KPMG. The study was conducted based on the work of Chakroun and Matoussi (2012) and Vu (2012).

3. Data collection

The data of the study were secondary data which were collected from companies listed on the Stock Exchange of Thailand (SET) in seven sectors including agriculture and food industry, consumer products industry, industrial industry, property and construction industry, resources industry, service industry, and technology industry. The focus was on the investigation of the information from the annual report collected from SETSMART (Set Market Analysis and Reporting Tool) during 2014. The measurement of voluntary information in the annual report used in this study was the unweight disclosure index (UWI) where the UWI would be between 0 to 1. This measurement was developed from the studies of Shareef and Davey (2006), Firer and Williams (2005), and Low, Samkin, and Li (2015). The factors and conditions being used were as follows: 1) non-disclosure-if the disclosure item did not appear in the annual report, then a score of zero was assigned, 2) immaterial-if the firm states that the disclosure item was immaterial to the financial well-being and results of the firm, then a score of 1 was assigned, 3) obscure-if the disclosure item was discussed in limited references or vague comments whilst discussing other topics and themes, then a score of 2 was assigned, 4) descriptive-if the disclosure item was discussed showing clearly its impact on the firm or its policies, then a score of 3 was assigned, 5) quantitative /monetary if the disclosure item was discussed and clearly defined in monetary or actual physical quantities, then a score of 4 was assigned, and 6) quantitative/monetary and descriptive-if the disclosure item was discussed and clearly defined in monetary item or actual physical quantities showing clearly its impact on the firm or its policies, then a score of 5 was assigned.

Data analysis

The data were analyzed by using the structural equation model (SEM) which was used to investigate the predictive relationships by examining the influences of ownership structure, organizational performance, voluntary disclosure, and stock turnover. Bootstrap analysis was also applied to find the predictive relationships by studying the influences of ownership structure and organizational performance on stock turnover through voluntary disclosure, which was a mediating variable at a significance level of .05.

4.1 The reliability of the variables used in this study wasmeasured by using Cronbach's alpha (Cronbach, 1951). The decision to admit that data which is reliable in research is coefficient at 0.70

(Nunnally, 1978; Sureshchandra et al., 2002). According to these research findings, the index of voluntary disclosure had the reliability measured by Cronbach's alpha coefficient at 0.774.

4.2 The problem occurred from using this was the multicollinearity between independent variables. This problem was presented in the researches which were conducted by Moore and Buzby (1972) and Singvi and Deasi (1971). These researches established the criteria on the independent variable being very highly correlated or causing multicollinearity that if the relationship is greater than 0.80 (Nunnally, 1978). The result of the analysis revealed that the appropriate independent variables were shareholder structure and organizational performance since it was found from the correlation coefficient analysis that the values of correlation coefficients between variables ranged from–.184 to .156.

Results

Results of this study the effect of ownership structure on stock turnover through voluntary disclosure of listed companies on the stock exchange of Thailand.

1. After modification indices were adjusted to the model by adding covariance. The results of model fit were that Chi–square = 1.667, *p*–value = .664, GFI = .998, AGFI = .988, RMSEA = .000, NFI = .977 and CFI = 1.000.

2. The effect of board of directors and voluntary disclosure, there are 3 observation variables. The influence of board of directors and voluntary disclosure has a direct effect; 1) board executive (BOARDEXE) (standardized regression weight = –.155), which was statistical significance level at .05. The influence of board of directosr on stock turnover has a direct effect; 1) chairman/CEO (CHAI_CEO) (standardized regression weight = .036), 2) board independent (BOARDIND) (standardized regression weight = .086), which was not statistical significance level at .05. This indicated that this independent variable was correlated with the dependent variable with significance at the .05 as shown in Table 1

Table 1 Regression results.

Path		STD Estimate	USTD Estimate	S.E.	*p*–value
Independent	Dependent				
BOARDEXE	VOLUNTARY	–.155	–.001	.000	.005*
CHAI_CEO	VOLUNTARY	.036	.007	.001	.502
BOARDIND	VOLUNTARY	.086	.001	.011	.117
VOLUNTARY	TURNOVER	.145	2.414	.917	.008*
BOARDEXE	TURNOVER	.122	.012	.005	.030*
CHAI_CEO	TURNOVER	–.009	–.029	.179	.905
BOARDIND	TURNOVER	.152	.026	.009	.005*

Note: 1) BOARDEXE: Executive of board, 2) BOARDIND: Independent director, 3) CHAI/CEO: Chairman/CEO, 4) VOLUNTARY: Voluntary disclosure, and 5) TURNOVER: Stock turnover

** Significant at 0.05*

3) The effect of board of directors and stock turnover through voluntary disclosure, there are 3 observation variables. The influence of board of directors and stock turnover through voluntary disclosure has an indirect effect; 1) board of executive (BOARDEXE) (*p*-value = .007), which was statistical significance level at .05. The influence of board of directors on stock turnover has an indirect effect; 1) chairman/CEO (CHAI_CEO) (*p*-value = .073), 2) board independent (BOARDIND) (*p*-value = .397), which was not statistical significance level at .05 level as shown in Table 2.

Table 2 Testing the indirect effect within the voluntary disclosure mediation model using bootstrapping

Variable	VOLUNTARY			TURNOVER			*p*-value	Results
	TE	DE	IE	TE	DE	IE		
BOARDEXE	-.155	-.155	.000	.100	.122	-.022	.007*	Support
CHAI_CEO	.036	.036	.000	-.003	-.009	.006	.073	Not support
BOARDIND	.086	.086	.000	.165	.152	.012	.397	Not support

Note: 1) BOARDEXE: Executive of board, 2) BOARDIND: Independent director, 3) CHAI/CEO: Chairman/CEO, 4) VOLUNTARY: Voluntary disclosure, and 5) TURNOVER: Stock turnover

** Significant at 0.05*

Conclusions and Discussion

This study found that board of directors that had effect on voluntary disclosure. As a result of the analysis on the effect of board of directors on voluntary disclosure, it showed that the board of executives had a negative effect on voluntary disclosure. Ownership concentration can make the policy and control of the organizational performance to meet the needs of major shareholders including blood screening and selection of the board of directors. This resulted in the board of executives had a negative relationship with voluntary disclosure. Bhagat and Black (2000) said that the board of directors was not truly independent since it may be related to the management. There is no public disclosure, and it cannot be verified in the research ex. Besides, the independent the board of directors has no relationship with voluntary disclosure because Thailand is a developing country. Therefore, the social pressures and the needs of stakeholders are still weak comparing to developed countries. At the same time, voluntary disclosures are not mandated disclosures, depending on the company itself. However, there are conflicts with prior research such Fama and Jensen (1983a, 1983b). This research was related to good practice of the directors of listed companies (2012) which stated that the board of directors of the listed companies should consist of the adequate numbers of independent and external directors in order to construct the mechanism which balanced the power of the board of directors. This would restrain the superior power of the individual or the group over the decision-making of the board of directors. It allowed all directors to express their thoughts freely.

This study found that board executive that had negative effect and stock turnover through voluntary disclosure. The researches which did support this result of the study included Fama and Jensen (1983a, 1983b) and Alves et al. (2015), and others. This study was related to good practice of the directors of the listed companies (2012) which stated that the board of directors of the listed companies should consist of the adequate numbers of independent and external directors in order to construct the mechanism which balanced the power of the board of directors. This would restrain the superior power of the individual or the group over the decision-making of the board of directors. It allowed all directors to express their thoughts freely. Levesque et al. (2010) found that external committee reduced information asymmetry while Huang and Stoll (1997) found that companies with more board of directors influence more transparency with better disclosure and greater liquidity. Besides, the research of Bortolotti et al. (2007) revealed that when companies have high liquidity, information asymmetry is reduced due to the implementation of the operation.

The recommendations from the application of the findings

As a result of the above study, it is important to promote the importance of good corporate governance. The companies should take good governance in order to reduce information asymmetry and improve the liquidity of the market. Since better inside corporate governance better leads to better market transparency (Chung et al., 2010; Brockman & Chung, 2003; Bacidore & Sofianos, 2002). Mechanism of corporate governance is the board. Therefore, good corporate governance has better disclosure which is efficient and improved due to the company's board, and disclosed information sharing reduces agency. When the company has high liquidity, information asymmetry is reduced due to the implementation of the operation.

Recommendations on the future study

The samples of this study were the listed companies on the Stock Exchange of Thailand which might not be generalized to the companies in other countries with the differences in terms of law, institutional factor, the effect on the quality of disclosure, and the different accounting environment, and the samples could not represent other businesses. Therefore, the disclosure in other countries should be considered for the future research.

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